



**Fortune Brands Innovations, Inc.  
Second Quarter 2025 Earnings Results  
July 31, 2025**

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**Presenters**

**Curt Worthington, VP of Finance and IR**  
**Nick Fink, CEO**  
**Jon Baksht, CFO**

**Q&A Participants**

**Matthew Bouley - Barclays**  
**Susan Maklari - Goldman Sachs**  
**John Lovallo - UBS Investment Bank**  
**McClaran Hayes - Zelmaned and Associates**  
**Aatish Shah [sp] - Evercore ISI**  
**Stephen Kim - Evercore ISI**  
**Mike Dahl - RBC Capital Markets**

**Operator**

Good afternoon, everyone. My name is Paul, and I will be your conference operator today. Welcome to the Fortune Brands second quarter 2025 earnings conference call. All lines are muted to prevent background noise. Following the speakers' remarks, we will open the call for a Q&A session. At this time, I'll turn the call over to Curt Worthington, Vice President of Finance and Investor Relations. Curt, please go ahead.

**Curt Worthington**

Good afternoon, everyone, and welcome to the Fortune Brands Innovations second quarter earnings call. Hopefully, everyone has had a chance to review the earnings release. The earnings release and the audio replay of this call can be found on 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 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 Nick Fink, our Chief Executive Officer, and Jon Baksht, 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**

Thanks, Curt, and good afternoon to everyone. Thank you for joining our call. On today's call, I will start with the strategic actions that we are taking to generate growth while flexing our cost structure in response to market conditions. I will also provide an update on the tariff landscape and our mitigation strategy which is on track to fully offset the anticipated impact of tariffs this year and on an annualized basis. In addition to covering our execution and the drivers of our above-market performance within the quarter, I will also share my thoughts around the remarkable progress that we have made in our multiyear transformation. I'll close by discussing the macroeconomic environment and summarize our performance in the quarter. John will then review our financial results in more detail and provide color on our updated guidance for the remainder of 2025.

In the second quarter, Fortune Brands delivered solid execution and outperformed our end market with impressive share gains across many of our businesses including in our core water and outdoors businesses. In a market environment that continues to be dynamic, we have demonstrated our ability to respond quickly and decisively. At the same time, we have maintained a relentless focus on our key strategic priorities and have continued to invest in our brands, accelerate innovation, and drive operational excellence. We have made significant progress on our multiyear transformation into a highly aligned and efficient growth company, which I will detail shortly and are driving our strategy to grow the core and accelerate digital.

By harnessing best-in-class consumer and customer insights, we can anticipate market trends and meet evolving needs with precision. Through focused investment in our leading brands and targeted innovation, we are driving product leadership and differentiation across key categories. At the same time, our ongoing digital transformation allows us to introduce and refine digital products and solutions with supercharged growth trajectories. In addition to accelerating growth, this transformation continues to improve our operational efficiency, strengthen relationships with consumers and customers, attract top talent, and help us uncover new opportunities in a rapidly evolving world. As a consequence, we believe Fortune Brands is well positioned to deliver long-term exceptional opportunities for all of our stakeholders.

I am proud of our team's focus and commitment and of their agility in addressing the challenging near-term market dynamics. During the second quarter, we executed several key growth and efficiency initiatives across our portfolio which I will detail shortly. We're already starting to see the positive impact from many of these actions, and we expect that we will continue to see the benefits throughout the remainder of the year and beyond. Starting with our water business. In the second quarter, we significantly outperformed our core North American market. We won new business as well as commitments for increased share with several large national builders with our powerful Moen brand.

We also expanded our offerings in product categories targeted at the retail and e-commerce channels, which we expect will help us gain additional share over time. From a brand and product positioning standpoint, we continue to build momentum for the third and fourth quarters with multiple wins in both wholesale and retail, and we recently launched the important refresh of our market-leading chateau collection. These initiatives and wins are a testament to the strength of our Moen and House of Rohl brands, our unique ability to manage diverse and complex channels, and to the depth of our customer relationships.

In outdoors, we launched a new comprehensive brand collective for outdoors brands. We expect the initiative to enhance our go-to-market strategy, accelerate innovation, and drive growth by providing a cohesive platform for building professionals seeking innovative and trusted products and is a great example of the power of the aligned Fortune Brands structure. In addition, we continue to roll out our large and perfect aisle reset in retail with great early results. By focusing on understanding why consumers purchase storm and screen doors and what attributes are most meaningful to them in this category, we were able to deliver an entirely new in-aisle experience with innovative product, and we're already seeing both accelerated growth and share gains as a result.

Within security, we had a number of successful designs and product updates. During the quarter, we launched our Master It brand campaign from Master Lock and have already seen a 60% increase in our website traffic compared to the same time last year, which we expect to translate into growth in the coming quarters. This is our first major brand campaign in many years and was made possible by our newly aligned organizational structure. We've also made focused investments in redesigning the retail shelf and product strategy for Master Lock to see additional future growth in the channel. We expect our refreshed brand strategy will result in sales uplifts across our channels during the second half. We are seeing the results of our renewed focus on everyday great execution. For example, in our important back-to-school category for security, we are seeing double-digit improvement versus last year as the team developed more focused action plans under its new leadership and executed them with excellence. It will take a little more time before the full benefits are realized, but the progress is evident and concrete.

Turning to our digital business. We now have around 5 million active users. We continue to see solid momentum. And in the second quarter of 2025, we had around 220,000 digital device activations. To reverse the flow, we expect to reach an important milestone in our digital journey with a pilot of a new subscription model during the third quarter. Designed to offer an attractive entry point for new flow customers, it will also provide us with a high-quality recurring revenue stream that has the potential to serve as a model for other portions of our connected business. We continue to secure new partnerships with leading insurance companies and are on track to more than double our sales through the insurance channel this calendar year. Additionally, we've concluded a study with a top three insurance carrier that again supports our value proposition of dramatically reducing preventable water damage claims for insurers, and we expect the white paper on this to be published shortly.

