Fortune Brands Innovations, Inc.
First Quarter 2024 Earnings Conference Call
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<u>Presenters</u>
Leigh Avsec, Vice President of Investor Relations and Corporate Affairs
Nick Fink, Chief Executive Officer
Dave Barry, Chief Financial Officer

<u>Q&A Participants</u>
John Lovallo – UBS
Phil Ng – Jefferies
Adam Baumgarten – Zelman
Stephen Kim – Evercore ISI
Matthew Bouley – Barclays
Susan Maklari – Goldman Sachs

Operator
Good afternoon. My name is Marya, and I'll be your conference operator, today. At this time, I would like to welcome everyone to the Fortune Brands First Quarter 2024 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

I would now like to turn the call over to Leigh Avsec, Vice President of IR and Corporate Affairs. You may begin the conference call.

Leigh Avsec
Good afternoon, everyone and welcome to the Fortune Brands Innovations First Quarter Earnings Call.

Hopefully, everyone has had a chance to review the earnings release. The earnings release and the audio replay of this webcast of this call can be found in the Investors Section of our 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 may be required by law.

Any references to operating profit or margin, earnings per share or 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 reconciliations.

With me on the call, today, are Nick Fink, our Chief Executive Officer, and Dave Barry, our Chief Financial Officer. Following our prepared remarks, we have allowed time to address some questions.

I will now turn the call over to Nick. Nick.

Nick Fink
Thank you, Leigh, and thank you to everyone for joining us, today. On this call, I will walk through the highlights of our first quarter performance, give some color on the drivers of this performance, including progress on our strategic initiatives and offer some thoughts on the macro environment. I will then turn the call over to Dave for a discussion of our financial results, including how we are thinking about the remainder of 2024.

Our teams delivered strong first quarter results by executing on our priorities, including delivering above-market growth and operating margin improvements. We saw powerful proof points of our compelling investment thesis this past quarter and are, increasingly, seeing the benefit of the transformative actions we took, over the past few years.

These actions all support our strategy as a growth-focused company, powered by secular tailwinds, underpinned by leading brands, innovation and channel management and fueled by our Fortune Brands and Vantage capabilities in our newly aligned structure.

Turning to our first quarter performance. Our teams delivered strong top and bottom line results, driving both sales and margins, as they executed on our priorities. Through our strategy of growing the core and accelerating digital products, we were able to focus on those opportunities with the highest potential for returns, including in our leading brands, digital and connected capabilities and products and our meaningful innovation, while also optimizing and aligning our operations.

Looking forward to the remainder of the year, we continue to expect to achieve the full year guidance we initially outlined during our fourth quarter call.

Net sales of $1.1 billion were up 7%, while organic sales were down 3% versus the prior year's first quarter. We estimate that our POS performance outperformed the larger market for our products by over 100 basis points, reflecting our commitment to focus on the highest growth opportunities.

Operating income increased 22%, and our operating margin was 200 basis points higher than the first quarter of 2023. Our results are a great testament to the ability of our newly aligned organization to unlock value.

Our sales and margin performance generated earnings per share of $0.83 in the first quarter, a 20% increase over the first quarter of 2023.

As we have previously highlighted, the Fortune Brands operating model is designed to accelerate our leadership in brand and innovation, while also creating value for our channel partners. We are now designed to operate more efficiently and are focused on investing those efficiencies in opportunities with the highest potential for returns. Most importantly, our new structure is a catalyst for accelerated growth.

This past quarter, we had some compelling proof points of the power of our new structure, as we further sharpened our focus on brands, innovation and channel leadership. We saw a particular acceleration in our smart water network and are achieving many of our milestones, well ahead of schedule.

In furtherance of our whole home water management strategy, we announced our acquisition of SpringWell, which provides residential whole home water filtration and water softening solutions via direct-to-consumer channels. The addition of SpringWell paves the way for Fortune Brands to invest and capture opportunities in the approximately $4 billion U.S.
residential water filtration and water quality market.

We expect this acquisition to increase Fortune Brand's exposure to recurring revenue streams. SpringWell digital and direct marketing expertise augments Fortune Brands existing digital capabilities. It is proving to be highly synergistic with our Flo leak detection system with a double-digit attachment rate, since Flo has been available on the SpringWell site.

Consistent with our M&A priorities, the strategic discipline deal will not only augment our product portfolio but has the potential to accelerate our capabilities, as we look to integrate their expertise across our businesses.

Our brands and products are, increasingly, being recognized for their innovation, aesthetics and ability to make the world a better place.

In March, Moen was named to Fast Company's 2024 list of Most Innovative Companies. This impressive honor recognizes our leadership as a pioneer in whole home water management, including our leading smart water network.

Within our security business, our connected residential locks continue to receive critical acclaim, with our recent Yale Assure Lock 2 Touch being named by Forbes Magazine as the best fingerprint in Keycode Smart Lock. The innovative features of this exciting product are clearly resonating.

Finally, our Fiberon Wildwood composite cladding was recognized by Green Builder Media as a sustainable product of the year. Whether it's saving water, protecting people or incorporating recycled inputs, our brands are highlighting how a company can have success and benefit people, communities and the planet.

Our brands and teams are working together to delight consumers with our innovative and beautiful products and our, increasingly, cohesive and integrated portfolio was in display at the recent industry shows in Las Vegas in February.

