



# **HNI Corporation** NYSE:HNI

## *Earnings Call*

*Monday, May 8, 2023 4:00 PM GMT*

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# Call Participants

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## EXECUTIVES

**Jeffrey D. Lorenger**

*Chairman of the Board, President  
& CEO*

**Marshall H. Bridges**

*Senior VP & CFO*

**Matthew Scott McCall**

*Vice President of Investor  
Relations & Corporate  
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## ANALYSTS

**Beryl Bugatch**

*Water Tower Research LLC*

**Gregory John Burns**

*Sidoti & Company, LLC*

**Reuben Garner**

*The Benchmark Company, LLC,  
Research Division*

**Steven Ramsey**

*Thompson Research Group, LLC*

# Presentation

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## Operator

Good morning. My name is Audra, and I will be your conference operator today. At this time, I would like to welcome everyone to the HNI Corporation First Quarter Fiscal 2023 Results Conference Call. [Operator Instructions]

Mr. McCall, you may begin your conference.

## Matthew Scott 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 2023 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*

Good morning, and thank you for joining us. Our first quarter results were better than expected, reflecting the momentum we have with our strategies, our market positions and our actions to streamline our businesses. On the call today, I will highlight 3 key topics. First, our profit improvement actions in Workplace Furnishings continued to deliver results. Second, recent Workplace Furnishings demand trends are encouraging. And third, our Residential Building Products segment is performing well despite a period of weaker demand.

Following those highlights, I will provide a brief update on the Kimball International transaction. Marshall will then review our outlook. I will conclude with some general closing commentary before we open the call to your questions. Moving to the first topic. Our profit improvement actions in Workplace Furnishings are delivering results. The first quarter of 2023 marked the fourth consecutive quarter of year-over-year profit improvement in Workplace Furnishings.

During the quarter, multiple drivers supported our profit improvement. Specifically, our annual net productivity savings returned following a year of elevated investment, benefits from streamlining efforts and cost actions implemented in 2022 continue to deliver, and price benefits exceeded cost inflation. As a result, our first quarter seasonal non-GAAP operating loss in Workplace Furnishings narrowed by more than 40% on a year-over-year basis, and segment gross margin expanded 190 basis points from the prior-year period. This was despite demand pressure associated with prior year backlog dynamics and weakening macroeconomic conditions.

While macro conditions are still uncertain, we remain confident in our ability to drive Workplace Furnishings profit growth in 2023 and beyond. It is important to note that we are not dependent on volume growth and are driving 4 primary profit growth actions. First, we continue to simplify our business, focusing on our most attractive markets. The actions we took late last year to divest Lamex and rationalize our e-commerce offering are currently improving our profitability. Second, we have streamlined our cost structure. We continue to expect \$25 million of our previously announced \$30 million to \$35 million cost savings initiative to impact Workplace Furnishings this year.

Third, our productivity efforts are driving profit growth and our future results will benefit ongoing operational investments. And fourth, price cost will continue to be a tailwind through the remainder of this year. Moving to my second topic, recent Workplace Furnishings demand trends are encouraging. On our last earnings call, we discussed our expectations for soft first quarter volume. We were projecting first quarter organic sales to decline at a high teens rate year-over-year, driven by the unwind of backlog in the prior year, macroeconomic conditions and inconsistent office reentry patterns.

Actual results were down only 11%. Shipments to small- and medium-sized businesses and the contract customers both exceeded our expectations. Order growth was also better than expected. Organic orders in the Workplace Furnishings segment grew 13% versus the same period a year ago, reflecting improving market demand trends, our unique market positions and the benefit of pull-forward activity driven by price increases implemented during the quarter.

We are encouraged by the order trends. However, we still believe we're in a period of slow improvement that is being dampened by macroeconomic uncertainty. We believe the improving order rates reflect intermediate and long-term trends related to employment growth with small to midsize offices, population shifts to secondary geographies, increased furniture events driven by the adoption of hybrid work models and more large corporate customers ramping up their return to office plans.