Flow has consistently demonstrated impressive growth, including over 70% growth in the second quarter, and the opportunity pipeline is robust and keeps growing as the value proposition becomes more widely understood. We also successfully launched our new Yale Smart Lock with Matter designed for Google Home. This is a significant milestone in our long-standing partnership with Google and the evolution of the original Nest by Yale lock. It is also the culmination of a multiyear collaboration between Google and Yale to bring a more approachable easy-to-use smart lock to market and will be the first product with the Google home preferred product batch. We see great potential for the future product road map and an opportunity to expand applications for the Yale Smart Lock with Matter. We expect to see good results from this business as these partnerships continue to ramp up and we lap the discontinuation of the older generation Google product.

Overall, our digital business is very strong, and we are on track to deliver significant year-over-year growth in 2025. As a result of slower load-ins, we now expect our digital sales to be around \$250 million and expect annualized sales approaching \$300 million in 2025. Our digital business remains a key differentiator for us, and we continue to expect this growth platform to only get stronger as we continue to build our scale and capabilities and drive awareness of these important and highly innovative products.

Moving to tariffs. The landscape continues to evolve, but our core strategies remain intact and are delivering. We remain on track to fully offset the anticipated in-year impact in 2025 and the annualized impact in 2026 of tariffs through a combination of supply chain actions, cost-out opportunities, and strategic pricing actions across our portfolio. We are employing a surgical approach to strike the right balance between price, demand elasticity, and overall profitability in the light of a dynamic external environment. We're taking a long-term and highly strategic view, continuing to position ourselves as market leaders in categories where brands, quality, and innovation really matter and are working to preserve pricing integrity for our partners.

We have accelerated investments in our revenue growth management and category management capabilities and expect to become even more agile and precise with our pricing strategies as a result. We have a proven track record of cost discipline, allowing us to focus our investments and flex our cost structure to deliver solid operating margins and fuel for growth. The second quarter was no different as we successfully navigated an uncertain consumer demand backdrop by delivering incremental margins in line with our expectations. As we outlined in our first quarter results, we have identified opportunities to control the pace of hiring related to our transition to our new headquarters campus, which will not only result in SG&A savings through the second half of 2025 but will also accelerate our efforts to create a more efficient and agile organization that will foster increased collaboration and ideation.

Before I turn to the macro environment and provide an overview of our second quarter results, I want to take a moment to put our multiyear transformation to context and provide additional clarity on the remaining milestones ahead. Fortune Brands is evolving from a siloed operation with isolated strengths into a unified agile growth engine centered on brand-driven innovation, accelerated digital capabilities, and shared organizational strengths while preserving the unique identity of each business and brand. This transformation began about three years ago and consists of three main pillars. Our first pillar was centered around redefining and focusing our portfolio on high-growth segments of the market driven by leadership in brand and innovation. This was achieved through our spin-off of Master Brand Cabinets and the acquisition of Yale and Emtek, which massively accelerated our luxury and digital transformation. Next, we focused on creating a business unit-led organization supported by operational centers of excellence, which allow the organization to prioritize our greatest opportunities and deploy best-in-class resources accordingly. Finally, our last pillar focuses on accelerating our execution and growth through our simplified leadership structure, one HQ initiative, and our talent transition and upscaling.

As of today, we have completed the first two pillars and are midway through executing the third pillar. I'm proud of the momentum that we have generated along the way, and I'm excited to fully unlock the tremendous growth potential of our company. Through these first two pillars, we crystallize the Fortune Brands advantage capabilities, which include category management, business simplification, global supply chain excellence, and digital transformation. We emphasize collaborating with channel partners to drive performance, leveraging our leading brand portfolio to optimize market positioning and capture share.

Further, we streamlined operations to improve efficiency and agility. We have a robust North America focused supply chain with reduced reliance on China or single points of failure, allowing us to swiftly adapt to tariffs and other disruptions. Finally, we have been accelerating digital product development and integrating data science, technology, and analytics to enhance pricing strategies, speed to market, and customer engagement. This year, we initiated the third pillar of our transformation, focused on reaccelerating our execution and

growth through a simplified leadership structure and a transition to a new unified campus in the Chicago area. Our new structure and leadership team are in place and are highly aligned and energized focusing on our innovation, solidifying our channel partnerships, and working to continually elevate our operational excellence.

As our team builds momentum on these initiatives, I am confident that this will translate to continued above-market performance over the long term. While we are executing on the one headquarters transition, we are taking a very thoughtful approach to ensure continuity of institutional knowledge among our associates while maintaining laser focus on our operations and customer relationships. I want to recognize and acknowledge the tremendous efforts of our entire team in helping us ensure a smooth transition to our new headquarters. It is because of their contributions that we are in this position to take Fortune Brands to the next stage of our transformation.

At the same time, I continue to be amazed by the exceptional quality of the talent we are attracting to the organization since we made the one headquarters announcement earlier this year. Coupled with our outstanding legacy talent, I'm confident our highly engaged and energized workforce will drive exceptional results. We expect this pillar of our transformation will extend into 2026 as we complete the headquarters move ahead of schedule.

Turning now to our economic outlook. From a macroeconomic perspective, we continue to see broader uncertainty weigh on consumer demand. This has been evident in the monthly trends for single-family new construction and repair and remodel activity through the second quarter as home buyers and homeowners are hesitant to invest in the current environment. However, we are encouraged by more recent improving data points for R&R spending. Looking beyond the near-term uncertainty, the intermediate and longer-term fundamentals for our sector remain extremely attractive marked by significant underbuild in the U.S. housing stock and historically elevated home equity values, which point to a multiyear pent-up demand for our core products. In addition, our strategy remains to build out new idiosyncratic growth platforms less tied to macro concerns such as connected platforms and luxury products, which offer compelling value to customers and create additional value streams that augment our core businesses.