Our House of Rohl booth displayed our comprehensive suite of luxury fixtures and provided clear and intangible evidence of how seamlessly our existing House of Rohl brands integrate with our newly acquired Emtek and Schaub brands. Our message of curated luxury clearly resonated and House of Rohl was awarded the best large booth of KBIS.

And for the first time, Therma-Tru, Larson, Fiberon, Fypon and Solar Innovations were all on display, together, in a cohesive booth that showcased our material science expertise and product innovations working together.

Turning to our digital portfolio, we saw over 200,000 device activations in the first quarter, and the overall digital business continues to accelerate. Our connected water business was particularly strong. In the first quarter, alone, we added 15,000 users of Flo, and our POS performance exceeded our expectations. And in the quarter, our retail and e-commerce POS performance for Flo grew by 85%, versus the first quarter of 2023.

As you may recall, last fall, we formed a new connected products group by combining the original Fortune Brands team with the Yale and August team into a single powerhouse organization under aligned leadership.

This group of about 200 engineers is performing very well and delivering milestones ahead of schedule, as we leverage our combined insights and talent across the entire portfolio with increasing speed and efficiency.

Our results this quarter and some of the exciting developments we are seeing give me full confidence in Fortune Brands innovations ability to deliver long-term growth and sustained value creation through the cycle, and we remain committed to achieving our long-term goals.

Turning now to some additional thoughts on the current housing market and the market for our products. Looking at the overall market and consistent with what we anticipated in our fourth quarter call, we saw continued softness in the R&R market, while we also saw encouraging POS growth in our products, which serve the single-family new construction channel, including Moen and Therma-Tru. The need and desire for homes remains incredibly strong, and our products are optimally positioned in the context of the larger macro environment.

Earlier this quarter, and with a more stable interest rate environment, we saw an uptick of buyers in the market, although activity slowed as interest rates increased in the face of persistent inflation.

As the progress of the quarter demonstrated, consumers remain sensitive to rate fluctuations, but the need for and interest in housing remains strong.

The U.S. continues to be massively underbuilt. Housing prices and home equity levels continue to remain high. Demographic factors and high personal income levels continue to support housing demand, while housing stock remains extremely constrained.

At the same time, the stock of homes that are currently available for sale remains far below pre-pandemic norms. And home values increased faster in March of 2024, versus March of 2023.

Turning to new construction, single-family new construction permit activity in starts was strong in the first quarter of 2024, where completions continue to lag. Over the last few months, mortgage applications increased in response to stabilized mortgage rates and the expectation of interest rate cuts. While it appears interest rates will remain higher for slightly longer, the market continues to remain massively underbuilt, and pent-up demand is only being exacerbated.

In addition, large production builders remain, optimally, positioned to continue to be able to address the need for housing. And we are a trusted partner to a very significant number of these large homebuilders. Importantly, because our products are incorporated closer to completion than starts, our products are experiencing the tailwinds from the uptick in housing that began in the second half of 2023, and we expect this tailwind to remain robust.

Turning to R&R, we expect the R&R market to remain dynamic throughout 2024, and there are many variables that are impacting the repair and remodel space, including consumer savings and confidence, employment levels, home equity levels and existing home turnover. We continue to expect our own market for our products to be down 2% to 4% in 2024.

However, the combination of high home equity levels, the low supply of homes and aging housing stock and the fact that many homeowners are living in homes that they purchased with no mortgage or with low interest rates is causing many people to rethink their existing space.

Google Search shows that search terms around home renovations are up versus a year ago, while a recent third-party study of homeowners indicated 82% of respondents were planning on engaging in home renovations in the next six months.

The same survey indicated that the most compelling attributes of products are product quality, trusted brands and attractive features. Our portfolio is optimally positioned with our leading brands, innovative features and beautifully designed products, all resonating with the needs of our core customers.

Finally, in China, the market continues to transition away from speculative new construction to R&R, and we have confidence in our team's ability to, successfully, navigate the disruption and remain focused on creating long-term value in China, including in the emerging and high-potential R&R space. We continue to believe that our China business will serve as an innovation engine for the larger business and that it offers attractive optionality for future opportunities.

Fortune Brands is very well positioned. Our branding power, meaningful and value-added innovation and channel strength are powerful catalysts for accelerated growth in the most attractive categories.

We are focused on driving outperformance in categories driven by secular growth tailwinds, our connected products, material conversion, luxury and products with sustainability and safety benefits.

Our consumers continue to award us with growing market share, and our customers continue to view us as valued partners with unique insights category management expertise and best-in-class supply chain performance. We believe our products and brands are uniquely positioned to outperform, as our results demonstrated this past quarter.

Turning now to our individual business results. Starting with Water Innovations, this segment delivered 5% sales growth versus the prior year, with organic sales down 7%, while generating 100 basis points of operating margin improvement.

Sales in the U.S. largely rebounded, following the inclement weather to start the year, and our Moen POS was around 100 basis points higher than our market estimate. We are also seeing single-family new construction volume coming through.

The Emtek brand continues to perform extremely well, and our reputation for delivering market-leading products is being rewarded with continued share gains, including low single-digit positive POS versus a market we estimate was down mid-single digits.

Finally, our work toward integrating our brands into one comprehensive and complementary luxury portfolio is progressing very well, including our work to update existing showrooms with our combined suite of luxury products and integrating our Emtek products into our luxury outdoor offerings.