These trends all align with our strong market coverage and our product and price point breadth and depth, positions that will only be enhanced through our combination with Kimball International. And the third topic, our Residential Building Products segment is prepared for a period of weaker demand. Consistent with our previously discussed expectations, weakening macroeconomic conditions and softer housing-related demand negatively impacted Residential Building Products during the first quarter. However, productivity savings, cost reduction actions and continued price cost improvement offset nearly half of the volume-related pressure. As a result, segment operating margin remained in the mid-teens. This was the 11th straight quarter with an operating margin in excess of 15%. Not unexpectedly, segment orders softened in the quarter. As I previously mentioned, we are prepared for a slower near-term demand environment.

We, however, remain bullish about our mid- to long-term growth given the housing market's strong fundamentals. Housing is undersupplied, demographic trends point to robust future construction growth and renovation activity will begin, will benefit from an aging housing stock. In addition to strong market fundamentals, we have unique growth opportunities.

We continue to invest in our initiatives aimed at expanding the market, including in the areas of category awareness, new product innovation, including the electric category; online capabilities, including tools that assist homebuyers in selecting the right fireplace for their home; and the expansion of our wholly-owned installing distributor footprint. The market's strong fundamentals are unique growth opportunities and our category-leading positions point to the return of strong growth beyond 2023.

Before I turn the call over to Marshall, I wanted to provide an update on our combination with Kimball International. On March 8, we announced an agreement to acquire Kimball International in a transaction currently valued at approximately \$455 million. The transaction is cleared in a trust review, and the vote of Kimball International shareholders is scheduled for May 31. We expect the transaction to close in early June. The combination creates a market leader with pro forma revenue of approximately \$3 billion and combined EBITDA of approximately \$305 million when including \$25 million of expected synergies. Together, we will be strongly positioned for post-pandemic trends with an expanded presence in secondary geographies and leading positions in ancillary products.

With that, Marshall will now discuss our outlook for 2023. Marshall?

**Marshall H. Bridges**  
*Senior VP & CFO*

Thanks, Jeff. Let's start with expected seasonality. As we discussed last quarter, we expect sales and earnings seasonality during 2023 to be more in line with pre-pandemic trends. As a result, our quarterly year-over-year comparisons of sales and profit will be distorted. Specifically, first half year-over-year

comparisons will be more challenging due to backlog dynamics that positively impacted both segments in the first half of 2022; and our second half comps will be less challenging, particularly in Workplace Furnishings where demand slowed in the second half 2022.

We now expect approximately 80% of our annual non-GAAP earnings per share be generated in the second half of 2023. That compares to approximately 60% in the second half of 2022. Let's move on to our outlook for the second quarter. In Workplace Furnishings, we expect second quarter revenue to decline at a year-over-year rate in the mid-teens. I would like to point out that 2 unusual factors are contributing to that decline. First, we're comparing against a strong prior year result. In the second quarter of 2022, net sales in Workplace Furnishings grew 18% year-over-year. That growth rate was driven by strong activity with transactional customers and the final unwind of excess backlog built up during 2021. Neither of those benefits are expected to repeat in this year's second quarter.

Second, the sale of Lamex will lower growth in Workplace Furnishings by 6 percentage points or \$27 million in the second quarter. Excluding that divestiture, organic revenue is expected to decline at a high single-digit rate. Moving to second quarter Residential Building Products revenue, we expect segment revenue to decline at a year-over-year rate in the high 20% to low 30% range. This decline reflects both a return to normal seasonality and weakening new construction and remodel/retrofit demand.

The second quarter in Residential Building Products is typically our seasonally weakest quarter with revenue nearly 10% below first quarter levels. Last year, we did not see that dip as the second quarter benefited from excess backlog and strong incoming demand. Having that seasonal dip return is expected to drive approximately one-third of the second quarter revenue decline in Residential Building Products. Weaker market conditions are driving the other two-third of the decline. So in total, consolidated second quarter revenue for HNI overall is expected to decline at a rate in the high teens to low 20s. Excluding the sale of Lamex, organic revenue is expected to be down at a mid- to high teens rate in the second quarter. We expect consolidated non-GAAP operating income in the second quarter to exceed first quarter of 2023 levels.

