



**Fortune Brands Innovations, Inc.  
First Quarter 2026 Earnings Conference Call  
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**Presenters**

**Curt Worthington, VP of Finance and Investor Relations**

**Susan Kilsby, Chair of the Board**

**David Barry, Interim Chief Executive Officer**

**Ashley George, Interim Chief Financial Officer**

**Q&A Participants**

**Susan Maklari - Goldman Sachs**

**Michael Dahl - RBC Capital**

**John Lovello - UBS**

**Trevor Allinson - Wolfe Research**

**Michael Rehaut - JPMorgan**

**Stephen Kim - Evercore ISI**

**Phil Ng - Jefferies**

**Elizabeth Langan - Barclays**

**Operator**

Greetings, and welcome to the Fortune Brands Innovations First Quarter 2026 Earnings Conference Call. At this time, all participant lines are in the listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press Star 0 on your telephone keypad. Please note that this conference is being recorded.

I would now like to turn the conference over to Curt Worthington, Vice President, Finance and Investor Relations. Thank you, you may begin.

**Curt Worthington**

Good afternoon, everyone, and welcome to the Fortune Brands Innovations First Quarter 2026 Earnings Call. Hopefully, everyone has had a chance to review our earnings release. The earnings release, earnings presentation and audio replay of this call can be found on the Investors section of our [fbin.com](http://fbin.com) website.

I want to remind everyone that the forward-looking statements we make on the call today, either in our prepared remarks or in the associated question-and-answer session, are based on current expectations and market outlook and are subject to certain risks and uncertainties that

may cause actual results to differ materially from those currently anticipated. These risks are detailed in our various filings with the SEC.

The company does not undertake any obligation to update or revise any forward-looking statements, except as required by law. Any references to operating profit or margin, earnings per share or free cash flow on today's call will focus on our results on a before charges and gains basis unless otherwise specified. Please visit our website for our reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

With me on the call today are Susan Kilsby, Chairwoman of the Board, Dave Barry, our Interim Chief Executive Officer and Ashley George, our Interim Chief Financial Officer. Following our prepared remarks, we have allowed time to address questions. I will now turn the call over to Susan, who will make a few comments on leadership and strategy. Susan?

**Susan Kilsby**

Thanks, Curt. Before we begin, I'd like to take a few moments on behalf of the Board to address the recent leadership and governance changes. Our Board values direct constructive engagement with our shareholders. Over the last few months, we have engaged extensively with shareholders to gather their feedback on the CEO succession process, ensuring the Board is well informed on this important decision.

As you are aware, we have reopened the search for Fortune Brands permanent CEO. We are focused on identifying a leader with proven ability to instill focus and drive execution, particularly across global supply chains and complex routes to market. Just as importantly, we are seeking a leader who can build on Fortune Brands' proud legacy rooted in its iconic brands, history of innovation and strong customer relationships. Ideally, this leader will have a strong knowledge of the building products industry with a proven track record of driving leadership accountability and delivering sustainable sales and margin growth over time. We are very pleased with the high-quality candidates we have seen in the process as we move with pace to select the next CEO.

The Board is excited to have Dave Barry serve as the company's interim CEO. Dave is an experienced, thoughtful and decisive leader with more than a decade of experience at Fortune Brands, including prior service as CFO and most recently as President of Security and Connected Products. Dave is intimately familiar with our strategic priorities, our business and our investor expectations. He has the full support of the Board to act decisively, drive meaningful progress in underlying business performance and ensure Fortune Brands continues to build momentum while the search for a permanent CEO is underway.

I would also like to welcome Ashley George as Interim CFO. Ashley brings nearly a decade of experience with Fortune Brands and has extensive knowledge of the company's financial operations, supply chain and commercial functions and has a strong understanding of our systems, processes and commercial drivers.

At this important moment for the company, strong and steady leadership is critical, and Dave and Ashley are well positioned to provide that stability. I also want to recognize our Fortune Brands associates. The Board recognizes that the company is in a period of meaningful change, and we sincerely appreciate your commitment and the pride you take in delivering on our strategic priorities.

Turning to the Board of Directors. I would like to welcome Ed Garden, who joined the Board in March. Ed's extensive investment and financial expertise, coupled with his significant public company Board experience, brings a valuable perspective. We are looking forward to continuing our collaboration with Ed as we take action to improve our performance, enhance transparency and drive shareholder value.

As part of our normal succession process, we are also conducting a comprehensive director search as we have two longer-tenured directors who we expect to retire prior to our 2027 Annual Meeting.

In closing, I want to reiterate the Board's confidence in Fortune Brands strategy, its people and importantly, the strength of our brands. We have put in place experienced, decisive interim leadership who know this business intimately and are empowered to act. The Board is actively partnering with Dave and the entire leadership team, and we are confident that the steps we are taking today will serve our shareholders, our customers and our employees well. We look forward to sharing more on our progress in the months ahead.

With that, let me turn it over to Dave.

**Dave Barry**

Thanks, Susan, and good afternoon, everyone. Thank you for joining our call. I'll start by sharing my initial observations and priorities as interim CEO and then briefly discuss our current market outlook. I'll conclude with a preview of our updated 2026 guidance and a recap of our consolidated results for the quarter. Ashley will then cover our segment financial results and updated guidance in more detail.

First, I would like to share that I am energized and humbled to step into the interim CEO role and lead our talented teams. While we have a lot of work ahead, we have clear direction and objectives backed by strong internal and external alignment. The support I've received gives me confidence in our collective ability to deliver. I'm also extremely proud of all of our associates who have remained focused in the face of recent leadership transitions and have responded to a volatile market backdrop to serve our customers, drive performance and make progress against our strategic priorities.