As I mentioned earlier, our Flo connected leak detection product continues to gain traction with insurance companies, municipalities and consumers. We recently launched a new Flo site on our Moen website and deployed an exciting branding campaign designed to raise awareness of how our products can help solve the critical issue of residential water leaks.

According to the Environmental Protection Agency, the average American family is wasting 9,400 gallons of water, annually, from preventable household leaks. And the resulting damage costs U.S. insurers and homeowners many billions of dollars, every year.

At a time in which insurance costs are rising and water scarcity is becoming even more serious, the need for a product like our Flo Smart Water monitoring shutoff is becoming more acute. In addition to the billions of dollars we believe our products can save insurance companies and homeowners every year, we're working to help homeowners, builders and municipalities achieve their water saving and carbon reduction goals.

Our innovative connected sprinkler system recently achieved EPA WaterSense certification which, significantly, expands the number of rebates available to consumers across the country.

Additionally, we are finalizing our partnership that we expect will greatly facilitate the number and availability of rebates for our smart water products for residents of municipalities across California, which should help further drive adoption of our products.

We expect this program will officially launch this summer, and we are excited for how it can help raise awareness and adoption of home smart leak detection solutions in a location where it is greatly needed.

Looking to the remainder of 2024, we expect our Water segment to continue to execute on our commitment to deliver above-market sales performance by focusing on those parts of the market with the greatest potential for growth. We plan to continue to make thoughtful investments in our key priorities, including branding and marketing, digital and capacity.

We expect our pricing actions to hold up as we continue to innovate, as the benefits of our products resonate with our customers and consumers, and the promotional environment remains stable.

We are on track to open two new facilities in the second quarter of 2024, including a new highly efficient West Coast distribution center for Moen and a state-of-the-art U.K. production facility for the House of Rohl.

These targeted investments will help drive our strategy to grow the core and accelerate digital and connected products. We continue to be very excited about our water business, particularly the opportunities we see to capture growth in connected, luxury and water filtration.

Turning to Outdoors. We had a strong first quarter with an impressive 9% sales growth and operating margins that increased 680 basis points versus last year. Our performance is a direct result of the hard and strategic work of the team, and I thank them for their dedication.

We are laser-focused on leveraging our expertise and investing behind our core categories and in those products, which we expect will offer the most attractive growth opportunities. Our door brands delivered low double-digit sales growth as tailwinds from new construction and recent product launches drove growth.

Therma-Tru is seeing the benefit of the increase in starts and completions, which began last year. As we previewed this past quarter at the International Builder Show, Larson is introducing some innovative and on-trend new products at key price points.

Additionally, we will continue to roll out synergistic product offerings between our door brands and our larger portfolio, including Emtek hardware and Yale and August connected locks, which we expect to drive incremental future growth.

Once again, our Fiberon business is a great proof point of the power of our strong channel relationships. We saw over 20% growth for Fiberon in the profitable wholesale channel. And our POS data indicates that our Fiberon wholesale sell-through, significantly, outpaced the market.

Finally, our Security segment grew sales 9% in the quarter but it was down high single digits on an organic basis, primarily due to destocking activities at select customers, ahead of general consumer weakness. However, this segment also saw 170 basis points of operating margin improvement, inclusive of the investments in Yale and August Smart Lock Residential brands, and it is the work we did around continuous improvement, and optimizing our footprint continues to pay off.

We expect our Security segment will continue to benefit from the transformational work that we have done over the past two years.

We've evolved our legacy brands from mechanical-only products into innovative and growth-oriented businesses with a much more strategic portfolio. We will reinvest the efficiencies gained from our recent optimization of the business to take advantage of strong secular trends, like Connected Products and Safety.

The Yale and August brands have proven to be a strong fit. In addition to being great assets, the Yale and August team is excellent, and their capabilities have made significant contributions to our Connected group, across the product portfolio.

To recap, in the first quarter, we executed our priorities of focusing on the core and accelerating digital products and delivered above-market performance.

For the remainder of 2024, we will continue this focus of driving above-market growth by pursuing incremental growth opportunities and by building on the foundational work established by our transformation into a brand, innovation and channel leader.

We will, proactively, manage any dynamic periods while actively positioning Fortune Brands innovations for the future. We continue to have full confidence in our ability to meet the targets we outlined in our full year guidance on our fourth quarter call.

I will now turn the call over to Dave.

Dave Barry
Thanks, Nick. As a reminder, my comments will focus on income before charges and gains to best reflect ongoing business performance. Additionally, comparisons will be made against the same period last year, unless otherwise noted.

Let me start with our first quarter results. As Nick highlighted, our teams executed our priorities amid a dynamic macro environment.

As I will detail in my section, our financial results have some very compelling examples of how the transformative actions we undertook over the past year and a half are generating tangible returns.

In the first quarter, sales were $1.1 billion, up 7% and down 3%, excluding acquisitions.

Consolidated operating income was $167 million, up 22%. Total company operating margin improved 200 basis points to 15.1% and earnings per share were $0.83, a 20% increase versus last year.

Our first quarter performance was driven by higher-than-expected sales in our Outdoors and Water segments and resulting margin flow-through.

As Nick mentioned, we remain focused on driving outperformance including above-market growth, enhancing margins and generating cash. Our teams continue to focus on managing our P&L and balance sheet, while maintaining key strategic growth investments.

Now let me provide more color on our segment results. Beginning with Water Innovations, sales were $625 million, up $31 million, or 5%, and down 7%, excluding the impact of acquisitions.