I would also like to note that our second quarter outlook excludes any impact from our expected closing of the Kimball International transaction. Let's move on to our outlook for 2023 overall. First off, our main point is our outlook for the remainder of the year is essentially unchanged. We expect productivity benefits, reduce structural cost and improved price cost will create \$85 million to \$95 million of total benefit during 2023. This will drive profit growth in Workplace Furnishings despite top line pressures, and those drivers will offset much of the negative impact from lower volume in Residential Building Products that's being driven by the weakening housing market.

Shifting to the balance sheet, we now have our permanent financing in place for the Kimball International transaction. During the quarter, we replaced the initial bridge loan financing with a new term loan facility and an amendment to our revolver. Looking forward, we expect to maintain reasonable leverage levels. We have a history of generating strong free cash flow through a variety of economic conditions. The combination with Kimball International will further strengthen our cash flow, and we expect free cash flow in 2023 to benefit from a return to more normal working capital levels. Our reasonable leverage and cash generation provides flexibility for the dynamic environment and continued investments.

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

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Thanks, Marshall. In closing, we are well positioned for both the current environment and the long term. In Workplace Furnishings, our profit improvement actions will continue to drive results. Our future profit growth is not dependent on volume. However, we expect demand to eventually benefit from employment shifts, population migration and the accelerated adoption of hybrid work models. These trends all align with our strong market positions. We are excited about our soon-to-be combination with Kimball International. The complementary nature of the business will create compelling value for all of our stakeholders.

In Residential Building Products, while we are prepared for weak near-term demand, we remain focused on driving long-term growth. High-margin, high-return businesses possess market-leading brands, unmatched product depth and price point breadth and unequal distribution capabilities, and its vertically integrated model and regional distribution infrastructure will continue to provide superior customer service and support for our market leadership positions. We will now open the call to your questions.

## Question and Answer

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### Operator

[Operator Instructions] We'll take our first question from Budd Bugatch at Water Tower Research.

### Beryl Bugatch

*Water Tower Research LLC*

Congratulations on good performance for the first quarter. I think I was most -- or one of the things that really raised my eyebrows was the 13% order growth in Workplace Furnishings, which -- when you compare that to the reports -- results reported by BIFMA, at least so far to date in '23, was much higher than what the industry looks like. Is there some explanation for that? Can you provide color? Was it because of March because BIFMA hasn't yet like -- post March or -- can you give us any thoughts on that?

### Jeffrey D. Lorenger

*Chairman of the Board, President & CEO*

Yes, Budd, this is Jeff. First, I would say what it pertains to BIFMA, I think what we've kind of witnessed over our years is it will bounce around a bit quarter-to-quarter. Everyone does price increases at a different time, and there's a lag there. So I can't -- I don't get too caught up on the BIFMA numbers on a point in time, but maybe over a longer time period, it's a little more accurate to compare. I would say for us, we continue to see strength in the mid-market in the SMB portion of the mid-market and that, that surprised us a bit. And in the contract side, I think what you saw, both of those segments benefited from some price increase pull ahead, but we also were encouraged because we see customers were close to pulling the trigger. And recall, a lot of customers have been sitting on the sidelines in planning mode, and I think it forced them to make decisions and move. And so from an overall industry standpoint, I think that was a really good sign for us anyway to see that customers were close enough, and we're willing to make the investments.

### Beryl Bugatch

*Water Tower Research LLC*

But a little bit -- maybe a little further into that. We've heard from others that there's a lot of activity, but it's taking longer to bring that to fruition. You also made a comment that you had pricing pull forward and that would imply that there were price increases that were actually happening during 1Q. Otherwise, the pull forward would have been ahead of that. I have that right? And you said SMID and contract were about the similar rates. And I just want to make sure I understand why you think that might be that way.

### Jeffrey D. Lorenger

*Chairman of the Board, President & CEO*

Price -- but I think our price increase went into effect March 1, but I think it wasn't -- it did occur in the quarter. So I think we did see an impact from the price increase.

### Beryl Bugatch

*Water Tower Research LLC*

And how much was that, Jeff? Or what does it look like...

### Jeffrey D. Lorenger

*Chairman of the Board, President & CEO*

I'd say overall, when you kind of net it all up, about 50%, we probably attribute to pull forward ahead of price increase. And that -- we got historical benchmarks we look at, and we're obviously in a bit of a unique position, but that's our best guess, 50%.