I want to be clear, this leadership team has the Board's full mandate and alignment to act decisively now. We have strong brands and a solid strategic foundation, but our recent execution and current level of profitability is not where it needs to be. Our immediate near-term priorities are centered around increasing our operational rigor and discipline, optimizing our structure to drive efficiencies and focusing our resources on the highest return opportunities.

We expect that accomplishing these goals will allow us to accelerate sales growth, strengthen margins and improve cash generation.

Turning to Slide 5. Before I dive deeper into my priorities as Interim CEO, I want to share a few of my early observations on the company since assuming the role and how these are shaping our near-term focus. When I think about what differentiates Fortune Brands relative to our competitors, two things immediately come to mind: our leading brands and our talented workforce. Starting with our brands. Our flagship water brand, Moen, is a category leader built on decades of innovation, reliability and trust with both consumers and pros. We have continued to build upon that foundation and enhance the brand positioning with our new brand campaign, Must Be a Moen, which just launched in April. It is the first major branding campaign for Moen since 2018 and reflects our commitment to focus our investments behind our leading brands.

This campaign is expected to reinforce Moen's positioning in the market and allow us to win a larger share of wallet with younger consumers by focusing advertisements where we see increasing engagement. Early feedback on impressions and earned media shows the campaign is off to a great start.

In our Outdoor segment, our Therma-Tru brand is backed by 60 years of innovation and performance and is the Number 1 fiberglass entry door among builders. Today, the brand is known for its durability, energy efficiency and lasting style. I'm proud to share that our Therma-Tru Veris Modern Grain entryway system recently won a most valuable product award from the National Association of Homebuilders.

And in our Security segment, Master Lock is the clear category leader, ranking Number 1 in both awareness and purchase intent with consumers. The Master Lock brand also scores over 90% in durability, quality and trust. This reputation for reliability and performance has built strong awareness and credibility with Pro customers, driving consistent preference and repeat usage.

We see significant untapped potential in the Master Lock brand, and I am excited about the momentum we are building, including the launch of our innovative Master Lock Elite Padlock in April and the growing enthusiasm behind our Master It brand campaign. We are committed to investing behind this iconic brand in a way that reflects its true potential.

Now let's talk about the strength of our people. We are making meaningful progress in coming together as a cohesive unified team in Deerfield. While the move of our headquarters did result in the loss of some valued team members, the move also allowed us to attract a number of talented individuals with deep industry expertise and fresh perspectives. Combining the caliber of our new talent with our experienced legacy teams, we are creating a stronger organization with a powerful foundation that balances new thinking with institutional knowledge. As we continue to work through our transformation and bring our teams together, we are creating an environment that fosters greater collaboration, faster decision-making and more effective sharing of best practices across the organization.

I believe our long-term strategy is sound. We will be able to leverage our enduring strength to reinvigorate profitable growth. That leads us to our immediate near-term priority to improve performance, which fall into three key areas, first, increase our operational rigor and discipline, second, optimize our structure to drive efficiencies and third, focus our resources on the highest return opportunities.

Starting with our operational rigor and discipline. Recently, we have fallen behind on two fronts that are critical to our success; the pace and quality of new product development and our ability to consistently serve our customers at a high level. Our team has recognized these challenges and has taken definitive steps to improve. We are reinvigorating our new product development pipeline with a clear focus on accelerating speed to market and delivering features that align with evolving consumer and Pro preferences.

By sharpening our new product development around what matters most and delivering it to our customers faster, we expect to strengthen our value proposition with channel partners and drive incremental market share. While we are at the early stages of rebuilding momentum, we already have some recent wins that are worth highlighting.

In Outdoors, Therma-Tru recently launched a new line of 3.5 inch shaker-style fiberglass entry doors. These new products are targeted at the fastest-growing portion of the entry door market, and we are already seeing momentum with first quarter sales for this product coming in at approximately 125% of our plan.

Just as impressive, we were able to go from concept to design to production in only nine months, essentially cutting our historical commercialization time line in half. In Security, we launched the Yale Pro 2 product line in February, adding a suite of products engineered for multifamily facilities, providing a fully integrated smart access experience. Backed by the shortest lead time in the industry, Pro 2 ensures faster deployment so property managers can upgrade access control solutions without delay.

Turning to our customer service levels. Our sales and operations planning processes have not been as consistent or as responsive as needed to keep pace with the changing market conditions, which has contributed to inventory imbalances and service challenges in certain areas of the business. We have made this a priority and are moving quickly to implement a more robust sales, inventory and operations planning process that will improve agility, streamline working capital and enhance service to our customers.

Turning to optimizing our structure. We are taking action to flex our cost base down in the face of continued challenging market dynamics while also balancing capacity to capture growth when market conditions improve. This will happen in two key areas: operating costs and SG&A. On the operating cost side, we are evaluating our footprint and overall capacity utilization across our network.

In recent years, we have made targeted investments to increase capacity and improve efficiency. But in light of the market environment, we have an opportunity to scale our assets

more effectively and optimize our fixed costs in the process. Within SG&A, we are actively reducing duplicative costs that have occurred as part of our recent transformation. At the same time, we're taking action to ensure that our shared functions are as cost effective as possible while still supporting the scale and best practice sharing that is critical to our future success.

We believe these actions will allow us to flex our operating costs more effectively and streamline our SG&A, which better enables our goal of being a BU-led organization supported by lean COEs. Based on the additional work we have done, we are increasing the annualized run rate of our cost savings estimates from the \$35 million that we discussed last quarter to \$70 million, and we now expect to capture \$15 million of these savings in 2026. The \$70 million annualized run rate savings represents over 150 basis points of annual margin improvement before any strategic reinvestment, and we are actively looking for additional opportunities throughout the business.