Our organic results reflect POS down mid-single digits and channel inventory reductions at select customers.

China sales declined mid-single digits and were up low single digits, excluding the impact of FX.
As Nick indicated, the Chinese consumer remains cautious in the housing space, and our team continues to manage the dynamic environment well, while finding pockets of growth in the emerging channels and in product category expansion.

Water Innovations operating income was $141.5 million, an increase of 10%. Operating margin was 22.6%, an increase of 100 basis points, reflecting the impact of higher volumes.

Turning to Outdoors. Outdoors had a strong first quarter. Sales were $315 million, up 9%, driven by strength in doors and Fiberon wholesale. Door sales increased low double digits. Sales were supported by higher volumes at Therma-Tru, driven by the increase in single-family new construction.

Decking sales were roughly flat, driven by strength in wholesale and partially offset by anticipated declines in retail.

Our results, this quarter, reflect our ongoing strategic approach of focusing on those core categories in which we expect to have the best opportunities to achieve long-term above-market growth and profitability.

Outdoor segment operating income was $37.9 million, up 150%. Segment operating margin more than doubled to 12%, a 680 basis point improvement.

Segment operating income increases were driven by favorable volume leverage in our businesses and productivity and profitability improvements. We believe this segment is on the right track, as we focus on those parts of the market that will drive the greatest potential returns and growth and where we have the right to win.

In Security, our first quarter sales increased 9%. Organic sales decreased 8%, reflecting soft POS and select channel destocking, ahead of soft consumer activity.

We continue to see momentum in the categories we have identified as having the higher growth potential such as Master Lock Commercial and our Connected security products.

Segment operating income was $27 million, up 22%, and segment operating margin was 15.7%, an increase of 170 basis points versus prior year and was driven by continuous improvement initiatives. As we have discussed previously, we think our Security segment is a great example of the power of our Fortune Brands Advantage capabilities, and we expect great things from this business.

Turning to the balance sheet. Our balance sheet remains solid with cash of $360 million, net debt of $2.7 billion and our net debt-to-EBITDA leverage is 2.9x. We remain on track to achieve our target net leverage ratio of 2.25x, by year-end.

We have $875 million available on our revolver. In the first quarter, we returned $130 million to shareholders via a combination of share repurchases and dividends, including $100 million of share repurchases. Year-to-date, we have repurchased $125 million of shares.

Our first quarter free cash flow was negative $136 million, reflecting the typical seasonality of our business and in line with our expectations.

To summarize the quarter, we delivered strong sales and margin results and are on the path of delivering on our full year commitments to grow sales above market, expand our margins and generate cash. While our first quarter results were certainly encouraging and speak to the strength of our business, we are aware of the dynamic macro environment.

For the second quarter, we expect net sales growth of around 10%, with operating margins between 16.5% and 17%. Operating margins will be impacted by inefficiencies related to the startup of our two new water facilities, which we expect will provide long-term capacity for market beating growth and cost savings for the business.

Looking forward to the second half of the year, we continue to expect sales growth of between 2% and 3% and operating margins of around 18%. As a reminder, we closed on our Yale, August and Emtek acquisition in June of last year, and the performance of those brands will be included in our second half organic results.

Finally, we remain confident in our ability to hit our previously communicated full year 2024 guidance, including full year net sales, up 3.5% to 5.5% with organic net sales down 1% to up 1% and operating margins between 16.5% and 17.5%, the midpoint of which includes 100 basis points of operating margin improvement.

We continue to expect EPS of $4.20 to $4.40, the midpoint of which represents 10% earnings per share growth.

Our teams are off to a great start against our full year targets and we'll remain focused on the execution of our key priorities.

I will now pass the call back to Lee to open the call for questions. Leigh.

Leigh Avsec
Thanks, Dave. That concludes our prepared remarks. We will now begin taking a limited number of questions. Since there are a number of you who would like to ask a question, I will ask that you limit your initial questions to two and then reenter the queue to ask additional questions. I will now turn the call back over to the operator to begin the question-and-answer session. Operator, can you open the line for questions? Thank you.

Operator
Thank you. If you would like to ask a question, please press "*", "1" on your telephone keypad, at this time. A confirmation tone will indicate that your line is in the question queue. You may press "*", "2", if you would like to remove your question from the queue. For participants using speaker equipment, it may be

necessary to pick up your handset, before pressing the star keys. Again, that is “*”, “1” to register a question, at this time.

Our first question comes from John Lovallo with UBS. Please proceed with your question.

John Lovallo
Good evening, guys, and thank you for taking my questions. Nick, maybe I'll start high level sort of where you started. And just looking for any update on the progress of the various kind of Fortune initiatives to align the company more as one company, whether it's connected products, integrated supply chain efforts, the transformation office. I mean, where are the biggest opportunities for improvement, this year?

Nick Fink
Hi, John, it's a great question. I mean, we're a little more than a year into that now, right? So, it was September of '22 when we announced the realignment of the company. And we shy away from it, it is a heavy lift to go and redesign an operating model and then really work through a full cycle, which was 2023 of operating in that new model.

And now we seem to be hitting our groove. And what I really look to are what are the proof points of things that we've been able to get done that we might not have been able to get done had we not come together in this way.

And I think you can see it across a number of things in--firstly, the portfolio is getting increasingly cohesive. A lot of people remarked, I think at the industry shows that came in IBID seeing Emtek and House of Rohl together on display as really not just in the booth but as an example of what's really rolling out the market and the speed with which we were able to do that.