### Beryl Bugatch

*Water Tower Research LLC*

Do you think 6.5% of the delta thereabouts was due to the price increase?

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Yes. That's a fair way to say it.

**Beryl Bugatch**

*Water Tower Research LLC*

Okay. My second question, again, the performance in RBP, certainly, the profit performance is certainly notable, and there's demand issues in the quarter. A couple of things surprised me on that, that one that -- that it looks like remodel/retrofit was impacted more than new housing construction because I thought that would and what we've seen with interest rates and mortgage rates, I would have thought new housing would have been more impacted. And secondly, usually at a time like this when others are bruised or when you're bruised, others are pretty much hemorrhaging. So there might be more opportunities to acquire in that. Do you see that -- and if there are, does the Kimball acquisition say, my appetite may not be so good at this point in time.

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Yes. Budd, let me parse that. There's a lot there. I would say, first of all, I'd start with and I always start with, we continue to invest through this in RBP. And we tend to find with our leading categories and leading positions, investments to grow the category, work out well for us, and we pick up a disproportionate share on any expansion from our position. So that's a good thing. On your question around R&R, I think for the year, I would say we still anticipate that new construction will be worse than R&R for the year. In the quarter, I think we saw -- we have an early buy program that impacts R&R, and the assumption we made, it wasn't basically -- the trade didn't take advantage of it as much as they have in the past. Particularly, I think it's a phenomenon around lead times and are getting back to normal and not hoarding products, like they were kind of gotten to a mental state of doing that for the last couple of years. And so that impacted the quarter in R&R, I think, and that's a little bit distorted. But overall, we believe new construction for the year will still be now more than R&R.

**Beryl Bugatch**

*Water Tower Research LLC*

Got you. Okay. And...

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

And I think you had another question in there that -- what was it that you...

**Beryl Bugatch**

*Water Tower Research LLC*

Yes. Well, do you -- with the idea of others being hurt, how is your -- what's your view of pipeline of transactions and maybe potential acquisitions on that. You've been mostly acquiring at least in the last couple of years, distribution. Is that something that you see continuing? And are there opportunities in that side?

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Yes, good question. I think we continue and we'll always be on the lookout in that space, and I don't think our posture will change post acquisition versus what it was preacquisition.

**Beryl Bugatch**

*Water Tower Research LLC*

Okay. Just -- I'll take 2 more and then defer. Just -- if we can get walk-throughs of maybe the year-over-year changes in gross profit and some -- and for SG&A, if Marshall can give us maybe some quantification of what made the major components of change in gross margin and SG&A margin?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes, happy to do that, Budd. As it relates to gross profit margin, we saw about 160 basis points of headwind from volume -- lower volume with a negative impact. And we were able to more than offset that with favorable price cost, which added about 130 basis points; and the impact of our costings program, which added about 100 basis points, so I think of that as productivity. And then we had maybe 3 other categories, which added about 140 basis points collectively. They included the divestiture of Lamex, some product mix and some program changes. So all in, we saw 210 points of gross profit margin expansion on a non-GAAP basis. As it relates to SG&A -- go ahead, sorry.

**Beryl Bugatch**

*Water Tower Research LLC*

Got it. Okay. Yes, SG&A, the same way. I'm sorry, apologize.

**Marshall H. Bridges**

*Senior VP & CFO*

Yes. This was a little bit of a simpler story. We did see SG&A as a percent of sales increase, and it really is driven by the volume decline, partially offset by our cost reduction program, which reduced SG&A dollars by about \$5 million in the quarter.

**Operator**

We'll move to our next question from Reuben Garner at Benchmark Company.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

So the price increase in Workplace Furnishings that went into effect March 1. I guess, one, is that something that you're seeing across the industry? Was that specific to 1 side of your workplace business, meaning the small business channel or was that both in contract and small business? And then the second part of the question is what have kind of order trends look like since that increase went into place in March and April, if you could help with more recent trends.