Turning to our second quarter performance. Fortune Brands outperformed our end market with impressive share gains in our core water and outdoors businesses. Excluding China, we estimate that we outperformed the end market for our products by over 200 basis points, and we returned to positive point-of-sale growth across water and outdoors. Net revenue was 1.2 billion, down 3% versus the second quarter of 2024 or down 1% excluding the impact of China. We achieved these above-market results as we gained share in core product categories and built momentum in connected products. We effectively balanced tariff-related pricing actions with strategic promotional activity and leveraged our channel partnerships to deliver value to our customers and consumers. Additionally, we focused on

everyday great execution to maintain our strong balance sheet by managing our cost structure and deliver decremental margins consistent with our targets. Our operating income was \$199 million, and our operating margin was 16.5%. Our earnings per share were \$1.

Turning now to our individual business results. Starting with water. Excluding the impact of China, the segment saw net sales growth of 2% driven by strong results in [inaudible] North America and House of Rohl. Net sales declined 2% including the impact of China as the Chinese residential construction market was weaker than anticipated. Water point-of-sale outperformed the market and was up slightly excluding China compared to the broader market which we estimate was down low-single digit to mid-single digit. Our core Moen business clearly outperformed the market and gained share with retail point-of-sale up low-single digit, and we continue to see excellent brand recognition and loyalty in our retail business especially among pro consumers.

We recently commissioned a study to evaluate the strength of our Moen brand with the pro. The study confirmed that the pro consumer strongly prefers the Moen brand on the basis of Moen's quality, reliability, customer service, and warranty programs. In fact, our research indicates that 70% of pros would change their shopping habits if Moen, their preferred brand, was unavailable. Our U.S. luxury business again performed well as the higher-end consumer remains resilient and continues to choose products based on craftsmanship, design, and brand prestige, demonstrating demand that is less influenced by price sensitivity in the housing market and more by lifestyle alignment.

Our House of Rohl brand is the most highly rated with designers and leads on brand perception for luxury, trust, and innovation. Point-of-sale for House of Rohl was up an impressive high-single digits, which compares very favorably to the broader market which we estimate was down low-single digits. We're still in the early innings of building this business into a global luxury powerhouse. Looking forward to the remainder of 2025, we expect Moen to benefit from the newly won business with large national builders and several large retail promotional events that we were awarded for the second half of 2025. We still expect choppiness as the market adjusts to tariff pricing and consumer confidence normalizes, but we are well positioned for long-term share growth underpinned by our great portfolio and improved execution. Finally, our luxury brands exited the second quarter with excellent momentum which we expect to build upon in the second half.

Turning to outdoors. We had a strong second quarter with low-single-digit point-of-sale growth, outpacing our core addressable markets, which we estimate were down low-single digits during the quarter. This was offset by lower channel inventory levels versus the second quarter of 2024, which resulted in a 3% decline in sales for outdoors compared to last year. Our market outperformance was driven by Therma-Tru doors, which had very strong performance in retail and wholesale, and Larson as our Larson perfect aisle continued to roll

out and drive meaningful outperformance as we reinvigorated an entire category. We also saw a very strong wholesale demand for decking towards the end of the quarter and coming into July. Looking forward to the remainder of 2025, we are optimistic about the solid momentum being built across outdoors. Our outdoors brands have a very robust and vertically integrated North American and U.S. supply chain footprint, and we expect that this will continue to be a significant differentiator for us, particularly in fiberglass doors as cheap Chinese import inventory dwindles.

For Therma-Tru, we are seeing incremental demand for slab doors from distributor and wholesale customers, which we expect to accelerate through the second half of the year as tariffs take full effect. Finally, our security segment sales decreased 7% in the quarter, primarily due to market softness, destocking, and a first half headwind from prior execution challenges in 2024, which have been addressed. This was partially offset by our commercial and professional business as well as the e-commerce channel where we gained share across all of our product categories.

Looking forward to the remainder of 2025, we expect to benefit from the ramp-up of the new Yale Smart Lock with Matter including with Google. We also see tremendous opportunity to capitalize on the branding investments from the past year to expand share in retail and e-commerce. We have line of sight to new retail customer wins during the second half that we expect to contribute to our results this year and to carry into 2026.

Under new and refocused leadership, we have realigned our general management organizations to drive direct accountability and have seen excellent momentum with our customers, which we expect will lead to incremental growth in the second half. As I mentioned earlier, with respect to back-to-school, we're already seeing the initial results of our focus on everyday great execution. Additionally, from a year-over-year growth perspective, we expect to benefit from easier comparisons in the second half as we lap the impact of destocking in last year's execution issues as well as other onetime events.

To recap, I'm encouraged by our results. the progress we made on our strategic priorities and our solid market outperformance during the second quarter. Our agility in addressing the impact of tariffs coupled with our commitment to innovation, operational excellence, and cost management put us in an excellent position to navigate the current environment and strengthen our position going forward. Throughout our multiyear transformational effort, our underlying value proposition has remained the same. Our brands are synonymous with innovation, trust, and design. We aspire to be a true partner for our customers and are committed to meeting the changing needs of our consumers. And finally, we have inherent secular growth drivers that we expect will allow us to gain share and generate above-market returns in the long term. As we finalize the last leg of our transformation and accelerate execution, this is a great time to be at Fortune Brands. I couldn't be more excited for the future of our company, and I'm confident in our team's

ability to execute on our strategic priorities with excellence. I will now turn the call over to Jon.

### **Jon Baksht**

Thank you, Nick. Before I begin my discussion of our financial results, I'd like to take a moment to thank Nick and the broader Fortune Brands team for such a warm welcome to the company over the past three months. I've been extremely impressed by the extraordinary talent throughout the organization and the shared sense of purpose felt by all our associates. All the positive attributes that I observed from the outside have only been reinforced. I'm excited to join this organization at such an impactful inflection point for the company. I was initially drawn to Fortune Brands by the foundational strengths of the company, the enduring brands, high margin profile, and strong free cash flow generation, among many others. Overlaying the innovation story and upside growth potential with the connected business made the opportunity even more compelling.