I think it was very surprising coming into Outdoors area and not just seeing products on this play together, but starting to see how those innovations will work together to bring those technologies across the various ways in areas like Outdoors with Emtek and Yale.

So you're starting to see the portfolio with the line organization being able to extract greater value than when it was less aligned or more siloed. So that is a big area for us. I think another big area is our op leverage, right? You just have now a single team supporting the entire business and the caliber of the team that comes with that. And what they're getting done in the time that they’re get it done is pretty remarkable.

I mean, if you just think about, most recently, reformatting the entire security manufacturing footprint and doing a with the grace with which the team did it and leading people in a great place, but also driving the kind of results that you're seeing now start to come through security. They're optimizing our supplier spend and resilience at a greater speed than ever.

They're getting more capacity out of Fiberon than we thought was there. And they’re opening two major water facilities in this quarter, alone. And I ask myself, could we have gotten that amount done in this short of time prior to this? I think it's a great proof point.

And then finally, I might just point you to one of the things we're most excited about, which is our digital and connected journey where you have a single aligned group of over 2--about 200 engineers. And we're operating much, much more like a mature digital business. They set out a set of milestones, for example, for the Flo and smart water network for this year and achieved them, a quarter ahead of schedule. I really don't think they could have done that without bringing the whole team together with the depth of knowledge that they now have.

And so, those are just a few proof points. I could get into the things like the integration management office, which we didn't have before the progress of the fact that we already have Flo selling on SpringWell website. We're seeing great attachment rates there. I mean there's just a speed to things now and a clarity of vision across the whole business, and I think while we always had that ambition, it was hard to unlock in the old structure.

John Lovallo
Got it. That's really helpful. And then maybe turning just to Outdoors. Revenue was up 9% in the first quarter versus your full year outlook of plus 1 to 3. Was there some timing benefit here because the remainder of the year implies more modest growth on a year-over-year basis. And then along the same lines within Decking, it sounds like retail may have been down, meaningfully, to offset that 20% increase in wholesale. So can you provide any color on what's going on there? Thank you.

Nick Fink
Yeah, I'll give you some perspectives and Dave can round it out on the rest of the year. I mean obviously, super excited about the performance of Outdoors during the quarter. I think you’re really seeing that business coming into its own and getting much more aligned under its leadership. Great performance out of the Doors business. They did some work to align it. And of course, you're seeing new construction finally start to come through, as we sort of went towards the end of the year and starting into this year, that’s picked back up. So some really good stuff there.

On Fiberon, you're absolutely right. I mean, we made some strategic calls to really focus that on the most profitable part of the market, where we can, hopefully, generate the types of margins we'd like to see in order to be able to fuel future growth and future innovation. I mean, that's really how we think about the margin journey in all companies on it, that's a real purpose.

And so, we're seeing really the growth continue to come through the wholesale channel and seeding some in the retail channel. And then very interestingly for us, as we start to see some of the work that we've been at, at Larson for the last couple of years hit the marketplace.

And so, Larson kind of going to draw a tow refresh with some of the ideas that we had coming into that acquisition, but with the pandemic some of the changes we had to make and some of the less possible business that we walked away from, just took a while to align that organization. And now starting to see some really positive POS coming there. So I'd say in whole, really good quarter coming in ahead of where we thought and gives us some good confidence for not just the rest of the year, but where we take this business from here.

Dave Barry
And John, I'd add with the Outdoors segment, we saw POS up mid-single digits, which was mostly volume driven in the quarter. And then as a reminder, we had a low single-digit benefit from a prior year inventory reduction, primarily in Therma-Tru that took place last quarter. So that drove the 9% sales.

Going forward, we do think a better quarter than we expected. It gives us confidence in the full year guide. It helped us derisk some of the second half sales expectations. I think that's true across the business when you look at our first quarter results.

And then without Doors specifically, as the volume returns, and we weren't drawing down inventory, you saw significant volume margin improvement driven by volume and by productivity, and we expect that to continue through the year, a really good start for that business out of the gate.

John Lovallo
Great. Thank you, guys.

Operator
Our next question comes from Phil Ng with Jefferies. Please proceed with your question.

Philip Ng
Hey, guys. After a slower start, it looks like your business certainly picked up. Any color on how intracord sharings going to (inaudible) early read in April? A little surprised here, some of your customers are still destocking, I think, in Security and Water. What channel, and have you seen that kind of calm down and maybe restock, potentially?

Nick Fink
Yeah. I'd say we--as we called out on the last call, not unusually, but the year and some will slow will and certainly picked up. I would say, it's been a bit--it's a bit choppier towards the end of the quarter, particularly as some of the noise around interest rates picked up, but you are kind of still seeing resilience where we've called it out. So the wholesale channels, single-family new construction, some areas, like Larson.

I think going forward we'll see as we come into the season just how it picks up. There's certainly--we're seeing a lot of consumer interest, as mentioned in the prepared remarks, we're still seeing searches up relative to even last year. We're seeing--responding some surveys, saying they're planning projects.

And so, I think we just need to manage it. As far as the destocking part of your question is concerned, it was interesting because we see that, particularly in e-commerce, more than elsewhere but e-commerce and a little bit of wholesale across the business.

So it wasn't really isolated to just one spot, where we might have questioned it more, but we kind of saw some customers. I think taking inventory ahead of what they might perceive as some general consumer weakness. And so those channels look pretty thin from an inventory perspective to us, at this point.

