HNI Corporation NYSE:HNI

Earnings Call

Monday, April 29, 2024 4:00 PM GMT

Call Participants

EXECUTIVES

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Marshall H. Bridges
Senior VP & CFO

Matthew Schon McCall
Vice President of Investor Relations & Corporate Development

ANALYSTS

Budd Bugatch
Water Tower Research LLC

Gregory John Burns
Sidoti & Company, LLC

Kathryn Ingram Thompson
Thompson Research Group, LLC

Reuben Garner
The Benchmark Company, LLC, Research Division

Presentation

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the HNI Corporation First Quarter Fiscal 2024 Results Conference Call. [Operator Instructions] I would now like to turn the conference over to Matt McCall. Please go ahead.

Matthew Schon McCall
Vice President of Investor Relations & Corporate Development

Good morning. My name is Matt McCall. I'm Vice President, Investor Relations and Corporate Development for HNI Corporation. Thank you for joining us to discuss our first quarter fiscal 2024 results. With me today are Jeff Lorenger, Chairman, President and CEO; and Marshall Bridges, Senior Vice President and CFO.

Copies of our financial news release and non-GAAP reconciliations are posted on our website. Statements made during this call that are not strictly historical facts are forward-looking statements, which are subject to known and unknown risks. Actual results could differ materially.

The financial news release posted on our website includes additional factors that could affect actual results. The corporation assumes no obligation to update any forward-looking statements made during the call.

I'm now pleased to turn the call over to Jeff Lorenger. Jeff?

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Thanks, Matt. Good morning, and thank you for joining us. During the first quarter, our teams continued to build upon the strong progress we have made over the past 2 years. We delivered earnings that were nearly triple the prior year period, with operating margin and EPS reaching first quarter levels not seen since 2007. First quarter non-GAAP EPS of $0.37 was up 185% year-over-year. This was despite an 8% organic revenue decline, which was primarily driven by continued housing market softness.

Our strong results continue to be fueled by our legacy Workplace Furnishings profit transformation plan and the inclusion of Kimball International, which combined to deliver the highest first quarter Workplace Furnishings operating profit margin since 2016.

In Residential Building Products, our recent cost actions helped support profitability despite a continued soft housing market. Longer term, we remain bullish about the prospects of the housing market broadly and our market-leading position specifically.

Overall, we started the year on a very strong note. On the call today, I will highlight 3 key topics. First, our profit transformation actions continue to drive improvement in Workplace Furnishings. When excluding the benefits of Kimball International, legacy Workplace Furnishings non-GAAP operating margin expanded 560 basis points year-over-year. Looking forward, we expect profit growth and margin expansion to continue.

Second, Kimball International delivered strong accretion. The addition of KII is already providing significant value creation to our shareholders, and there is more to come. We continue to expect annual cost synergies resulting from the combination with KII to total $35 million when mature. Third, Residential Building Products posted solid profit despite ongoing housing market challenges. Recent cost reduction actions continue to support profitability, and we expect revenue growth and margin expansion to return through the year.

Following those highlights, Marshall will review our outlook. I will conclude with some general closing comments before we open the call to your questions.

Moving to the first topic. Our profit transformation actions continue to drive improvement in Workplace Furnishings. As I mentioned, first quarter non-GAAP operating profit margin for legacy Workplace Furnishings improved 560 basis points year-over-year. That was the eighth straight quarter of year-over-year operating margin improvement in the segment, and there is more to come as we expect additional benefits from our profit transformation plan during 2024 and beyond.

As a reminder, our legacy Workplace Furnishings profit transformation plan consists of 4 primary actions: first, we are driving increased productivity; second, benefits from price -- positive price-cost are helping to drive improved profitability; third, we have streamlined our cost structure; and finally, we continue to simplify our business. Some of these benefits of this plan are recognized in our results and have helped drive the recent strength in our margins.

We also continue to see opportunity. Our operational investments, primarily in our new facility in Mexico, will help drive substantial productivity benefits as they mature over the next couple of years. This will add to our continued lean efforts and help drive additional profit growth. Next, we expect continued net price-cost benefit through the remainder of 2024 from pricing actions announced over the past 12 months. Finally, the rollover benefits from our corporate-wide cost savings program will provide incremental profit support in 2024. All of this gives us line of sight to additional margin improvement. And as I said earlier, we expect year-over-year profit growth and margin expansion in Workplace Furnishings to continue in 2024 and beyond.