Nick described the three pillars in the ongoing transformation that is entering the third phase, and my initial interactions with various stakeholders, I believe one aspect that's underestimated is the value that will be created by moving from a holding company structure to an operating company structure, of which the one HQ initiative is a part of. In the quarter-to-quarter world of public companies, that value will always be visible immediately, and the returns won't be realized in a straight line, but I'm confident those along for the journey will be rewarded over the long term.

We're taking this opportunity to build out a best-in-class platform across the portfolio, starting with a simplified and standardized data layer feeding modern systems leveraging AI with streamlined and standardized processes run by a passionate team with the shared vision for innovation and excellence. This next stage in our transformation will drive improved insights into the business with improved analytics which will ultimately drive enhanced financial performance, returns, and value creation. I'm grateful to be a part of such a talented and collaborative leadership team, and I'm excited about our opportunity to drive additional momentum as the team comes together at our new campus.

Now let me discuss our second quarter results. As a reminder, my comments will focus on results before charges and gains to best reflect ongoing business performance. Additionally, comparisons will be made against the same period last year unless otherwise noted. In the second quarter, sales were \$1.2 billion, down 3% in total and down 1% excluding China. Consolidated operating income was \$199 million, down 8%. Total company operating margin was 16.5%, and earnings per share were \$1. Our effective tax rate was elevated this quarter at 31% due to withholding tax triggered by a repatriation of cash from China as we previewed last quarter. On a full year basis, we anticipate an effective tax rate between 26.5% and 27.5%. Our second quarter sales performance was mostly driven by low-single-digit point-of-sale declines, which was indicative of the broader demand environment. Excluding China,

our POS was essentially flat. Importantly, our POS performance in the quarter surpassed the market, reflecting the strength of our brands and the solid execution across our teams.

Turning to our segments. Beginning with water, sales were \$647 million, down 2% but up 2% excluding China. Our results reflect POS, which was up slightly, excluding China and channel inventory improvement in wholesale and retail as well as the impact of disciplined pricing actions across our portfolio. Within our water segment, Moen and House of Roll outperformed the market. Water's operating income was \$165.5 million, an increase of 8% compared to last year. Operating margin was 25.6%, up 230 basis points as productivity improvements from strategic sourcing initiatives, manufacturing efficiencies, and lower SG&A were able to offset the lower sales revenue. For the full year, we are targeting operating margins to be 23% to 24%.

Turning to outdoors. Sales were \$379 million, down 3% as reduced channel inventories offset low-single-digit POS growth during the quarter. We made significant progress in the rollout of our Larson perfect aisle reset, which was largely complete at the end of the second quarter. Initial results have exceeded our expectations and have also led to share gains. Outdoor segment operating income was \$48.6 million, down 23% from the prior year quarter. The primary driver of the decline in operating income was the lag effect of higher cost inventory from the second half of 2024 flowing through our cost of sales during the second quarter. Q2 segment operating margin was 12.8%, and we are targeting 14% to 15% for the full year.

In security, our second quarter sales were \$178 million and declined 7% driven by mid-single-digit POS declines, which largely reflect a first half headwind from prior execution challenges in 2024. We saw solid growth in our e-commerce channel where we gained share across all product categories during the quarter. Segment operating income was \$26.3 million, down 27%, and segment operating margin was 14.8%, reflecting the impact of lower volumes as well as increased investment in branding and advertising for Master Lock and SentrySafe. It's important to note that these investments are effectively a reset of our marketing strategy with the brands and represent the largest investment in these brands in several years. For the full year, we are targeting operating margins of 16.5% to 17.5%.

Turning to the balance sheet. We are managing our capital structure with the objective of balancing our cost of capital, returns and overall flexibility. Our balance sheet remains solid with cash of \$235 million, net debt of \$2.6 billion, and our net debt-to-EBITDA leverage of 2.8x. We continue to expect our net debt to EBITDA to be between 2.2x and 2.5x at year-end, demonstrating the strong free cash flow generation of the business. During the quarter, we paid off our \$500 million 2025 senior notes through a combination of commercial paper borrowings and cash on hand. We also have \$613 million available on our revolver at quarter end. In the second quarter, we returned \$93 million to shareholders including \$63 million in share repurchases. We have spent \$238 million on share repurchases through the second

quarter year-to-date. Our second quarter free cash flow was approximately \$119 million, reflecting a seasonal uplift from first quarter.

Before turning to our outlook, I'll provide an update on our tariff exposure. Based on tariff rates as of July 29th and assuming country-specific rate changes that have been announced on or prior to July 29th take effect on August 1st, we anticipate unmitigated impact of approximately \$80 million in 2025 and \$260 million on an annualized basis. Of the anticipated \$260 million of annualized impact, approximately half is related to China, and the balance is rest of world. Consistent with our previous guidance, we continue to expect to fully mitigate the anticipated in-year and annualized impacts. As a predominantly North America-based manufacturer, our footprint leaves us very well positioned to both service our customers at a high level and take share in the current environment. Since 2017, we have reduced our spend from China by over 60%. And by end of the year, we continue to expect our China COGS to be around 10%.

Turning now to our outlook. Over the past quarter, we have taken decisive actions to mitigate the impact of tariffs and have worked with our customers and suppliers to find win-win solutions to address the challenges. In the process, we have progressed our expectations for 2025 performance and believe we have improved visibility into the range of potential outcomes for the remainder of the year. As a result, we are using this opportunity to provide updated full year 2025 guidance.