Dave Barry
And then Phil, on your POS trend question,. I'll provide some color, sequentially. So first quarter, POS finished dollar for dollar, almost exactly in line with the fourth quarter. So typically, I think we'd see a first quarter that's a little bit softer than the fourth where we were dollar for dollar almost equal, Q4 '23 to Q1 '24.

And as we've moved through April, we've seen our retail and e-commerce POS ramp, seasonally, as we would expect, moving from the first quarter to the second quarter, though still negative, year over year, that the channel serving single-family new construction continue to show growth, and we've seen nice input trends to start the quarter in those businesses in those channels.

Philip Ng
Super. That's helpful. And then on your water innovation business, helpful kind of give us a little more color on how to think about the margin profile perhaps in 2Q in the back half just given perhaps some of the start-up costs from the new facilities as you kind of ramp that up. And then some of the investments and growth opportunities you see in connected products, water filtration and Flo. How should we think about the margin profile of that business versus, let's say, your core Moen business?

Dave Barry
Yeah, on the connected side, really strong contribution margins, a little bit ahead of the core. It's still in an investment phase. So we're managing those investments coming through. But product margins are good. And then on the margin side, overall, for the segment, still feel confident in tracking to that 24% to 24.5%, full year margin target.

And actually, we're a little bit ahead of our internal expectations in Q1. I think you'll see sequential improvement Q1 to Q2 and then continued sequential improvement as we move through the back half of the year, as we're ramping up new facilities and getting the savings there and as we have some continued price/cost favorability come through the P&L.

Philip Ng
Okay, thank you. Appreciate the color, guys.

Operator
Our next question comes from Adam Baumgarten with Zelman. Please proceed with your question.

Adam Baumgarten
Hey, guys. Could you give some more color on the upcoming smart water partnership in California? It sounds pretty interesting. Just anything else you could add?

Nick Fink
Sure. I mean, we've got a number of these, I would say, in the works, right now. So, you’ll going be able to us being ahead on some internal milestones that we're really excited about. And then we're working on a number, we referenced one, but a number of external partnerships that we believe could really amplify the business.

A, as well sort of just bring kind of--whether it's ease purchase of price point, placement, installation to life would be awareness, right? Awareness is still a huge thing for a category that's very nascent. And we'll be complementing that with our ad campaign that is just rolling out now, which will all be awareness around the odds that you will have an event like this in your house. And so--these are big initiatives. They're big partnerships. And I've long said it.

I don't think this is in an if; it's a when this category really starts to take hold. And I think what we're seeing now is sort of a buildup of momentum and initiatives that we think is really going to sort of amplify our voice and this new category's voice out in front of the consumer. And I also mentioned 85% uptick in POS in retail and e-commerce in the quarter, were saying caught us by surprise, but it caught us a little bit by surprise.

We're actually going to accelerate the amount of inventory we're going to bring in to support our customers in this space. And I do think between our internal activities in both the product, our activities speaking externally, whether it be through media marketing, online, you'll see much more activity. And then through these partnerships, whether it be with municipalities, insurers, I think you're really going to see an amplification of what we're doing in the marketplace. Very excited about it.

Adam Baumgarten
Great, thanks. And then, Dave, maybe for you, just on input costs for the year, how you're thinking about that and maybe generally price costs, as we move through the year?

Dave Barry
Yeah, so still, it's a line of sight to on the price side, being net price positive for the full year, no change there in our businesses. Most of our businesses took gross price in the first quarter, and we're successful with that implementation. On the cost side, we still expect net deflation of around 1% of COGS.

No, our base input costs really here in the second quarter have increased, some of our base metals. But I'd remind everyone the way our supply chain is structured that we really won't see that impact in our P&L until either very, very late in the year or really, more likely the first quarter of 2025, as any movement in base metals doesn't change the price for us until the following quarter, and we have to work through it with supply chain.

So, that gives our team some visibility to what's coming and allows them to work on price and cost actions to get ahead of it. So, I feel good about our price cost estimates for the year that we laid out on the last call.

Adam Baumgarten
Hey, great. Thanks--thanks a lot.

Operator
Our next question comes from Stephen Kim with Evercore ISI. Please proceed with your question.

Stephen Kim
Yeah, great. Thanks a lot, guys. You made a comment about how, I guess, there was a little bit of slowing at the end of the quarter. It sounds like into April, you've seen some--you saw some--maybe some improving

signs, I guess, in e-commerce and retail POS. I just--I don't want to put words in your mouth, but I guess would you say that that was better than what you saw at the end of the quarter or not? And would it be fair to say that the beat in 1Q and then not raising the guide for the year sort of reflect some cautiousness, based on what you saw at the end of the quarter?

Nick Fink
Yeah, I would--I think that's absolutely right. It's still choppy out there, and we want to see how it evolves. I don't want to get too excited about a couple more weeks and things are looking a little bit healthier. I just think the consumers' pretty choppy. And so we wanted to see how it evolves. We are overall happy with the quarter relative to expectations, but I'd say we want to get well beyond where we are, today. Put a few more weeks into the spring and summer before we have a really good read on the year.

Dave Barry
Yeah, and Steve, on POS, I think of it as sequentially week-on-week improving numbers, which we would expect to see, given where we are in the season. We're building a ramp seasonally though, year-over-year, still negative for retail and e-commerce. But for us is really our best read into R&R. That said, as I mentioned on the flip side, single-family new construction input remains in the growth mode, and I think that will continue, a strong level of starts.