Let's shift to Workplace Furnishings' demand. Our view of the market is mostly unchanged from our last call. First quarter organic revenue was down 2.5% year-over-year, consistent with our expectations. SMB again outperformed the contract. In the near term, demand remains choppy, but is stable within a range. SMB orders grew 1% year-over-year in the first quarter on top of an 18% increase in the first quarter of 2023, which is positively impacted by price increase timing. This segment of our business continues to benefit from healthy dynamics, including population shifts to markets outside the top 10 and relatively higher office usage in those markets. We expect these factors, along with increasing preorder metrics, to continue to support SMB demand.

Switching to contract demand, trends further improved in the quarter. Orders from contract customers were also up 1% in the first quarter on a year-over-year basis. The year ago comp was also challenging in contract, with first quarter 2023 order growth of 14%, which was also positively impacted by timing of price increases. The 2-year order trend is encouraging and is consistent with many of the other demand indicators. Our preorder activity and quoting remain elevated, return-to-office metrics continue to tick up and reached post-pandemic highs in recent weeks. Lease churn is expected to accelerate as tenants take advantage of attractive lease economics and nonviable office space is repurposed, and the need for companies to adapt their spaces for hybrid work will further support demand.

In summary, we continue to see encouraging trends related to future demand, particularly given our unique market position and overall market coverage. However, as we have communicated for several quarters, our profit transformation plan does not require volume growth. Volume growth will only enhance our profitability.

Moving to my second topic. Kimball International delivered strong accretion. KII generated an operating profit margin of 9.3% and added an estimated $0.10 to non-GAAP EPS in the first quarter. We continue to expect annual cost synergies to reach $25 million in 2024, and total synergies are expected to reach $35 million when fully mature.

From a revenue perspective, KII solidly outperformed the expectations we shared with you last quarter. The upside came from the hospitality segment. Hospitality has been performing well. However, entering the quarter, we had expected revenue recognition to be negatively impacted by shipping delays related to disruption in the Red Sea. Those delays did not materialize, which helped drive hospitality revenue above our expectations.

We continue to be encouraged by the complementary nature and attractive post-pandemic positioning of KII's offering. The addition of KII is providing significant value creation. As we have highlighted, Kimball International is complementary from a product, market and cultural perspective. KII strengthens our exposure to several important trends and markets, namely ancillary products, secondary geographies, health care and hospitality. Each provides new opportunities for profit growth, and our confidence in the combination's strategic and financial benefits continues to prove out and accelerate.

My third topic, Residential Building Products posted solid profit despite ongoing housing challenges. Recent cost reduction actions continue to support profitability. Segment non-GAAP operating margin for the first quarter was 14.4%. This represents the seventh consecutive year with first quarter segment non-GAAP operating margin at or above 14%. We were able to extend this level of performance in '24 despite a 17% year-over-year revenue decline as housing market weakness continued to pressure demand trends in the quarter.

Let me provide some color on the first quarter revenue decline in Residential Building Products. First, the year-over-year rate has some noise in it. We are comparing against the prior year period that benefited from unwinding demand that had built up during the back half of 2022. Our first quarter revenue and order growth rates are somewhat distorted due to that issue. Second, consistent with broader housing trends, R&R performed worse on a year-over-year basis than new construction. And third, the year-over-year revenue decrease was modestly worse than expected, primarily due to slower new construction, which was negatively impacted by weather early in the quarter, and more recently by incrementally higher interest rates and inconsistent builder sentiment.

Looking forward, year-over-year single-family permits and starts are showing healthy growth, which supports new construction improvement going forward in 2024. Segment orders showed improvement consistent with the broader market indicators in the first quarter. Orders in new construction outperformed remodel/retrofit, with new build orders down only low single digits year-over-year.

Despite some near-term headwinds, we are bullish on the intermediate to long-term dynamics for the business. In addition to the solid long-term market fundamentals, we have unique growth opportunities and continue to invest in the areas of category awareness, new product innovation, online capabilities and the expansion of our wholly-owned installing distributor footprint.

In summary, order trends in our Residential Building Products segment improved during the quarter and the intermediate to long-term demand dynamics continue to remain encouraging for this business. Looking to the remainder of 2024, we expect growth and margin expansion to return through the year.

I will now turn the call over to Marshall to discuss our outlook for 2024. Marshall?

Marshall H. Bridges
Senior VP & CFO

Thanks, Jeff. Let's start with our demand outlook. We expect 2024 organic revenue in Workplace Furnishings to grow at a low-single-digit rate year-over-year. That outlook is unchanged from what we communicated on our last call. We expect demand conditions to remain generally in line with those experienced over the last 9 months, and we continue to expect demand will be choppy, but stable in the range.