We expect full year net sales to be flat to down 2%, and we expect full year EPS within the range of \$3.75 to \$3.95. Our guidance is driven by our view on the markets. For 2025, we expect the global market for our products to be down 4% to down 2% with the U.S. housing market to be down 4% to down 2%. Within this market forecast, we expect U.S. repair and remodel to be down 3% to down 1% and U.S. single-family new construction to be down 6% to down 5%. Compared to our initial guidance from February, the most notable change is U.S. single-family new construction, which at the start of the year, we had forecast to be down 2% to up 2%. This incorporates the single-family new construction trends observed during the first half. We've reduced our expectations for the other primary metrics by approximately 1 to 2 percentage points each.

Looking ahead to the second half, we expect our results to benefit from market outperformance in each of our segments with momentum carrying into the third and fourth quarters. These are underpinned by the pull-through of customer commitments in water, highly visible incremental demand in outdoors, and new product launches and brand campaigns in security. We also benefit from lapping of onetime events that impacted our results in the second half of last year, particularly in outdoors and security.

Throughout the cycle, we are continuing to invest for growth and committed to delivering shareholder value. That said, we're also highly aware that the external environment remains

very dynamic, and that the consumer is cautious and sensitive to volatility. Overall, we remain thoughtfully optimistic as we have good line of sight about our ability to address what is in our control. While the long-term fundamentals of our market continue to be attractive, the near-term consumer demand environment remains dynamic.

As we have in prior periods of uncertainty, we are focused on outperforming our markets, thoughtfully managing expenses while continuing to make key strategic investments and generating cash. In conclusion, our teams continue to execute at a high level across our businesses, and we remain well positioned to capitalize on future growth opportunities. As we have highlighted, the market backdrop continues to be dynamic, and the tariff-related uncertainty continues to weigh on consumer sentiment.

Despite these challenges, our second quarter performance demonstrates the resilience of our business and Fortune Brands' ability to deliver sustainable results. In addition, we reiterate our expectation to fully offset the anticipated impact of tariffs in 2025 as well as in 2026. We remain confident in the long-term outlook for our core end markets and our ability to continue to generate shareholder value into the future. I will now pass the call back to Curt to open the call for questions.

### **Curt Worthington**

Thanks, Jon. That concludes our prepared remarks. We will now begin taking a limited number of questions. 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 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**

We'll now be conducting a question-and-answer session. If you'd like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment, please, while we pull for questions. Our first question is from Matthew Bouley with Barclays.

### **Matthew Bouley**

Good evening, everyone. Thanks for taking the questions. Wanted to start out actually on the connected products business. I take a lot of promising progress that you spoke to, including that subscription model coming, so I would love to hear more detail on that. I think on the numbers, I think I heard you say the updated sales guide for this year is 250, but you still expect to get to that 300 million run rate. So, just any more details on kind of the pluses and minuses that are impacting 2025 as you get all these initiatives coming through and you get

to that run rate kind of any early thoughts on how the business is shaping up perhaps for 2026. Thank you.

### **Nick Fink**

Sure, Matt. Happy to jump in there and describe a little bit of what's going on. So, firstly, we're super pleased with the connected results. We've invested heavily in the space in the last few years, and it's just great to see this momentum and scale continue to build not just frankly on the sales line but just also the team that we've built, the digital fluency, the entire organization that's kind of come along for the journey with them and then now the leverage of that knowledge like into the legacy business in terms of driving AI tools and processes into the business.

With [inaudible] connected business itself, I would say the performance is here -- you're right. 250 million is our expectation for the year, but the run rate we think we'll close out the year closer to 300 million. And as we look at the pipeline, I would say it's both broader and a little bit slower than we expected. So, broader in that we're touching on even more space and opportunity than we had anticipated, more insurance partners coming into the mix, sort of more adjacencies in terms of areas that we can impact with the connected portfolio including the recent launch of our connected lockout tagout portfolio and finding some huge white space there that we can go after.

And then learning that as we build this giant pipeline of opportunity and contracts that we've built, converting those into sales and driving that process. And so, the teams are very, very focused on that bottom end of the funnel and that conversion piece. And then as you touched on, we're also very excited to be launching the subscription test this quarter. We think it's a win-win. Obviously, a win for us to get people onto subscription recurring revenue, right, now at 5 million users plus. So, that is a big part of the future. But our consumer research tells us it's a win for the consumer, too. They much prefer from the research the lower entry point of a subscription to a onetime purchase. And so, we think if this -- we want to test it and see if it works. But if it works not only will help us accelerate sales and penetration. It's going to put the company on a really solid recurring revenue footing. So, we're very, very excited about it. And then beyond the -- that piece also just the new partnership with Google. So, sunseting that older first-generation Google product, which a lot of which was sunsetted last year, which is a part of the headwind that we went through as that sunset before the new products came online. But with that hitting the market now, we think it's a really great product that's going to do some exciting things.

### **Matthew Bouley**

Okay. Great. No, that's really helpful. Thank you for that, Nick. And then secondly, jumping over to the water business, and I wanted to ask around market share. It sounded like POS outperformed the market. I heard you say you won maybe some new business with large builders and there might be some offerings coming down the pike here that would be

targeted for retail. I think e-commerce, as well. So, maybe if you can just sort of level set us on what's happening with market share in the water business across your channels. And sort of what the impact of some of these wins may have as we think about the second half of the year. Thank you.

**Nick Fink**

Sure. Happy to do that. So, why don't I start with Moen. So, as you mentioned, builder business, we saw some really nice performance out of the team, both getting increased commitment for share from existing as well as converting new. And, as you know, a very large business for us to see that continued conversion. And I think it really speaks to the strength of the ecosystem. It's the product, the support, the service, the warranty, the professional support, and belief in the product. And so, that came through very strongly I'm happy with that.