That brings us to the third priority, focusing resources on our highest return opportunities. While the overall Fortune Brands long-term strategy is sound, we recognize some parts of the business have not met our expectations. Our teams are undertaking a comprehensive review of those targeted areas to determine the best path forward, focusing on growth profile, strategic positioning, capital requirements and overall value creation potential. This work does not happen in isolation, it is directly enabled by the execution improvements and cost structure discipline we discussed earlier. By driving greater operational efficiency and removing unnecessary costs from the business, we expect to free up the resources and organizational bandwidth needed to invest behind our strongest brands.

Regardless of the external environment, we will be positioned to deploy capital with precision, supporting the areas of highest potential and ensuring our brands have the investment they need to compete, win and scale.

Turning to Slide 6. Macro headwinds and inflation have intensified, which have impacted consumer confidence and housing affordability. This is driving increased market uncertainty, especially for single-family new construction and has resulted in an uncertain start to the spring selling season. In addition, the increase in inflation is causing raw material and commodity prices to rise with the biggest impact to us being in aluminum, copper and freight.

The cost reduction efforts that I just spoke about, coupled with additional commercial and operational levers are expected to offset the higher input costs that we are seeing. Despite these near-term pressures, our view of the long-term fundamentals remain unchanged. The U.S. housing market continues to be underbuilt, home equity levels remain elevated and repair and remodel demand is supported by an aging housing stock. These factors, combined with the strength of our brands and our advantaged market positions continue to give us confidence in our ability to drive above-market growth over time.

Now turning to our consolidated results. In the first quarter, total company sales were \$1 billion, down 2%. Excluding the impact of China, sales were down 1%, driven by lower volume, which was partially offset by price. Our first quarter results reflect a U.S. housing market that continues

to remain soft. While we continue to make progress in our retail and e-commerce channels, this was offset by weak new construction activity, which weighed on our wholesale channel. Consolidated operating income was \$112 million, down 18%, largely due to lower sales volume, higher raw material and freight costs and the flow-through of peak tariff rates from the third quarter of 2025. As a result, operating margin decreased 200 basis points to 11.1%. Earnings per share were in line with our expectations at \$0.53, down 20%, primarily due to the decline in operating income.

Before I turn the call over to Ashley, I would like to spend a moment discussing the update to our 2026 guidance, which incorporates a measured reset for the remainder of the year in light of the increased market uncertainty.

First and most notably, we are reducing sales for the full year to be in line with our market outlook. While outperforming our end markets and driving share gains through the cycle remain core elements of our strategy, we believe we must address the near-term action items that I outlined earlier to accelerate our level of outperformance over time.

Next, we are incorporating the impact of higher commodity and freight costs into our outlook while also taking decisive commercial and operational actions across the P&L to offset these cost headwinds, including the \$15 million of 2026 cost savings that I highlighted. Ashley will discuss the changes to our 2026 outlook in more detail later in the call.

With that, I will now turn the call over to Ashley.

### **Ashley George**

Thank you, Dave. As a reminder, my comments will focus on results before charges and gains, unless otherwise noted, and comparisons will be made against the prior year. I'll start on Slide 8 with first quarter results for Water. Sales for the quarter were flat at \$564 million. Excluding China, sales increased 2%. The increase was driven by sales growth in both Moen and House of Rohl with pricing offsetting lower volume. In the quarter, Moen returned to sales growth in the retail and e-commerce channels, partially offset by declines in wholesale, which was impacted by weaker new construction-related demand. We also benefited from momentum in House of Rohl, which we expect to continue given its positioning with higher-income consumers.

Channel inventories in Water were stable in the quarter, but lapped a large inventory drawdown in first quarter 2025. Water's operating income was \$106 million, down 6%. Operating margin was 18.8%, down 120 basis points, primarily due to lower overall volume and higher tariff and freight costs, which were partially offset by price realization.

Turning to Outdoors. Sales for the quarter were \$294 million, down 3%, driven largely by Fiberon, partially offset by strong demand in Therma-Tru. Channel inventories remained at historically low levels and were a modest headwind in the quarter as customer seasonal builds were below prior year, most notably with Larson. Outdoors operating income was \$22 million, down 31%. Operating margin was 7.4%, a decrease of 300 basis points. These results reflect the impact of lower volume, higher tariff costs and higher commodity costs, particularly for Larson.

In Security, sales for the quarter were \$153 million, down 6%, reflecting volume declines, partially offset by price. The commercial channel experienced sales growth in the quarter, which was offset by weaker demand in retail and e-commerce. From a timing standpoint, we have a number of new product launches in Yale and Master Lock as well as a full retail packaging refresh for Master Lock that have occurred or will be occurring in the second quarter, and we expect those to benefit the remainder of the year.

Channel inventories in Security declined low single digits as channel partners managed working capital in the quarter. Security operating income was \$22 million, down 7%. Operating margin was 14.2%, flat on a percentage basis. The decline in operating income was a result of lower volume and higher tariff costs, partially offset by price realization.

Turning to the next slide. Free cash flow for the quarter was negative \$140 million compared to negative \$113 million last year. As expected, the first quarter is our lowest cash flow quarter given seasonal inventory builds ahead of the spring construction season and the timing of interest payments. We remain focused on reducing our working capital levels as part of a multiyear initiative to optimize our inventory position across the business. We expect these actions will have a positive impact on inventory levels and working capital in the coming quarters.

We ended the quarter with net debt of approximately \$2.5 billion and a net debt-to-EBITDA ratio of 2.9x. We remain focused on reducing net leverage to under 2.5x in the near term. We also maintained strong liquidity with over \$900 million available, including approximately \$695 million of undrawn revolver capacity.

Further reinforcing the strength of our balance sheet, both Fitch and Moody's affirmed our BBB credit rating during the first quarter. We returned \$75 million to shareholders through the combination of share repurchases and our quarterly dividend payout. Overall, we believe our balance sheet provides flexibility to execute our strategy, support disciplined capital deployment and continue investing in long-term growth.