Single-family starts in the first quarter, though completions were still down 6%. So the--as we--as our products come in closer to a complete, that negative completion rate really get a good line of sight to continued volume flow through the year, as builders work through the uptake in starts.

Stephen Kim
Got you. Okay. Right. But with respect to the POS, the ramp you're seeing is kind of just normal seasonality, so not something that we should get too excited about. Yeah, okay. Yeah, perfect.
You made some comments with respect to the two facilities in water weighing a little bit. Can you quantify that for us in some way? And I think you made some comment also about Chinese consumers sort of transitioning away from new construction to R&R. I was just kind of curious, what does that entail? Maybe provide a little context around that?

Dave Barry
On the facility piece, from a margin standpoint, I'd say 25 to 50 basis points in the quarter of margin headwind as facilities ramp up and we have some production inefficiencies relative to a normal rate. And then on the China question, that market, especially as we move away from speculative new construction, I think, which drove a lot of the sales to R&R, we're seeing in our business, Chinese consumers engaging in different categories.

So there's a home decoration channel that's new, probably has emerged over the past 3-ish years that the team is really taking some nice share and then focusing our efforts on e-commerce and in our showroom network to make sure we're capturing the R&R, as the market transitions. It is--we do see a transition. It has been--the overhang from new construction has been greater than the transition to R&R, at this point.

Nick Fink
Yeah, and interestingly, for a lot of last year, you actually saw growth in some of those R&R channels that Dave was mentioning. And so, you could see consumers coming in. It's just the preponderance of the size

of the new construction that needs to kind of deflate, before you really see that. But it's a natural transition for that market to now make. A lot of those things are established. And then I just--if you recall that our exposure is predominantly to Tier 1 and Tier 2 cities.

So that's where we have the highest share and that's where and most of the R&R demand will start to form. And so, we like the optionality of the market. The team has done a great job managing that P&L and keeping the profitability very, very healthy, as we've navigated through this. And we like optionality that it gives us to get exposure to R&R, as well as the innovation engine that it brings because in that market, that team is highly innovative and is also building up new adjacencies for resale growth.

Stephen Kim
Okay, great. Thanks a lot, guys.

Operator
Our next question comes from Matthew Bouley with Barclays. Please proceed with your question.

Matthew Bouley
Good afternoon, everyone. Thank you for taking the questions. I'll ask on security. It sounded like it was a little softer in Q1 there, maybe a little bit of destocking, as well. It looks like you held the full year guide, unchanged. So just any additional elaboration on sort of what happened in Q1 and then the confidence in some improvement to kind of achieve that full year guide? Thank you.

Nick Fink
Sure. As Security, just talking more on the Master Lock and SentrySafe side of the portfolio, and most of the really, really healthy, lasty year. Then you can see the consumer kind of slowed towards the end of the year, and we saw that continue to play out, into Q1. But interestingly, I'd say that decline in Q1 of about 50% of that is destocking, right? And so, that brings actual PLS number much closer to kind of mid-single digits.

And there's a lot of work underway in that business to drive into much, much more of a growth business by focusing both on some exciting areas like commercial where it's now a third of the business, and we've been seeing really, really nice growth. Connected, integrating it with the August side where we think we can drive a lot of growth.

As well as just refreshing the offering in both SAFE and in Padlock, now it's going to start to hit shelves ,as we go through the year.

And so, a lot of work has gone to reenter that business over the last few years and just starting without the business to a much, much healthier margin profile and gives us confidence to invest and sort of stick behind where this business is heading and continue to be very excited about it.

Matthew Bouley
Got you. Okay, thank you for that, Nick. Secondly, just looking at the balance sheet, it looks like inventory dollars stepped up a bit, presumably the acquisition played into that. But maybe just kind of refresh us on how you're thinking about inventory, going forward. Does there need to be any sort of rightsizing of production from here, or is that really just the acquisition? Any additional color there. Thank you.

Dave Barry
Matt, I'd say a few things. the acquisition is a piece of it, but also say we're back more to a normal seasonal first quarter where we're building inventory for a couple of reasons: one, to mitigate Chinese New Year supply chain impacts, and two, in advance of spring and summer seasons. And so, we still expect to deliver free cash flow conversion of around 100% for the year and have positive free cash flow quarters Q2 to Q4, which is consistent with this business. So, I don't think there's anything unusual in the results.

I think actually last year, first quarter was more unusual as we were pulling inventory down at such a rapid rate. We had positive free cash flow in the first quarter of '23. And it's back to normal results.

And the team continues to work to optimize inventory, and we'll do so throughout the year more driven by systems enhancements and process enhancements. And then the final driver is we brought in a bit of extra inventory to buffer our supply chain against the Suez Canal and Panama Canal disruptions that have taken place. We're probably holding on to that maybe a bit longer than we expected through the year, just given those continued disruptions.

Nick Fink
And--the only thing I'd add to that is you go back to the first question about the aligned organization. Which excited me and you saw a lot of this last year, and I think we'll continue to see this year is there's not kind of one operations team really owning not just inventory, but thinking about the total balance sheet from a shareholder perspective and working to pull every lever on it. And so, they're having conversations with some of our suppliers.