Retail performance also very strong in the quarter. So, very pleased, and we think that's just the beginning. We've done a lot to reinvigorate the work that we're doing with our retail partners, and I think we can elevate that even further. So, a lot of focus from the team coming. I think that will play out well through this year but really get some acceleration in '26. And then some opportunity I think still around e-commerce. I talked on the last call about how we had really started to enforce much stronger pricing discipline in e-commerce. And that takes time, and it takes it takes discipline, frankly, is the word to stick to it and to enforce it. And so, that over time, as that discipline starts to stick and we're able to then go in and really win on the basis of products and our ability to optimize search and do problems in the right way, we expect it will be a tailwind in the future. But I think some more work for the team to do there.

If I flip over to the House of Rohl, really strong resilience with that luxury consumer. I mean, we saw excellent results out of the House of Rohl. Really delighted with the performance that the team has driven to continue to bring that to life in the portfolio and see that performance really compounding and growing into the back half of the year. So, resilient with that end luxury consumer, and I think the portfolio is really just answering the consumer needs and the designer needs. So, really good performance there.

**Matthew Bouley**

Well, all right. Thanks, Nick. Good luck, guys.

**Nick Fink**

Thank you.

**Operator**

Our next question is from Susan Maklari with Goldman Sachs.

**Susan Maklari**

Thank you and good afternoon, everyone. My first question is on the --

**Nick Fink**

Hey, Susan.

**Susan Maklari**

Hello. My first question is on the security segment. It sounds like you've had some really nice initiatives there as you're gaining in that e-commerce channel. Can you talk a bit about some of those retail wins, as well, in the second half and how we should be thinking about this new launch and focus on the brand coming together in the next couple of quarters?

**Nick Fink**

Yeah. So, just -- great question. And as a reminder, we've have been on a journey with security. I mean, we really set out I think even way back over to the last Investor Day talking about how we were going to take this segment on a journey to really, through some supply chain initiatives, rebuild the margin of the business.to create fuel for growth to then start to reinvest in brand. As you see the margin profile now coming through, that gives us much more room to make those investments. And then through our kind of one Fortune Brands initiatives to bring this company together, we're now able to leverage our marketing expertise to really bring the first major refresh and brand campaign to security in several decades. And so, we're very excited about where it's coming.

The master [sp] campaign as I mentioned on the call, we've seen a 60% uptick in website visits. I think I mentioned on the last call, in SentrySafe we're early experimenting around doing some work there. We saw double-digit uptick in website visits there translating into double-digit point-of-sale growth in that quarter. So, this stuff works. What you should expect from us is this campaign to now roll out not just above line but all the way through the funnel with a very consistent, much clearer shelf set and product set and messaging to the consumer that allows them to navigate this category, which we do captain as the leader in a very simple way where they can understand the value of the different price points of our product.

And we think that's going to be a really great opportunity. And so, new leadership in there. A lot has been done to really reorient that business, drive accountability with the GMs inside of that business. And as we get through the headwinds of some of the execution issues last year, we think we get into the back half of this year, we're going to see some really solid performance, but that performance is really just building momentum into '26 and beyond.

**Susan Maklari**

Okay. That's very helpful color, Nick. And then maybe turning to the margins, the consolidated margin. Can you talk a bit about the cost saving efforts that you are pursuing,

where we are in that process, how we should think about those benefits coming through? And then any color on the path for profitability in the back half of this year?

**Nick Fink**

Yeah. So, why don't I start with some high-level thoughts. I'm going to hand it over to Jon to take us through some of the detail. But a couple of things. One thing is this management team feels that it's very much a duty to manage the P&L with discipline in a category that at times can have headwinds. And certainly, in the last couple of years, there's been more headwinds than we've expected, and I think we're proud of the way in which we've managed the P&L tightly not just to deliver for shareholders from a margin perspective but also to create the field to reinvest in the business. And we've continued to make those investments in brand and innovation and in digital. And so, that's very much the philosophy of the team including our presidents and general managers that's sort of part of the DNA. I think as we got into this year, this one headquarters move, which we're more than halfway through now, actually ended up giving us flexibility as we were moving people and at the same time rehiring people to control the pace of that and really think deeply about exactly what capabilities we needed and when. And that's given us flexibility as we built the cost base for this year and hopefully will allow us to leverage that as we get into next. So, I don't know if you want to add some color to that?

**Jon Baksht**

Yeah, sure. And just looking at the cost structure going into the back part of the year, we touched on in the opening remarks that moving into the new headquarters here in the fall. We've got move-in dates starting out in September. And as we do that, we're -- there's going to be some efficiencies that we're going to gain from just consolidating some of the operations there from a corporate basis. And then if you look at some of the business units in the segments, for example, both outdoors and securities are going to see higher margins as we go into the back part of the year. Different factors driving each of them.

Within outdoors, one of the dynamics that impacted the first half this year was frankly just some higher costs that were in the back part of last year that -- for inventory we under absorbed last year in the back part of the year, which led to higher cost of goods for this particularly in the decking segment there. We're going to see that roll off going into the second half of the year, which should lead to some better market performance there. On security, we talked about some of the investments we've been making in the marketing and the branding there. Those are investments that we made largely in Q2. We're going to continue to invest to drive that growth. But if you look at some of the margin that we're expecting to get back and going into the back part of the year, we're expecting to get some of the benefits of that incremental spend this quarter seeing that into really translate next half.

**Susan Maklari**

Okay. That's helpful color. Thank you both and good luck with the quarter.

**Nick Fink**

Yeah, thanks.

**Jon Baksht**

Thank you.

**Operator**

And our next question is from John Lovallo with UBS.

**John Lovallo**

Hi, guys. Thank you for taking my questions, as well. The first one is just on the water segment, the 25.6% margin. I think is among the highest probably that you guys have achieved. And I know you talked about productivity, manufacturing efficiencies, SG&A, things of that nature. Just curious if there was anything kind of onetime in nature in that number, anything related to the prebuy or things like that? And also, what level of pricing have you guys realized here ahead of the tariffs?