Turning to our outlook for the remainder of 2026. As Dave mentioned, we have reduced sales for the full year to be in line with our market outlook. In addition, we have updated our guidance and assumptions to include the impact of higher commodity and freight costs as well as the commercial and operational actions we are taking to offset these costs.

Beginning with our updated sales and EPS guidance for the year, we now expect full year net sales to be down low single digits and full year EPS is now expected to be in the range of \$3 to \$3.30. Our updated sales and EPS guidance assumes operating margin of 13.5% to 14.5%. We are also reducing assumptions around our full year free cash flow to reflect our revised guidance.

Finally, I would note that our updated guidance includes \$15 million of 2026 cost savings, which are part of the \$70 million annualized run rate target that Dave referenced earlier, and our teams

continue to look for more. Commodity pressures remain elevated, particularly in aluminum and copper alongside continued volatility in freight costs. At the same time, recent changes to IEPA, Section 122 and Section 232 tariffs are expected to have a roughly neutral impact compared to our original guidance. We originally expected the combination of these headwinds to be approximately \$140 million and now see them closer to \$180 million.

Taking a closer look at the impact from tariffs, the carryover effect of peak tariff rates from the second half of 2025 is expected to result in a price/cost headwind in the first half of 2026. As year-over-year tariff-related comparisons normalize in the second half, we expect price/cost to be favorable, including the increase in commodity and freight costs. We are leveraging our revenue management, sourcing and productivity capabilities to mitigate these pressures and maintain a disciplined approach to cost management.

As a result, we expect second half margins to be up approximately 300 basis points compared to first half. While we do not formally provide quarterly guidance, I want to offer a few points to help frame the cadence of the year. Based on our updated full year outlook, we expect sales to be weighted close to 50% between the first half and second half, consistent with our historical performance.

For EPS, we expect the first half of the year to be in the low 40% range and the second half of the year to be in the high 50% range, primarily due to a more favorable price/cost relationship in the second half of the year and the \$15 million of 2026 cost savings.

In closing, we remain confident in our ability to navigate the current environment through disciplined execution while continuing to invest in our strategic priorities and position the business to deliver long-term value for our shareholders.

With that, I'll turn the call back to Curt.

### **Curt Worthington**

Thanks, Ashley. That concludes our prepared remarks. We will now begin the question-and-answer session. Since there may be a number of you who would like to ask a question, I will ask that you limit your initial questions to two then reenter the queue to ask additional questions. Operator, can you open up the line for questions? Thank you.

### **Operator**

Thank you, sir. Ladies and gentlemen, if you do have any questions at this time, please press star followed by one on your touchtone phone. You will hear a three-toned prompt that your request has been registered. And if you would like to withdrawal your question from the queue, please press star followed by two. And if you're using a speakerphone, you will need to lift the handset first before pressing any keys. Please go ahead and press Star 1 now if you have any questions. Thank you.

And your first question will be from Susan Maklari at Goldman Sachs. Please go ahead.

**Susan Maklari**

Thank you, good afternoon, everyone. Dave and Ashley, congrats on the new positions.

**Dave Barry**

Thank you, Sue.

**Ashley George**

Thank you.

**Susan Maklari**

My first question is, Dave, as you come back -- as you get into the CEO role and you sort of have looked across the different segments of the business, can you talk about what you're finding in there, where you're sort of seeing relative opportunities and what your priorities are as you sort of think across Fortune and the current slate of businesses?

**Dave Barry**

Yes, Sue, happy to touch on that. And I think I'd start by reiterating our foundation of the business is stable. Our brands are healthy, and our strategy is sound. And I actually feel really good about the engagement and focus of our associates.

So, I think we're coming from a good place on all that front, but we recognize our performance needs to improve. And so we've been working very closely with the Board on these efforts and really focusing on growth and profitability levers that are within our control.

And so, in the prepared remarks, I touched on things like increasing our operational rigor and discipline. This really to me is refocusing on our core growth. NPD is a piece of that, commercialization excellence, both online and offline is a piece of that. Fixing our sales and operations planning process to really get best-in-class in service and inventory levels is a piece of that. And so, renewed focus, I think, just on the rigor and discipline in those areas that will help drive performance over time.

And as I talk about optimizing structure, to me, this is really about margin management and something that this company, Fortune, has been really good at through the cycle over time. I think we've gotten away from that a bit recently. But it's getting back to, regardless of what's happening in the external environment, how are we controlling costs? How are we getting to the right asset base? How are we improving margins over time regardless of the macro?

And then the final point around focusing resources on the highest returning opportunities. This to me is prioritization and focus around our investments and where are we going to put those next dollars to drive the most value over time and how do we continue to simplify and focus on our biggest brands and our best brands.

I guess I'd close by saying we didn't get to this position overnight, and we're not going to get out of it overnight either. As you all know, we have been driving a lot of transformation in the business. And along our way, we've lost some of that key execution fundamentals that's

required to be successful. So, since moving into this role and partnering with Ashley, we've identified root causes. We're driving actions to correct. So, I think what's encouraging is all these problems are fixable and the work is underway to get after it.

**Susan Maklari**

Okay. That's great color. And then maybe just following up on that. As you do think about the portfolio, can you talk about where you're seeing opportunities to perhaps really kind of drive that growth or home in on things? And is there anything within the portfolio that is perhaps not core and maybe require more change down the road?

**Dave Barry**

Yes. I'm happy to talk about the positive momentum areas. And I'd say as I've touched on, really a lot of near-term focus right now, but a passion point of mind, especially coming out of the prior role is to do a better job of leveraging our customer and channel strength to sell our full portfolio of brands together.

And this is not something that Fortune has really focused on in the past for various reasons. But I really believe it's an untapped revenue opportunity, and we're in the early stages of developing the strategy, but I can share a few proof points where it started to pay off. So, one area, leveraging our strength and share position with single-family builders at Moen and Therma-Tru to win door hardware and connected locks, really sell that full portfolio into builders.