We're going to have to put extra inventory on the Water to support all of our businesses, what are the impacts of total working capital, how do we think about that? And just having that shareholder lens inside the business of working all the time is part of what's going to drive total working capital improvement, beyond just inventory. And I think the big drivers last year, and I think you'll continue to see that improvement, this year.

Matthew Bouley
Thanks, Nick. Thanks, Dave. Good luck, guys.

Operator
Our next question comes from Susan Maklari with Goldman Sachs. Please proceed with your question.

Susan Maklari
Thank you. Good afternoon, everyone.

Nick Fink
Hey, how are you?

Susan Maklari
I'm good. My first question is on the acquisition you did of the water filtration operations there, which is an interesting add to your whole smart water network that you're building out there. Can you talk a bit about

that opportunity, how it fits into this, where it can go over time, the potential there? And maybe just how to think about the M&A pipeline more broadly and what you're seeing, as well?

Nick Fink
Sure, I'll start with SpringWell. So, it's a space we've been looking at for quite some time. We've been fairly discerning about wanting to find a very high-quality entry point into that business.

But I'll break it down. I mean, firstly, just the business itself. We're excited about that addressable market. It's $4 billion in the U.S. alone, today; it's growing. Concern about water quality is growing. And there's going to be a tech enablement for that and the ability to know the quality water kind of coming in and out of your system. And so, just in and of itself, a very exciting entry point.

Secondly, a digital native business, right. Started up as digital native, the team--not even sure they used that word because there's no other way to build the business when you started today. And just as we have with Yale, August or with Emtek, the team is really kind of holding it to the side and saying I want to learn everything about what you do and be careful to integrate only the best of the best. If they do something better than we do, we're going to adopt that into our business. And we're being very, very deliberate about that.

But their ability to interact with consumers in a digital setting, the speed at which they can get things done, the way they work a sale is very, very interesting to us. And that is a capability that we will seek to adopt over the entire business. And so, another flow that is pretty interesting.

And then the third part is just--there is a lot of industrial logic around our smart water network and filtration. They go in at the same point. Certainly Flo, I mean, there's other elements to the smart water network, but the Flo goes in at the same point as filtration. And if you're coming in to get someone to touch your main and to put a filter on it or vice versa, if they're filling it, it is a very logical cross-sell.

So really is an early experiment and kind of remarkable the team got it done so quickly. We just, for Flo up on their side and really spending time training them on Flo and really understanding how it works, and we're seeing double-digit attachment rate. So that thesis is playing itself out, very quickly.

And so, we're excited about where we can take it, continue to push into the water quality arena and do it in a smart way. We think this is going to be a very, very important foundational piece to the whole smart water network.

And then the second part of your question, the M&A pipeline continues to be robust. We'll continue to be very, very disciplined about how we think about it. But as we deepen these capabilities, I think you'll find us to be more selective around things that really have these secular growth tailwinds like a water quality, right?

It's probably growing double digits as an area. But we're going to be able to go deeper and extract more value from them. And so going forward, I'm excited about what's happened in the pipeline. I think it's going to generate a lot of cash, we'll be disciplined in finding how to deploy it in the best manner possible for shareholders, but I think there's going to be a lot of interesting opportunity to continue to build our business.

Susan Maklari
Okay. All right. That's encouraging. Thanks for the color. And then maybe turning a bit to the consumer. Talked a fair amount about new versus R&R activity in the quarter. But anything that you would highlight in terms of consumer behavior or any changes you're seeing in the business across the various price points, luxury versus some of the other offerings that you have? Just anything of note there? And I guess, anything that's changed in the last couple of weeks as well with that.

Nick Fink
I don't know--and Dave, for you to add color. I don't know that a ton has changed. Just thinking back to some of the trends we talked about on the last call, and I did mention that in consumer has still been somewhat choppy. I think the luxury consumer has outperformed.

If I look at the point of sale for the luxury business was probably up mid-single digits. And so, more resilient. They're kind of still at the same rate, almost 2x what the underlying water business is doing. Consumer interest continues to be there. We do a lot of work around that to make sure that we're right because we're placing bets on where that consumer will be.

We are continuing to see a shift, online. And so being very cognizant about investing in and building our online capabilities. And that's not just the pricing piece, it's the whole online shelf and the ability to manage that.

I think SpringWell is going to play very, very well into that capability. But beyond that, I don't think a whole lot new. Dave gave some color around kind of the sequential dollars that we're seeing through retail and e-commerce. And I think we just want to see how it plays out, now.

I do think as the noise around rates stabilizes, whether that impacts peoples' ability to move or not and not impact our product that much, but just a level of confidence probably does. And you hopefully see more consumers come in and do some of these projects that they're talking with us.

Dave Barry
Yeah, I would agree with everything you said in relation to the consumer as they're engaged with us in housing. I think one area we did see a change is in security from our recent trends. And that probably speaks more towards the broader consumer. That's a piece of the portfolio that's more exposed, generally, to the consumer.

And as we look at where the POS trends were soft, it was on the consumer products that were really a bit core and then some of the noncore things like TSA locks, bike locks and things that were maybe purchased into quarters yeah, that weren't going forward.

And so I think that may be a reading of how the broader consumer is thinking that it's a trend we'll keep an eye on, but I think everything Nick said around the consumer with respect to housing--we haven't seen a lot of change in trends in that space.

Susan Maklari
Alright, thank you for the color. Good luck with everything.

Nick Fink
Thank you.

Operator
Thank you for joining today's conference call. You may now disconnect.