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Yes, Reuben, I think the price increases kind of are generic across the board. It wasn't -- we look at it year-over-year, look at cost inputs and make the best determination. But it was not specific to 1 category of the business or 1 segment of the business. And since the price increase, I mean, what we've seen is still -- first of all, orders throughout the quarter sequentially got better. Second of all, the mid-market, we still see our 5-week most recent is still up low single digits. The transactional piece of the SMB, which is a smaller piece of our businesses continues to be weak. And the contract is flattish to prior year right now on the recent 5-week average.

**Marshall H. Bridges**

*Senior VP & CFO*

Reuben, maybe just to add to that, this is your typical normalization pattern you see post price increase. And we're also up against -- we're starting to get up against last year's price increase. There's a lot of noise in the system right now. But generally speaking, things that behave like you would think they would after a price increase.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

Okay. Flattish year-over-year is pretty encouraging, I think, in this environment. I guess, that speaks to where you guys are in the market. Maybe on the hearth product side, can you talk to me about how we should think about margins as they progress through the year. Are the productivity savings, are they kind of tilted more towards one of your businesses than the other? I'm just asking if your workplace business is running flat year-over-year and there's a little bit more pressure in hearth, does that allow you to get more done from a productivity standpoint in the hearth segment?

**Marshall H. Bridges**

*Senior VP & CFO*

Look, Reuben, if you look at our cost savings program, we're expecting to be about \$35 million of benefit on the year. That is going to impact both segments. And it's really split about 6% workplace and 40% Residential Building Products, and that also includes the benefit of price cost. So the net result of that is we're going to see workplace grow profit and margin this year, and we're going to see some compression in Residential Building Products, just maybe not as much as you might expect. I'm not sure if that answers your question.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

That's helpful. I guess, I was wondering about the progression for margins. I mean, the comps are choppy on the top line as we go through the year. Do you expect the kind of margins that we saw in the first quarter to be the right way of looking at the business as the year progresses.

**Marshall H. Bridges**

*Senior VP & CFO*

In Residential Building Products, we'll see margin changes more to the seasonal volumes. So no, first quarter is a decent quarter, right? Remember second quarter is the seasonal trough, and we build our way back up. So you're going to see different margins by quarter. No, I don't think the first quarter is a great read on the rest of the year, and it never is.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

Okay. And I'm going to sneak 1 more in. Sorry to bounce around, but I'm going to go back to workplace for a second. So I think I either heard or read the trends in SMB continue to be better than contract. Is that right? And thank you for the detail on the most recent 5 weeks by segment. Did they kind of -- did they look similar in the first quarter relative to each other transactional, SMB and contract?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes. So in the first quarter, SMB was up in the high teens, and contract was up in the mid-teens. So they are pretty similar, but the SMB was a bit stronger. When you look into SMB, we saw the same pattern we've been seeing for 6, 9 months, where the mid-market is strong and the transactional business was weak and they averaged out to be up in the high teens.

**Reuben Garner**

*The Benchmark Company, LLC, Research Division*

And is the transactional piece weak, is that just tied to the macro uncertainty? Is that something bigger than that? Has that business historically been a leading indicator for what you can expect in the other, more of the project base on a go-forward basis?

**Marshall H. Bridges**

*Senior VP & CFO*

I'm not sure it's a great read in given that we've had such a unique situation from the pandemic. But yes, we do believe the transactional business is being impacted by the macroeconomic conditions. It's -- these are like small purchases that are easy to defer when you're worried about cost. But I'm not sure

it necessarily is indicative of a future problem in the other segments, right? We've got a lot of pent-up demand out there from several years of employment growth growing faster than industry shipments, which seems like at some point needs to catch up.

**Operator**

We'll go next to Greg Burns at Sidoti & Company.

**Gregory John Burns**  
*Sidoti & Company, LLC*

I just wanted to, I guess, touch on the, I guess, positive trends you're seeing in the Workplace Furnishings segment. When you look at what's been going on more recently with decisions being delayed and maybe spending being halted maybe for macro or for other reasons. The inflection of the change you saw this quarter, what gives you confidence that, that might be more of a change or a change in trend versus maybe a one-off thing? Are you seeing like your funnel fill, your pipeline of business increasing? Is there any kind of forward-looking indicators that might give us confidence that this is maybe the beginning of an inflection in the industry?