And I'd share that with Yale, we recently won a portion of business with a top 10 homebuilder. It's our first win in that space. The team has learned a lot going through that bid process, and we'll continue to refine our approach. But it gave us confidence that, hey, we can win here and we can sell this portfolio and leverage these deep relationships that we have.

Another area of focus that's starting to show some early results is our partnership with the Pro arms of our big retailers and really being focused on selling our brands at Pro-focused events that is helping us reach a different part of the market that otherwise we didn't play in or have access to.

And then the final example I give here is we recently had the first ever really Fortune Brands-Wide strategy sessions with two major e-commerce platforms. And they both came away incredibly excited about the cross-brand bundling opportunities that we have and what we can do together to really enhance the digital shelf. And so, we see all these opportunities is where the power of this portfolio starts to drive incremental value, and it's not something that we've really tackled before. So, I'm excited to spearhead this initiative going forward.

**Susan Maklari**

Okay, that's great color. Thank you and good luck with the quarter.

**Dave Barry**

Thanks, Sue.

**Operator**

The next question will be from Mike Dahl at RBC Capital Markets. Please go ahead.

**Michael Dahl**

Hi, thanks for taking my questions. Dave, Ashley, clearly, a lot of moving pieces, both with the macro and within Fortune Brands. I appreciate some of the high-level color you just gave on kind of first half, second half. Can you walk us through that full year cadence for the guide in a little bit more detail, especially since there's a step-up in margins assumed in the second half? And maybe help us understand on a segment level basis, how that plays out?

**Dave Barry**

Yes, Mike, it's Dave. And I'll start and give some context and then Ashley get into some of the detail. But just contextually, if I step back as we assessed, I think our recent performance trajectory coupled with the external environment, we view this as a measured reset of guidance where simply we've taken our sales performance, our overperformance out and now expect in the guide to grow in line with market.

Clearly, our ambition is to beat the market over time, but just being realistic about where we are today and the identified issues we have to work through, we thought this was the prudent path. I'd say on the top line, importantly, this guidance doesn't rely on the second half ramp in the market. So, anything that might have been in there, it has been removed from that as well. And on the margin side, and Ashley can give some color, simply, the step-up first half to second half is an improving price/cost dynamic that we have line of sight to, given our inventory positions and the price we have in market, coupled with the cost reduction outlines that -- cost reduction efforts that I've outlined that will start to ramp across the second half. So, it's really those two things driving margin. And I'll let Ashley provide some color on the cadence.

**Ashley George**

Sure. Hi, Mike. Maybe let me start with two points on the full year, and then I'll talk a little bit about the phasing. The first point I'd make is in the simplest terms, I think about the change as being driven by roughly 2.5 to 3 points of sales out at the midpoint. So, that gets us to sales performance roughly in line with the market at down low single digits. The second point I'll make on full year is just the incremental in-year inflation. So, the \$40 million we talked about in the prepared comments, that is offset in the guide by commercial and operational levers across the P&L, which does include the \$15 million of in-year cost out we talked about.

From a phasing perspective, we do expect net sales to be down low single digits, both first half and second half aligned with market, although I will add that we do expect to see some slight improvement in that year-over-year growth rate from first half to second half.

As we said, revenue expected to be split 50-50 first half, second half. That is consistent with what we've seen in the last three years historically. Worth maybe reiterating a point Dave made, I think, that uplift I talked about from first half to second half is mostly due to improved volumes from favorable year-on-year comps and midyear initiatives. It does not rely on any inflection in the market in the second half.

We talked about OI margin, margins improving about 300 basis points first half to second half. That is price/cost relationship, primarily just timing of tariffs from Q3, second half last year hitting majority in the first half this year. And then again, full year EPS split low 40% in the first half, high 50% in the second half. I'd add, we do expect a slight sequential improvement throughout the year there as well. From a segment standpoint, I'd say it's probably best to apply similar logic down to each of the three segments. So, all three down about 2.5 to 3 points in revenue and then similar margin profile across the year from first half to second half.

**Dave Barry**

Yes. And Mike, maybe I'll put a finer point on the second quarter, given the first half -- second half trends we shared, we see the second quarter ramping seasonally, but still seeing the impact of weaker new construction and some of our near-term performance challenges. So, at the midpoint of the guide, it implied second quarter sales down in that mid-single-digit range. We do see sequential margin improvement, though, probably in the range of 200 to 250 basis points first quarter to second quarter. This is the normal seasonal volume uptick. It's a minor improvement in price cost, as Ashley said. We expect price cost to still be negative as we move through the year.

I do think importantly, though, to reiterate, as we move through the year and get to the fourth quarter, we expect actually to drive year-over-year operating margin improvement because we've comped the price/cost headwind fully, and we've comped some of the share challenges from the past year and then the initiatives that we have underway will start to deliver.

**Michael Dahl**

Okay, thank you. I appreciate the very thorough response there. And just as my follow-up question, maybe specifically drilling down on the cost saves, and it's good to hear kind of the doubling of the cost saves. From a realization standpoint, can you just talk through -- it still seems like it's going to take some time to get those actions into the P&L. Can you walk through kind of why the prolonged timing and if there's any opportunity to accelerate any parts of those?

**Dave Barry**

Yes. So, what I'd share, I'd expect to have the full annualized \$70 million realized by the first quarter of 2027. So, it will start to ramp. We're doing the work now; it will start to ramp across the second half of the year.

I would frame it as opportunities across the P&L. So, it's not just SG&A focused. So, we know there's opportunity in SG&A. There's opportunity in our manufacturing base to better align variable and fixed costs with our level of demand. I think there's opportunity through our trade spend and gross to net spend to be more efficient with promotions. And so, the team is just taking a sharper view of where we're spending, where we need to get leaner, where we need to get more efficient.