In Residential Building Products, revenue trends are expected to improve as the year progresses, with year-over-year growth returning in the second half. For the full year, Residential Building Products revenue is expected to be flat to slightly down versus 2023 levels.

All right. Let's shift to our outlook for 2024 earnings. We expect full year EPS to strongly increase from 2023 levels, primarily due to continued margin expansion in Workplace Furnishings and the full year benefit of accretion from KII. Looking at the second quarter of 2024, we expect earnings per share to solidly increase year-over-year. Again, we expect the benefit of Kimball International and continued profit transformation in legacy Workplace Furnishings to drive the increase.

I'd like to point out that we are now facing increasingly difficult year ago comps as the second quarter of 2023 showed noticeable benefits from our profit transformation initiatives. We expect second quarter Workplace Furnishings' organic revenue to be down slightly versus the same quarter of 2023.

Moving to Kimball International. For the second quarter of 2024, we expect KII to be accretive to non-GAAP EPS, generally in line with first quarter results. KII is expected to add $75 million to $80 million of incremental revenue to the second quarter. As a reminder, this is reflective of 2 months of incremental revenue as we anniversary the closing of the transaction in June.

Finally, in Residential Building Products year-over-year declines are expected to moderate, with second quarter revenue down in the low single digits versus the year ago period. This reflects new construction growth and moderating declines in R&R.

Shifting to the balance sheet. We maintained our strong financial position. Our gross leverage ratio of 1.9x remained below 2x for the second straight quarter as higher profit offset a modest seasonal increase in debt. Looking forward, we expect to modestly reduce leverage and improve our already strong balance sheet over the rest of the year.

In addition, during the quarter, we accelerated our share repurchase activity. While the total outlay during the quarter was modest, our ability to hold leverage steady while deploying cash speaks to our strong cash flow characteristics. Our low leverage and consistent cash flow generation provides substantial financial flexibility and ample capacity for capital deployment. Our current priorities for cash deployment remain reinvesting in the business, funding dividends, and pursuing share buybacks and M&A opportunities.

All right. I'll now turn the call back over to Jeff.

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Thanks, Marshall. We had an excellent start to 2024 as our strategies continue to deliver outstanding earnings growth. We are committed to expanding margins in Workplace Furnishings and driving long-term revenue growth in Residential Building Products. Our results to begin 2024 reflect the dedication of our member owners, the strength of our business model and our ability to manage through all parts of the economic cycle. And we anticipate another strong year in 2024.
We will now open the call to your questions.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Reuben Garner with The Benchmark Company.

Reuben Garner
The Benchmark Company, LLC, Research Division

So maybe to start with a big picture question. Earnings or margin performance for the last 3 or 4 quarters has been pretty remarkable. You mentioned difficult comps, Marshall, kind of starting in the second quarter. Can you talk about what's left to go in terms of what you control in terms of earnings expansion as the year progresses and into next year?

Marshall H. Bridges
Senior VP & CFO

Yes, Reuben. I think we still have the same primary drivers, productivity, cost control on the SG&A line and of course, price-cost. It's just that all those are up against stronger comps. So in particular, price-cost is going to taper off here a little bit. That was a decent benefit in the first quarter, and we still expect it will be a benefit for the remainder of the year, just less so.

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes, Reuben, I'd just add that Marshall hit it. I mean really, we got our lean efforts both -- in both segments, both businesses, labor flow, materials, we're seeing early benefits from our investments, mainly Mexico and the Workplace Furnishing side, and then we're going to procurements savings as well. So we've probably comped in about $30 million to $35 million of benefit in '24. But I think, as you look out past '24, I think I'd anticipate another $30 million or so on top of the '24 number.

Marshall H. Bridges
Senior VP & CFO

And that $30 million, Reuben, would be from the Mexico investment as well as synergies from KII. We'd have our usual lean efforts on top of that. So that's after this year, just to clarify.

Reuben Garner
The Benchmark Company, LLC, Research Division

Okay. That's helpful. And then I guess on the Building Products side, anything in terms of the size of homes or affordability that concerns you or signs that you've seen where we might be running into headwinds on the number of fireplaces per home? Or do you guys have an offering at that price point to kind of offset it if affordability for the builders and the homebuyers becomes a bigger issue?