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

Yes. That's a good question, Greg. I think -- look, I mean, it's encouraging. Our activity levels are high. It's encouraging that people got off the sidelines. What I would say -- so long-term trends, I think we're seeing some signs of positivity there. Inflection point may be a little muted though, I would say, just given the economic cycle we're in. I think it's encouraging that even though some of the headline news is pretty gloom and doom, we saw some pretty nice activity and our customers are pretty active. And I think that's indicative of just, we've been in this holding pattern for quite some time and people -- although we may see some short-term economic pod, people are realizing that they want to move forward and they can't stay in a holding pattern forever. So I think that piece of this is a positive and I think bodes well for the future.

**Gregory John Burns**  
*Sidoti & Company, LLC*

Okay. And then in terms of the price increase, it seems like inflation is kind of cooling down a little bit and you've caught up in terms of like price cost. So is that just your natural every year price increase that you put in? Like, what's the rationale behind raising price again here at this point? And is there any risk that the market won't accept pricing going higher from here?

**Marshall H. Bridges**  
*Senior VP & CFO*

Greg, I think the thing to recognize is that inflation hasn't gone away. It's just become reduced. So we're still seeing inflation. We're expecting inflation in the neighborhood of \$10 million to \$20 million this year. And we're going to offset that with pricing, some of which was carryover from last year and some of which is from the new price increases. As far as their acceptance so far, we're seeing pretty reasonable acceptance across the board, as you might expect, given the industry conditions.

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

Yes. And I would say, Greg, to your first part of the question, it was more -- we're back in line to a more normal cycle price increase. I mean, just -- we got -- we do have, as Marshall said, there's still -- it surprised -- it's not headline news as much as it was, but we can tell you it's still out there. But with this, I would say -- I would call this more of a typical price increase, not something that was meant to catch up or plug holes.

**Operator**

We'll take our next question from Steven Ramsey at Thompson Research Group.

**Steven Ramsey**

*Thompson Research Group, LLC*

I wanted to ask a question, workplace orders being strong ahead of the pricing. Was it enough pull ahead to limit the margin outlook for the rest of the year in a meaningful way given you may not get a full of a benefit of the pricing in the next few months.

**Marshall H. Bridges**

*Senior VP & CFO*

No, Steven, we don't see any material impact from that. I do understand your point, but it wasn't enough to make a big difference on the year, and we feel confident in our profit improvement actions is going to deliver profit growth in workplace for the year.

**Steven Ramsey**

*Thompson Research Group, LLC*

Okay. Helpful. And then thinking in workplace on your advantages and long-term strength in the SMB vertical, are you seeing an increase of competition in that vertical from other players?

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

That's a good question, Steven. What I would say about that is, look, that space is always competitive. It's been competitive and it will remain competitive. We've spent years tuning our model for that space with our selling and fulfillment capabilities. And we've been competing there for decades against the wide array, big, large and medium competitors, product-specific competitors. So we -- I wouldn't say we've really seen anything other than business as usual and we're going to continue to invest in our model to maintain our leadership position.

**Steven Ramsey**

*Thompson Research Group, LLC*

Okay. Helpful. Another one on workplace. Recent results at Kimball. Curious what your view of their results were? It seems like solid sales, but order rates even better broadly. Just curious if you have a view on their results and maybe how they read into the marketplace that you're looking at.

**Marshall H. Bridges**

*Senior VP & CFO*

I think the story is fairly similar to what we're saying, Steven. We're both making good progress on the cost and margin side, but we're not really in a position to provide additional detail on their results right now.

**Steven Ramsey**

*Thompson Research Group, LLC*

Okay. Helpful. And then last one for me, thinking long term on the RBP segment, margins were in the 18% to 19% range in 2018 through 2022, softer patch maybe this year. But thinking about the actions you're taking and the new products displayed at [indiscernible] a few months ago, do you think 18% to 19% is the low area or even better when you get to the other side of 2023.

**Marshall H. Bridges**

*Senior VP & CFO*

Yes, Steven, if you remember, our main strategy kind of battle cry in that segment is to maintain our strong margins. I'm referring to the margins we had before this year and really drive top line growth. And so yes, I mean, I think we can absolutely get back to where we were and more importantly, drive the top line beyond where we were over the intermediate to long term.