I'd also say we're not cutting muscle, and we're preserving investments to drive the performance change that we've outlined, but this is really about complexity reduction, improving speed, reducing duplicative costs and aligning the cost base to our current levels of volume.

**Michael Dahl**

Great, thank you.

**Operator**

Next question will be from John Lovello at UBS. Please go ahead.

**John Lovello**

Hi, guys. Thank you for taking my questions as well. Maybe the first question, I'll start with Susan, if I can. There's obviously been a lot of changes at the top, and they're still kind of in the works. I'm curious if you could sort of elaborate on the new Board dynamics as they stand today. There's been a couple of notable changes there. Why you think this positions the company more favorably? And then what you're looking for in the two new directors that you're currently seeking?

**Susan Kilsby**

Sure, thank you. Well, since Ed Garden joined the Board in March, we've had a very constructive engagement with him. He's been very actively involved both at the Board level and also with the management team, getting to know them and learning about the business. He brings a thoughtful value creation perspective. He's asking him all the right questions around performance, capital allocation, execution. He's integrated extremely well with the Board. The dialogue has been collaborative. There's many more things we agree on than we disagree on. We're all focused on driving the best outcomes for the company and for the shareholders. And we're all focused on strengthening performance, enhancing accountability and unlocking value of Fortune Brands. So, I look very much forward to continuing the partnership.

On the new Board members that you've asked about, we're looking for -- we're losing two long-tenured Board members who have deep Board experience, deep experience with Fortune Brands and are wise, I would say. And so, what I'm looking for and what we are looking for are Board members who can add that deep perspective, financial expertise, CEO expertise and certainly building products expertise. So, we are in that process right now as we continue to evaluate candidates for the Board.

**Dave Barry**

Yes. And John, I would build on that a bit, Susan, and we came out of a Board meeting earlier this week and can say that the Board is highly engaged and collaborative and really been a great thought partner for me and for the leadership team as we navigate this interim period, knowing that we need to make progress on our priorities.

I'd also add, really enjoyed getting to know Ed and working with him and his team. They bring a great deal of experience and a fresh perspective about what we can do better to drive value creation. And so, we're all aligned to work together to do that.

**John Lovello**

Got it. Okay, that's helpful. And then I wanted to dig into just kind of the share dynamics in the water segment. I think the water segment to you guys ex-China was up about 1.5% year-over-year. Your closest peer was up, I think, 7% year-over-year in local currency. I mean what would you sort of attribute the difference there to? And how are you guys addressing this?

**Dave Barry**

Yes, happy to touch on that, John. So, first, as you kind of alluded to, we do have two different businesses, and you called out the China mix. I'd also highlight the single-family new construction mix that we had, which is probably a 200 to 300 basis point headwind in the quarter given where starts and completions were last year that we're now feeling in the business.

But that said, we need to improve our performance. And I think the gap from the business mix to our peers' performance is really driven by our focus in retail and e-commerce and our need to drive better share recovery through those channels. And while I outlined some of the initiatives that are underway, we're not -- it's not broad-based enough to drive meaningful performance improvement, but this is where we're focused in the near term.

**John Lovello**

Understood. Thank you, guys.

**Operator**

Next question will be from Trevor Allinson. Please go ahead from Wolfe Research.

**Trevor Allinson**

Hi, good evening. Thank you for taking my questions. I want to follow up on your views on pricing here. I think previously, the communication was that your pricing was fully in place to cover tariffs. You've got some moving parts now on tariffs and also some other inflationary pressures. So, are you taking incremental price here? And maybe just to quantify, what are you expecting in terms of pricing tailwinds for the full year across your business?

**Dave Barry**

Hey, Trevor, I'll start and then let Ashley provide some color. If I take a step back, this business has faced a lot of inflation like others in our space, tariffs and others. And we led with the gross price last year, additional gross price this year. My view of it, I think we've had overreliance on gross price, and it's cost us some share positions, especially when you couple it with our lack of kind of meaningful new product innovations.

We have to get back to executing the playbook that is using all levers at our disposal to offset inflation. And so, in addition to price, we need to continue to negotiate with suppliers, continue to push on incremental continuous improvement, drive cost out of the business. And then where possible and where elasticities permit, take price. A couple of examples, I think, that you'll see as we move through the second half of the year, House of Rohlf continues to perform well and

those higher-end consumers continue to show inelastic price demand. And so, there's opportunity to push some price there.

There's opportunity in our Outdoors business where inflation has been especially acute, especially in aluminum with Larson that we look at pushing some price. And then in our security business, especially on the commercial B2B side, which is actually now our largest channel in that security business, there's opportunity to take price again because you're dealing with more inelastic demand.

So, I think you could expect our pricing for the balance of the year to be more surgical and in areas where we believe we'll have much higher realization, but then get back to working the full playbook to offset inflation as it comes. And I'll let Ashley provide some additional color.

### **Ashley George**

Hi, Trevor. Yes, let me just add a little bit from a P&L perspective and put some numbers around what Dave was saying. So, first thing I'll say is on a full year basis, we are offsetting inflation with price on a dollar basis, but we do expect some margin dilution in the short term. I'd say we're not recovering fully in every quarter, just timing disconnects between tariffs hitting the P&L and price taken last year. But to your question on price for the full year, we do expect price to be up mid-single digits. And I see it's fairly consistent at that level, both across the quarters sequentially as well as each of the segments.

It might be helpful just to talk phasing a little bit. I know we touched on it earlier, but first half price/cost headwind we talked about mostly tariffs, those higher peak rates coming off from last year, second half tailwind, although I want to clarify, most of that tailwind does come in Q4 when the comps on tariffs ease.