**Jon Baksht**

Yeah. I can start, John. No, it's a great question. We're really proud of the 25.5% -- 25.6% that we achieved this quarter. There weren't any one timers that were flowing through there. It was all those things that you mentioned and that we prepared -- that we mentioned in the prepared remarks. All of those are a factor. I would say the -- from a kind of breakdown within there. The House of Rohl segment was a nice example of an area that we've touched on in the luxury segment where the consumer really has been more resilient, and we've been able to see some price increases, volume increases there within that segment, which has really helped to drive some of that increase. The other piece that I would point to just broadly speaking, we're going to be taking some promote -- we're going to be factoring in some other promotional events and other things to drive further sales going into the back part of the year, which we've guided to 23% to 24% on a full year basis. So, in not a large decremental margin, but that is going to normalize as we get into the back part of the year with that and some of the new business that we've won.

**Nick Fink**

And I'd just add on your question on pricing, I mean, we really try to be disciplined across the businesses and take pricing in a regular way and in an incremental way where we don't have to do large catch-up prices, et cetera. And you saw us do that during the supply chain shocks post COVID, and here we've really done our best to sort of keep it in the mid-single-digit range on average. As Jon mentioned, our target margin for the year 23, 24, so we're not going to try to overshoot the mark. We're going to trying to stay really competitive for our customers and our consumers and to the extent there is a court like this that allows us to

continue to do so also while we invest to continue to drive the brand and innovation across this portfolio.

**John Lovallo**

Okay. That's helpful. And then on the updated tariff numbers, the 80 million in 2025 and the 260 in 2026 unmitigated. Maybe just help us understand the plan to offset maybe the mix between pricing cost savings, supply chain initiatives in each year would be helpful. Thank you.

**Nick Fink**

Yeah, I'll start, and Jon add some color. But what I'd say is, obviously, for competitive reasons, we don't break that down. But we are working the supply chain piece the hardest, right? Our goal is to get supply chain savings where we can, reorient the supply chain where we can, do all the work and -- the work that the team has done, there's really been second to none and the speed at which they've gone off to this. And you can see it, right, in the offsets. Really, again, leveraging the digital investments that we've made in our own systems, the ability to draw that data, analyze that data, and act on that data has been second to none. And so, we've been able to make a lot of progress there. And then we can't cover, we look to price to cover. But we will keep going back to the cost and supply chain opportunities and keep working them over. And to the extent that then starts to over deliver, that's going to give us more flex on the price piece, either to put that price back to work in promo or reinvest it for branded growth.

**Jon Baksht**

Sure. And just to add maybe a little bit of color in terms of where those tariffs are coming from. We mentioned in the prepared remarks that our exposure to China as part of our COGS is roughly 10%. Now, to put that into perspective of the 260 million annualized number, about half of that impact is China. And so, to the effect that we are able to manage that supply chain to mitigate that risk and looking through optimization there, that's a big part of those mitigation efforts.

**John Lovallo**

Great. Thanks very much, guys.

**Operator**

Our next question is from McClaran Hayes with Zelman & Associates.

**McClaran Hayes**

Hey. How's it going, guys? I was just wondering first on the tariffs, has that lower annualized number impacted the way that you guys are thinking about going after some of those cost-out actions and balancing that with the investments you're making?

**Nick Fink**

Yeah. I mean, every day. Like every day, we're rerunning the model it seems like. So, absolutely. Look, it changes the mix of what you're doing, but what it doesn't change is the principle of what we're doing. What we're doing is aiming to build a regionalized supply chain with redundancy that doesn't make us dependent on any one geography or any one single point of failure. And so, that philosophy stays the same, and we are going to continue to invest to make that happen. Fortunately, we're starting from a phenomenal place, which is one of the strongest if not the strongest U.S. North American manufacturing base any of our competitors. And so, what we've seen is a lot of customers come to us and say, how can we leverage what you guys have in the U.S.? How can we leverage what you guys have inside a US MCA to really drive it further? And so, a lot of the work we're doing is about what product sets we bring inside of that regional fence if you will and how, over time, we can use that to drive the business further. And so, I think there's what we've done today, which I'd say is fairly tactical. We've done it very quickly. But the future -- we won't -- even if we cover off on all the tariffs, we want to stop here. The future is the strategic element, which is how we keep driving CI out of this supply chain and build the most resilient and lowest cost supply chain that we possibly can and then use those funds to reinvest, to make our products competitive, and to build our brands and drive our innovation.

**McClaran Hayes**

Awesome. Thanks. And just on China within water, I guess any update on what you guys are seeing on the ground there and kind of how the outlook is shaping up for the back half?

**Nick Fink**

Yeah. Looking at China, I mean, if we look at all of last year, it was interesting, right, because the comps were up and down '24 versus '23, but the net sales line was very, very steady. I mean, every quarter almost exactly the same, and we saw it [inaudible]. We definitely saw it take a step down in Q1 of this year, and I think directly attributable to a lot of the uncertainty driven by these tariff wars, and that is impacting the consumer over there who's been much more cautious. So, we're working that with the China team. And that really is around the developer business. If we look at things like our showroom channel and what we call a designer channel, those are showing growth. And so, what we're going to do is really work with the team over there to understand how much of that development business we expect -- where do we expect it to land? And how do we expect it to then grow from there? And what's the point at which this becomes a growth vehicle for our organization?

I'll just add, at this point, the team there has done such a great job managing the cost basis as the top line has declined that we do not have much exposure from an EPS perspective. So, it's not like there's a lot of EPS risk for us in China. They've managed it really, really well. And it does give us exposure to a lot of interesting products and innovation, and we like that window that that business gives us. So, optionality for growth and access to innovation. And so, the objective there is really to keep building these other channels that are growing while

we start to find the bottom of the developer channel and then grow from there and really turn what's been a headwind into a tailwind for the business.

**Operator**

Thank you. Our next question is from Stephen Kim with Evercore ISI.