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes, Reuben, it's a good question. I mean, affordability has been an issue for a while now. And so we've watched that, and we -- our product pipe accounts for that. The other thing I would talk about is we got some newer units in the electric category that are -- that really address some of that as well that we've got a lot of innovation going there. So no, I don't see the headwinds being any more than they've been candidly for the last couple of years.

Reuben Garner
The Benchmark Company, LLC, Research Division

Okay. And last 1 for me. Rates moving up again here of late. Your conversations, I guess, specifically on the SMB side, it doesn't sound like the outlook has changed a lot. Any risk to that? Or you think the other drivers are more than offsetting it on a go-forward basis?

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes. I think, look, it's a -- '24 is an interesting time given kind of the economic cycle and election year. But for the most part, we see that business and the drivers holding pretty solid. And I would say that the orders in most of those, what we look at, are -- most of those areas are running at where we've been or slightly up.

Marshall H. Bridges
Senior VP & CFO

Yes, Reuben, that's a business that's done pretty well for the last several quarters, and we're still seeing growth on top of those strong comps, and we're pretty -- feel pretty good about it. And I think the encouraging thing is we're starting to see contract converge with that growth. So contract numbers were up in the first quarter, and we're expecting some reasonable growth in the second half from both contract and SMB.

Operator

Your next question will come from the line of Greg Burns with Sidoti & Company.

Gregory John Burns
Sidoti & Company, LLC

The dynamic you mentioned with Kimball impacting the revenue recognition, I guess, there this quarter, was that pulled forward? I'm just trying to gauge like are you expecting -- like is your guide for the second quarter lower than it would have been otherwise? Like I'm just trying to kind of gauge if this is like the normal seasonality that you're expecting for the business going forward? Or if this is just timing issue with some of these orders you were expecting to shift around?

Marshall H. Bridges
Senior VP & CFO

Yes, it's a timing issue, and it did pull from the second quarter. So if you look at our guide for the incremental revenue from KII, it's pretty much the same as it was last quarter, but we got more of it in the first quarter. And that's a business that is project oriented. So there's not necessarily a seasonality to it, it just depends on when the timing of those projects occur.

Gregory John Burns
Sidoti & Company, LLC

Okay. And then what's the split of your revenue now on the Building Product side between new construction and remodel/retrofit? Has that changed much?

Marshall H. Bridges
Senior VP & CFO

It hasn't changed much. It's very close to 50-50. Certainly, with the remodel/retrofit being down more than new construction, maybe a tad more new construction right now, but it's close enough to 50-50 to not change that ratio.

Gregory John Burns
Sidoti & Company, LLC

Okay. Okay. And then I guess you kind of touched on this, but it seems like your -- the contract side of the businesses seems to be showing some more activity, I guess. Maybe can you just talk about what you're seeing in terms of funnel activity there, conversations with your customers? Just any more color you could give there? Do you feel better about that side of the business and see maybe improving demand outlook there?

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes, Greg, I think that's how I would characterize it. Current trends, we think our funnel, our quoting, our preorder activity is solid. It's actually we've got double-digit growth rates in all those preorder metrics. What I would say is that we've got some segments that are showing some pretty decent activity, both project pipe, Fed Gov, corporate accounts in that space as well.

Now having said all that, what I would say is, I think it's going to be a slow, steady grind up. It's not to the moon. I think it's -- but the good news is those are starting to convert, and we're having -- those preorder metrics are up nicely. And I think the cycle is a little elongated, so it's just going to kind of be a slow, steady grind. But it does predict the outlook will be growth in the contract space as we go forward.

Operator

Your next question will come from the line of Budd Bugatch with Water Tower Research.

Budd Bugatch
Water Tower Research LLC

Congratulations on the performance in the quarter, very, very heartening. Jeff, you talked about those 4 items, and I think Marshall stressed that price-cost was important during this quarter and still remains positive, but less so going forward. Can you talk about, which rank the other 3 in terms of importance in this quarter, and what's left to get in terms of productivity, streamlining costs or simplifying?

Marshall H. Bridges
Senior VP & CFO

Yes, Budd. In the first quarter, we had about $14 million of favorable price-cost. So that was the biggest item. But a very close second was productivity, which is about $12 million of benefit year-over-year. The actual SG&A cost was smaller than that. Moving forward, it's about productivity. Price-cost is still going to be positive, as I mentioned, the rest of the year, but less so, and productivity ramps up. So as Jeff mentioned, we're expecting around $35 million of incremental net productivity benefit year-over-year. You can compare that to maybe price-cost of the year of $15 million to $20 million, $14 million of which was already in the first quarter.