It's worth distinguishing too between timing of inflation on the P&L, right? We have that tariff impact almost all being felt in the first half, whereas the inflation, both commodities and freight is about one-third in the first half and two-thirds in the second half. So, we're going to continue to action against all of our productivity initiatives, identify cost actions, of which that \$15 million is included, again, more weighted to fourth quarter. So, going back to Dave's earlier point, we really start to see operating margin year-on-year improvement not until fourth quarter and we get through some of those dynamics.

### **Dave Barry**

And the other thing, Trevor, I'd just add, just to be clear, the guidance assumes that the current tariff environment persists for the full year. So, that any 122s are ultimately replaced by 301s in kind. And so, there's no kind of tariff benefit coming in the back half of the year from a change in environment.

### **Trevor Allinson**

Okay. Thank you for all that color, that was extremely helpful. And then the second question is on the lower margin outlook for the year. You just walked through a lot of the moving parts on some of the inflationary impacts in the first half, second half dynamics.

But you also -- in your prepared remarks, you called out a couple of new branding campaigns as well. So, are you guys as part of that lower margin guidance also assuming some additional brand spend and investment back into the business here more so than you were previously anticipating?

**Dave Barry**

Yes. I'd say consistent levels, we will look to accelerate as we drive operational improvement, but we're preserving the levels and not reducing them even though the volume is coming down. So, I think about the margin impact from the reduced guide really being the flow-through from volume and then us offsetting the incremental inflationary headwinds, but really preserving those investments in branding and product development where we need to accelerate.

**Trevor Allinson**

Appreciate all the color and good luck moving forward.

**Operator**

Next question is from Michael Rehaut at JPMorgan. Please go ahead.

**Michael Rehaut**

Thanks, good afternoon, everyone. Thanks for taking my questions. First, I just wanted to better understand some of the tariff dynamics. I believe you said that, if I heard it right, the net impact of the changes this past year was to actually increase your exposure. I think that's in a little bit of contrast to some of the other building product companies that we cover. So, I just want to understand if I heard that right and what the drivers are and if there's any points of distinction that maybe is creating this incremental headwind versus some other companies seeing a little bit of a net favorable impact?

**Dave Barry**

Yes. Let me -- you might be confusing, Mike, the tariff versus the total inflation. And so, let me take that, and I can break it down simply. So, total inflation, inclusive of tariffs now \$180 million. Our prior guide was \$140 million. In both of those guides, the tariff piece is \$100 million. And so, the net of all the change in tariffs between the 122 and the 232s and IEPA is effectively zero. So, there's no incremental tariff exposure. The change in total inflation is driven by commodities and freight.

**Michael Rehaut**

Okay. And so then just to clarify then the difference between it being a net neutral versus other companies, maybe seeing a little bit of a positive. Just kind of curious in terms of maybe what were the drivers of that. Before I get cut off, I'll also throw out my second question. I just don't want to get cut off. But it's more for Susan around the CEO search process. I was just kind of curious if there's any way to kind of give us a sense of how far along the company is. Susan, you mentioned that you've seen a lot of encouraging high-quality candidates. If this is something that we should expect 3Q, 4Q of 2027, if there's any type of framework we could be thinking about there?

**Dave Barry**

Yes. On the tariff piece, I think a couple of things. So one, as I mentioned, we're assuming current regime, current environment persists through the rest of the year. We also had some incremental headwind from the 232s, I'd say not a material amount, but it offset some of the benefits from IEPA, but I think that's probably the two main things around tariffs, just to clarify. The last piece there, I would say, important to note, we continue to progress with diversifying our supply chain out of China. By the end of this year, we'll be high single-digit sourced COGS from China with plans to be approaching 5% by the second half of 2027. So, really good progress by the team to reduce our China sourced exposure and pleased with progress on that front.

And I'll turn it to Susan to talk about the search.

**Susan Kilsby**

Sure. Thanks, Dave. On the CEO search, unfortunately, I can't -- I'm not providing exact timing of the search right now, but I can assure you this is the top priority of the Board, and we expect the process to continue to move with pace. Importantly, though, we're focused on making sure we identify the right candidate and the right person for the job. But, again, moving with pace and focus.

**Operator**

Next question will be from Stephen Kim at Evercore ISI. Please go ahead.

**Stephen Kim**

Thanks very much, guys. Appreciate all the color here so far. I guess I just wanted to understand your new guidance, the reduction in the sales guide, is that primarily volume? Or is there a pricing offset in the net reduction of a couple of hundred basis points?

**Ashley George**

Hi, Steve. Yes, you're accurate. It is a volume reduction, no change in our pricing plans for the year.

**Stephen Kim**

And so, with respect to that, I know that you talked about the net impact of commodities plus tariffs, you were just talking about a modest increase. Is there expectation that you are ready to increase price? Is there a certain chain of events you're waiting for? Or should we regard this as really just conservatism? Or is there something that makes you think that this isn't really an environment to get price?

**Dave Barry**

Yes. And Steve, as I touched on a little bit ago, I think there's opportunity for surgical price in areas where there's more inelastic demand, House of Rohl, some pieces of security. But I do go back to it, we've leaned on gross price a lot. I think it's really working our full playbook across the

entire P&L, all the levers that are available to offset inflation and really focus on how do we get our unit volume share back in the positive growth direction.

**Stephen Kim**

Yes, you did mention that. Thanks, Dave. I guess where I was going with it is that I know that you -- in that environment, you've also talked about a reduction of costs and a focus on that. Maybe a better way to ask the question is, is there an opportunity here for you to address corporate level costs that could be taken out of the business? Is there a range of corporate expense, for example, that we might be thinking about for 2026 and a trajectory as we go through the year?

**Dave Barry**

Yes. I think about it, Steve, as we look at the cost reduction efforts, I think about SG&A in total, corporates being a piece of that SG&A, but we look at SG&A in total and where do we need to take the cost out. And that's where the focus is right now. And some of that may show up in corporate, it likely will. Some of it will show up elsewhere in the business units, but it's really how do we get our structure to continue to be BU, business unit led, supported by lean COEs. And I think there are areas where we haven't gone far enough yet to get to the desired outcome.