**Aatish Shah [sp]**

Hi. This is Aatish on for Steve. Thanks for taking the question. Just going back to the topic of tariffs, and thanks for all the detail there. On the last call, it was mentioned that the incremental tariff impact would be offset by the mitigation actions including mid-single-digit pricing across the business on average. Is that pricing expectation changed given the updated tariff expectations?

**Nick Fink**

Well, the tariffs have shifted around a lot, but I would say the pricing across the portfolio on an average we've been able to maintain around that mid-single-digit mark. And then to the extent that we're able to further mitigate the tariff impact we'll certainly look to that and work hard to be as competitive as we can in the marketplace.

**Jon Baksht**

And the only thing I'd add is that is -- that's not a peanut butter spread across the portfolio. Across different channels, we're being very surgical around how we implement those tariffs -- price actions and how we can best realize some recovery there.

**Stephen Kim**

Hey, guys. It's Steve. Just to follow up on that. Why is the -- the pricing action is going to remain the same, but the tariff gross headwind is less. Why wouldn't you be able to -- why wouldn't you be effectively over mitigating under that circumstance? I'm just trying to make sure I'm understanding conceptually what the change is.

**Nick Fink**

Yeah. Well, again, we run this model on this daily, right? And so, I would say it's very early stages to say, hey, it's set, and we know that we don't have enough [inaudible] we could start to move things around, but that is certainly the objective. But I said all of our pricing is in at this point. By and large -- I'm sure there's probably a couple of accounts out there that are still being discussed. But I think, by and large, all the pricing is in, and as we work those mitigations, if there's opportunity, we'll leverage that opportunity. And I think that's the way to think about it. And then as Jon just said, it's not a peanut butter spread either. I mean, there are places where we had to take more, and we'll see where those mitigations come out. There are other places -- I mean, look at the outdoors business. U.S. manufacturing fully vertically integrated, and we had a lot of competition in the last couple of years, frankly, some of it dumping in the market. And now that business will be hugely advantaged by the

geopolitical and tariff opportunity. And so, thinking through there, well, how do you manage that? And we have the largest facility. How we're going to handle the volume that might come our way, and how do we balance that with pricing. And so, there's a different way of thinking about a similar issue that's impacted by the tariff I think in a very different way.

**Jon Baksht**

Yeah. And, Steve, the only thing I'd add is when you're looking at the math just from last quarter to this quarter, the one thing to also keep in mind is, when the tariff rates come down -- and a lot of them have come down since the last quarterly call. Some have gone up, but several have come down and meaningfully down. The mitigation actions from the supply chain affects that we've put into place, that also comes down because we measure those last call off of the baseline higher tariff rates for certain countries than they are today. So, [inaudible] to Nick's point, we're running these models every day. So, it's -- they all -- there's a lot of factors that go into it.

**Stephen Kim**

Got you. Okay. Thanks so much.

**Nick Fink**

Sure.

**Operator**

Our next question is from Mike Dahl with RBC Capital Markets.

**Mike Dahl**

Thanks for taking my questions. Just a follow up with a couple more on tariffs. Sorry to beat the horse here. On the ex-China piece, can you give us an update on some of these tariff rates have been moving around kind of what your what your largest country exposures are? And then I didn't hear you mention copper as being contemplated. There's obviously some moving pieces and puts and takes with copper, but if you've done any quick work to give us a sense of how that would impact I know probably not this year, but as you think about kind of an annual impact maybe looking to next year.

**Nick Fink**

I'll just start with the copper, and then I'll hand it over to Jon. And I'd say at this point, what we understand to be contemplated by copper does not have a material impact. Now, we'll see the HTS codes when they come out, but that's not our understanding of where it's come out this far. And so, we don't see that as a huge impact. That's [inaudible] -- let's give it a few more days or week or whatever it is before we see that, but we didn't see anything particularly alarming in the copper piece.

**Jon Baksht**

Yeah. And as it relates to the rest of the world piece, just to give you some more color there. I mean, it's a longer tail. So, China is the most meaningful and at about half. And then beyond that, it's really a lot of different countries. But if you were to take number two, it's probably Mexico, non-U.S. MCA Mexico. But again, it's not nearly as material. It is a long tail.

**Mike Dahl**

Okay. And would the largest be on Mexico, the other Southeast Asia countries? I guess that's just clarifying. And the second question again, given some of these moving pieces, if there's any help you can provide in terms of you often give some quarterly directional cadence around how to be thinking about margins and sales by business. I think that would help just given such a dynamic environment.

**Nick Fink**

Well, I'll just say on other countries, and Jon can answer the other piece. But I just -- recall -- and [inaudible] like a lot of people in our sector are importing finished goods from Southeast Asian countries, and we certainly have some Southeast Asian countries in the mix. But for the most part, we're a U.S. manufacturer and U.S. assembler. And so, most of our tariff exposure is coming from that sort of remaining piece of the supply chain that today we've only made in China. That's sort of like getting down to the 10% that we then bring over here and assemble in the U.S. And so, that is the vast majority of the exposure. And what we'll do is work over time to create other sources for that component and then continue to leverage what is ultimately U.S. manufacturing. That's our goal.

**Jon Baksht**

And if you're looking for some of the back half some guidance, so if you look at our earnings release, we did reintroduce the table there that does have segment breakdowns for the full year that can give you some information around what we're expecting for the back half of the year. So, if you look at water, for example, just starting there, for the full year, we're looking at negative 3% to negative 1% on net sales, and operating margins for the year at 23% to 24%. Outdoors where net sales basis flat to 2% with an operating margin of 14% to 15%. And security net sales negative 1% to 2% and margins at 16.5% to 17.5%.

**Mike Dahl**

Okay. Thank you, both.

**Jon Baksht**

Thank you.

**Operator**

This concludes our question-and-answer session. Thank you for joining today's conference call. You may now disconnect.