Budd Bugatch
Water Tower Research LLC

Okay. And by the end of the year, where do you think the legacy HNI Workplace Furnishings margins will be? And what's still the goal? Is still goal double digit?

Marshall H. Bridges
Senior VP & CFO

Look, our goal is more ambitious than double digit, but we'll -- we may not quite get there this year, but we're certainly trying and expect to see margin expansion going forward.

Budd Bugatch
Water Tower Research LLC

Okay. I'm going to ask you to define a word for me, and that word is solidly, which is an adjective you used, I think, to describe the performance in the second quarter. You want to put some framework on solidly?

Marshall H. Bridges
Senior VP & CFO

Gosh, Budd, that's a tricky one.

Budd Bugatch
Water Tower Research LLC

That's why I asked you, Marshall. You know that better than me.

Marshall H. Bridges
Senior VP & CFO

Yes. I'm not sure we've got a lot of color for you on that one. What I'd maybe point to, Budd, is that I think the consensus estimate for the second quarter is like $0.64. And so I think that would be up solidly versus the prior year to kind of give some color to it.

Budd Bugatch
Water Tower Research LLC

Okay. Well, let's tack the year a different way. Do you -- will we get to the normal earnings per share seasonality performance of maybe 1/3, 2/3 or 30-70 for the first half, second half, was that your thinking?

Marshall H. Bridges
Senior VP & CFO

Yes, that's exactly what we're thinking. That 70-30, 1/3, 2/3 range is right on.

Budd Bugatch
Water Tower Research LLC

Okay. That's very helpful. In Residential Building Products, curious to -- everybody we hear has pretty much said, business is a little punk, but we're optimistic going forward. And I'm trying to understand the reasons for the optimism, and where are you seeing that? Are you seeing it in orders? Is the order book so solid that's giving you that improvement?

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes, Budd, what I would say is, on the new construction side, if you look at our Q1 orders, we were down low single digits, and that's now flipped to a positive order growth rate in the new construction side. So that's probably what we're talking about. But even if you talk about R&R, the decline was in the low 20s in the order book, but it's now -- that decline is moderating. So it's -- that's a sign of some optimism as we go out throughout the year in '24 on the RVP side.

Marshall H. Bridges
Senior VP & CFO

Maybe, Budd, just to add to that, the first quarter rates, I think Jeff mentioned this in his prepared comments, are kind of distorted. So they don't provide a very good look through of what like the next quarter's revenue would be because of all the noise in the prior year comp. So maybe that helps a bit, too.

Budd Bugatch
Water Tower Research LLC

Got you. And for me, just -- I want to make sure I understand something. I'm very -- I am delighted to hear that you're seeing improvement in contract. And I've had no problem with the thought that it was going to grind forward until about sometime middle part of last week when the ABI came out and hit me in the face with a pretty sizable drop. And that always is a worrisome issue. Dissuade me of that concern.

Marshall H. Bridges
Senior VP & CFO

Budd, I think the drivers in contract are mixed. There's a lot of reasons to believe we're going to see some good growth. Our preorder metrics are up. Certainly, the adoption of hybrid and people moving space, taking advantage of attractive lease rates creates furnisher events, those are all good. But then there's things like you just mentioned, the ABI is down, people are worried, rates are up. So that's why we kind of think that it mixes together to be a kind of a slow grind up. But that's where we're at. We're not thinking or seeing dramatically high growth in the back half, but maybe something in the small -- the mid-single digits in the back half year-over-year for contract.

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes, Budd, it's clearly still choppy out there on all those factors Marshall just mentioned. But a slight -- as you kind of snap a line on this, we see it just slightly ticking up, which is great news for us because we're able to kind of deliver expanded margins without that. And once that volume growth, even a couple of points, comes, that's going to lever through pretty good for us.

Budd Bugatch
Water Tower Research LLC

Got you. And I lied, I do have 1 more question on that. $75 million to $80 million of incremental Kimball revenues, is that above the $50 million -- $52 million or $56 million that you reported in the second quarter of '23?

Marshall H. Bridges
Senior VP & CFO

Correct. Yes. That's -- yes, correct, Budd. That's incremental versus last year. So that's not their total revenue for the quarter. That's just the incremental year-over-year.

Budd Bugatch
Water Tower Research LLC

So it will be in that $135 million to $140 million range is your best guess now?

Marshall H. Bridges
Senior VP & CFO

Correct.