**Stephen Kim**

Great, well, best of luck with that, guys.

**Operator**

Next question will be from Phil Ng of Jefferies. Please go ahead.

**Phil Ng**

Hey guys, thanks for squeezing me in. Dave, you talked about the desire to kind of improve service levels. Is that a function of you have to invest more head count? Is that just more focus, realigning incentive comp? And I think an earlier question, you talked about perhaps ceding some share or work more to be done on water, particularly on the e-tail and the retail side of things. What exactly fell off and what you could actually improve on that side of the things to kind of restore share in that market?

**Dave Barry**

Yes, I'll take both of those, Phil. Thanks. On the sales and operations planning question around service levels and inventory, the team has dug into it. It's really around process gaps, and we just weren't running a best-in-class process. We actually have the team in place; the investment has been made in the team. We have the tools in place. It's just putting the best-in-class process in place and following that rigorously. And so, we've started down that path. It will take some time because these things are monthly cycles that you go through and you're working through the businesses, starting with water and going from there. But it's really about process discipline and focus.

And so, to me, it gives me confidence we can get this thing fixed and sorted. And I think you've seen us in the past be able to drive inventory off the balance sheet when needed to do so, be able to serve our customers at high levels. So, I think we can get back there. On the retail, e-tail

focus, I think it's a combination of a few things. So one, I touched a lot on new product development. We have to get better with our pace. We have to get better with our insights and we have to get better using our entire supply base to do both of those things, get to market faster with better products that resonate with consumer and Pro. And on the e-tail side, the commercialization is a big opportunity, right? Do we have the right product display pages? Do we have the right content? Are we bundling effectively? Are we bringing e-commerce-specific SKUs effectively and really meeting that consumer where they are? So, I think it's -- again, it sounds like a lot of blocking and tackling, but it's things that we have done well in the past, and we'll continue to do well going forward as we get the team and the focus back in these areas.

**Phil Ng**

Okay. On the security side of things, can you tease out how sellout trends looked in the quarter and progress? Because I think there was an element of destock that was weighing on the business. And when we kind of look at through the year, I believe you have some new products in working through some life cycle phase down. How should we think about the momentum in that business?

**Dave Barry**

Yes. Happy to touch on that. So, if you think about the down 6% in Security, I'd say it's partial inventory reductions coming out of the fourth quarter into the first quarter. And then a bit lower POS in retail and e-commerce. I'd attribute some of this to timing of those new product launches as they've moved from the first quarter into the second quarter. Some of that investment to launch moved with it. So, that's why the margin performance was in a pretty good spot.

As I look forward, excited about the momentum we're building in Security. We have great brands there with Master Lock, SentrySafe and Yale. You'll see new products coming with pace across all of those brands as we move into the second half. And we're launching a new commercialization of the entire Master Lock brand and shelf, which is going to make it much easier for consumers and pros to shop that category and get the security that they need. So, excited about that momentum, and we'll see that continue to build as we get through the year.

**Phil Ng**

Okay, appreciate the color. Thank you so much.

**Operator**

Next question is from Matthew Bouley at Barclays. Please go ahead.

**Elizabeth Langan**

Hi, you have Elizabeth Langan on for Matt today. Thank you guys for taking the questions. Just to start off, I think I'll go kind of similar to what you were speaking about with the channel on security. I was wondering if you could touch on that maybe in both outdoors and water, kind of what you're seeing? I know you mentioned that Larson has seen lower inventory levels. If you could give any other commentary or details around that?

**Dave Barry**

Yes, happy to. I'll start with outdoors because I think it's probably the most counter to what we would expect at this time of the year. I'd actually start with saying we saw growth in Therma-Tru, which was really nice to see. And that's despite the new construction headwinds and despite a very limited channel inventory build ahead of the spring season. And so, inventory light in our Therma-Tru business and then in Larson, we saw positive POS in the quarter, but we're lapping some pretty big load-ins of new products from last year as we reset the aisle at Lowe's. And we did not see that same level of inventory build. So, it actually -- while sales were slightly down in Larson, we had positive POS.

So, in the outdoors business, we are winning share in doors and channel inventories remain lower than expected at this time of the year given the seasonal nature of things. In water, I'd say pretty similar. There has not been significant restocking in water across any of the channels. I think it's really a function of the demand environment and our customers not leaning into what is an uncertain spring season.

**Elizabeth Langan**

Okay, thank you. And then I did have another question on fuel surcharges. Are you able to speak to your ability to maybe offset some of the freight impact that you're seeing? And if you could quantify, I think, of the incremental \$40 million, how much of that is coming from freight versus inflated commodities?

**Dave Barry**

Yes. I think of the incremental \$40 million, we're probably a quarter or so coming from freight. And our guidance assumes that these elevated oil rates persist through the balance of the year given the geopolitical conflicts. Freight surcharges are a lever we look at. It's interesting our customers tend to find them more cumbersome to implement. And so, they prefer gross price increases, and that's where it's back to if we want to focus on driving volume and unit share, we need to use all the levers available to offset the inflation and not just price.

**Elizabeth Langan**

Thank you very much.

**Operator**

Thank you. This concludes our question-and-answer session for today. I will now turn the call back over to Dave Barry.

**Dave Barry**

Thank you. And I just want to thank everyone for your time today and just reiterate that we're taking decisive actions to strengthen our execution, optimize our structure and focus our resources on our highest returning opportunities. And we believe these steps, combined with the strength of our brands and our people will position us to drive improved performance over time. So, we appreciate your continued support and look forward to updating you on our progress next quarter.

Thank you.

**Operator**

Thank you, sir. Ladies and gentlemen, this does indeed conclude the conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines. Have yourselves a good evening.