**Operator**

We'll take a follow-up from Budd Bugatch at Water Tower Research.

**Beryl Bugatch**

*Water Tower Research LLC*

Yes. Thank you for that. Just to clarify what you were talking about with Steven a moment ago. I think if I understood Jeff right, about half of the delta between -- for RBP's profit performance in the first quarter was due to the profit improvement actions, and that would imply -- I think it was a 270 basis point differential between this year and last year in the operating margin for that. So is that the right way to understand that?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes. But for the year, we expect some pretty severe pressure on the top line and we expect to offset about half or maybe a little more than half of that pressure with our profit improvement actions. Basically, Residential Building Products share of that \$85 million to \$95 million of profit report that we mentioned earlier.

**Beryl Bugatch**

*Water Tower Research LLC*

Okay. And you did talk about 80% of the profitability of the company will be in the second half of the year. Is there any different -- major difference in the segment? Are they both in the same kind of relative positioning?

**Marshall H. Bridges**

*Senior VP & CFO*

No, that's an average, right? The 80% of non-GAAP EPS being due in the second half of the year is obviously accounts for both segments. We typically see more seasonality in workplace. Last year, 75% of workplace's non-GAAP operating income was in the second half, we'd expect it to be more in the 90% plus range this year. And Residential Building Products is a little less seasonal on a first half, second half basis. So they were 52% last year. We expect them to be more in the 60% range this year.

**Beryl Bugatch**

*Water Tower Research LLC*

Okay. That makes sense to me. And just talking about the Kimball acquisition to the extent you can, and if you can't, I understand that because it's still there. But are there any surprises so far in the due diligence? And what about the expectation for reporting structure? Any changes in the way you think you'll report segments?

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Yes, Budd. I mean, no surprises, I would say, just in response to your question, we are receiving very positive commentary from the trade and dealers confirming kind of our thesis around the transaction. So that's, I think, been encouraging as well. On reporting, we're really not in a position other than to say what we've announced, which is the 3 primary commercial leaders within that business will report to me, and that's all we've said at this point.

**Beryl Bugatch**

*Water Tower Research LLC*

I was actually thinking about the accounting structure and the accounting reporting. I'm sorry, I didn't mean to imply anything in the organizational -- people that -- we now have Workplace Furnishings and RBP, or is that -- is it all going to go into RBP or how do you look at that?

**Marshall H. Bridges**

*Senior VP & CFO*

Yes, we'll still have 2 segments, Budd. That's our expectation. The Kimball International business is very, very similar to our Workplace Furnishings business. So that would be accounted for under 1 segment. .

**Beryl Bugatch**

*Water Tower Research LLC*

Okay. And finally for me, you did file a new 425 this morning, and I realized that the SEC has got specific, but it look -- if I read it right, it's simply the same as the 8-K. Was there anything different in the 425 filed this morning and just a requirement that -- does the communication be having that label?

**Marshall H. Bridges**

*Senior VP & CFO*

Correct. Any time you mention or refer to the Kimball International transaction, we have to include it in the 425 filing. So even if it has a separate 8-K or other document, it has to go in the 425. So you've seen the press release come out today, and both forms, and you've also seen some other kind of small communication items come out on the 425, none of which changed anything related to the deal.

**Beryl Bugatch**

*Water Tower Research LLC*

Okay. Will you update guidance once the acquisition is done? Or will you just wait for the next quarter?

**Marshall H. Bridges**

*Senior VP & CFO*

I think, Budd, we're contemplating having more commentary on that on our next earnings call and not having a special announcement, but we'll take that in consideration and see what we need to do.

**Beryl Bugatch**

*Water Tower Research LLC*

Okay. And the Q, when will the Q be filled, the expectation for that?

**Marshall H. Bridges**

*Senior VP & CFO*

Our Q will be filed tomorrow.

**Operator**

And that does conclude our question-and-answer session. At this time, I'd like to turn the conference back over to Mr. Lorenger for closing remarks.

**Jeffrey D. Lorenger**

*Chairman of the Board, President & CEO*

Yes. Thank you. I'd like to thank everybody for your interest in HNI, and joining us today on the call, and have a great rest of your day. Thanks.

**Operator**

That does conclude today's conference call. You may now disconnect.

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