Budd Bugatch
Water Tower Research LLC

And Jeff and team, congratulations on a really, as you would say, solid quarter.

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Thanks, Budd.

Operator

Your next question comes from the line of Kathryn Thompson with Thompson Research Group.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Following up on the nonres end market and the ABI, our primary research and feedback from the field paints a little bit different picture than the ABI and what large commercial contractors are sharing with us is that the mega projects and some projects simply aren't being captured by the ABI, which I guess leads to the question, as you look at mega projects, in what ways does HNI participate and ways that you can win?

Marshall H. Bridges
Senior VP & CFO

Kathryn, good question. Just to clarify, you're referring to Workplace Furnishings, and how we would participate in large projects there?

Kathryn Ingram Thompson
Thompson Research Group, LLC

Correct. Correct.

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes, Kathryn. I mean we -- yes, yes. We participate strongly in those projects. We have corporate account sales teams. We've got dealers that are well positioned, and we have a lot of activity in that space. And I tend to agree with you. There is activity that people have been on the sidelines for quite some time, and a lot of people now have kicked the can and the leases can't be kicked anymore. And so people are starting to get active in that space. And so we have exposure to that space. We always have. We talk about SMB a lot because we're kind of uniquely positioned there. But we're clearly positioned in the top 10 markets for those mega projects as well, and routinely have those in our funnel and track them.

And I would say that there is more dialogue on those types of events than there has been the last couple of years.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Yes. Following on just once again on the commercial contractor space. Historically, HNI has been focused on middle America, whereas the coasts have been for some of your peers in terms of just relative strength. And with population shift, it's been much talked about the Southeast and Southwest, so a lot of it still is in Middle America, but it's just kind of shifted south. As you look at growth in these big cities, are you able to capture your fair share in the southern half of middle America versus just kind of for the midwestern portions of the U.S.? I hope that question makes sense. It's just mainly about capturing your fair share where that population shift is going.

Marshall H. Bridges
Senior VP & CFO

Yes. Just maybe to clarify, we participate broadly through the U.S. We're in large cities. We're in large coastal cities. We have good share in those cities. So just want to make sure that don't get the impression that we're just in the Midwest. That's definitely not the case. We are broadly distributed.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Well, yes, for sure, yes, yes. It was mainly like Midtown Manhattan versus [indiscernible], that type, Miami versus Nashville.

Marshall H. Bridges
Senior VP & CFO

Right. I think we look a lot like the U.S. employment base where it is spread out. And of course, we've got our unique position in the non-top 10 markets where we really have a very strong position. But that's not to say we're not also participating in the larger markets. And I think KII better positions us for that population shift as well as the product shift that's going on. So we feel pretty good about being able to catch the growth that is out there, Kathryn.

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes, absolutely. I think we kind of have been sitting in neutral in some of these larger markets like a lot of people have been because the clients have been sitting in neutral. So as I just commented, those are starting -- those engines are starting to warm up a bit. And we like the population migration and KII, as Marshall said, only strengthens that because the secondary geographies, the product breadth and depth, the price points, the product mixing that's going on for flexibility, that all allows us to capture our fair share, if not more than our fair share in those markets.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Okay. Great. And then a final question for the today on Kimball. You've given some great detail on the call today and in the Q&A. It clearly made some solid progress from a margin expansion standpoint. But stepping back and looking of course for the trees as we come to anniversarying that deal, what are 2 or 3 things that have been upside to you that maybe you learned after you acquire a company that gives you hope and optimism for the future?

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes, Kathryn, I would say -- I kind of said that in my opening remarks. I would say the product application that they have, the exposure, we like that, but I think that's probably stronger than we even imagined. The hospitality space, which we didn't know a lot about, but has been a nice surprise and upside. And in health care, we didn't have a lot of exposure to health care and they have a nice piece of health care business as well that has really added. And then you wrap all that in what I say is the real super ingredient is the cultural fit.

These deals tend to turn on culture and people. And you stack that and wrap that around the 3 things I just mentioned, and it's all been a plus-plus. We knew it was a plus, but it's been a plus-plus from my perspective.

Operator

And there are no further questions at this time. I'll turn the call back over to Mr. Lorenger for any closing remarks.

Jeffrey D. Lorenger
Chairman of the Board, President & CEO

Yes. Thank you. Thank you for your interest in HNI and thanks everybody taking the time to join us on this Monday morning. Have a great day.

Operator
And that will conclude our call for today. Thank you all for joining. You may now disconnect.