Fortune Brands Innovations, Inc.
Fourth Quarter and Full-Year 2023 Earnings Conference Call
January 30, 2024

<u>Presenters</u>
Leigh Avsec, Vice President of Investor Relations and Corporate Affairs
Nicholas Fink, Chief Executive Officer
Dave Barry, Chief Financial Officer

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

Operator
Good afternoon. My name is Paul, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fortune Brands' Fourth Quarter 2023 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 like to turn the call over to Leigh Avsec, Vice President of Investor Relations and Corporate Affairs. You may begin the conference call.

Leigh Avsec
Good afternoon, everyone, and welcome to the Fortune Brands Innovations' Fourth Quarter and Full Year 2023 Earnings Call and webcast. Hopefully, everyone has had a chance to review the earnings release issued earlier. The earnings release and audio replay of this webcast of this call can be found in the Investors Section of our website, fbin.com.

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 income, margin, EBITDA, earnings per share or cash flow on today's call will focus on our results on a non-GAAP before charges and gains basis, unless otherwise specified. Please visit our website for our reconciliations. Joining me today on the call 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?

Nicholas Fink
Thank you, Leigh, and thank you to everyone for joining us today. Our focus for 2023 was to advance the transformation of Fortune Brands Innovations by prioritizing long-term sales growth, preserving margins and generating cash, while also making key investments in brand building and innovation, our ongoing digital transformation, and in long-term capacity additions. Our teams executed well and delivered solid sales and margin results and excellent free cash flow performance amidst a challenging 2023. The actions we took over the past year to better leverage the strength of our aligned organization and sharpen our focus on our leading brands, meaningful innovation, and our advantaged channel relationships give me the confidence in our ability to outperform in 2024 and beyond.

Before we get started, I want to take a moment to thank the thousands of Fortune Brands Innovations' team members across the globe for their continued dedication and commitment to excellence. As I reflect on our first year as Fortune Brands Innovations, I'm immensely proud of how our associates have come together, ahead of even my expectations, all working toward a shared vision. Our people are the foundation upon which our business is built and are the drivers of our next phase of growth.

On this call, I will walk through the highlights of our fourth quarter and full year 2023 performance. I will also offer some thoughts on the current macro environment, and why we believe Fortune Brands is uniquely positioned now more than ever, to deliver on our commitment of long-term growth and sustained value creation. I will then turn the call over to Dave for a discussion of our fourth quarter and full year financial results and our performance expectations for 2024.

For the fourth quarter, we saw net sales of $1.2 billion, a 3% increase over 2022. Fourth quarter organic sales adjusted for the impact of the 53rd week and FX were down 3%. We believe our POS for the quarter outperformed the broader market by about 100 basis points. Our organic fourth quarter sales reflect continued sequential improvement in year-over-year performance as market fundamentals gradually improve, and our teams continue to focus on delivering above market results.

Fourth quarter 2023 EPS were $0.95. As Dave will describe, our year-over-year EPS performance was impacted by a one-time benefit related to the Cabinets separation and the 2022 53rd week. Operating margins for the quarter were 15.8%. For the full year 2023, our teams delivered net sales of $4.6 billion, a decrease of 2% over 2022. Full year organic sales adjusted for the impact of the 53rd week and FX were $4.4 billion, down 6%.

As the year progressed, we saw improvement of our point of sale results versus the broader market, and our POS for the full year 2023 finished slightly ahead of our estimates for the broader market. Our 2023 free cash flow was approximately $800 million. Our impressive cash flow performance is just one proof point of the power of our newly aligned organization to drive efficiency faster.

Our full year operating margins were 16%, and our full year earnings per share were $3.91. Our year-over-year EPS results also reflect the impact of one-time 2022 items. Our strong balance sheet and advantaged capital structure enabled us to strategically deploy capital, both organically and inorganically. In 2023, we opportunistically repurchased $150 million worth of shares, and today announced that our Board of Directors has approved a new $650 million share repurchase authorization, demonstrating the confidence we have in the continued strength of our business, as well as our focus on creating long-term shareholder value.

In 2023, we completed our transformative acquisition of the Emtek premium and luxury door and hardware business, and the U.S. and Canadian Yale and August residential smart locks business at an extremely attractive multiple. The integration is going very well, and these brands are continuing to perform above our expectations. These brands are ready proving that they have the potential to be strong accelerants to our connected product and luxury portfolio strategies.

Stepping back to put our performance in the context of pre-pandemic norms versus 2019, we delivered an organic sales CAGR of 4%, which we estimate outperformed the market by 150 basis points and we grew our EPS at a 13% CAGR. While broader market demand over that period was lackluster, the fundamentals underlying the market were not, and we expect to see demand accelerate in the coming years. We have a proven track record of long-term outperformance regardless of the external environment, and I remain confident in our ability to continue delivering market beating results, investing in long-term growth and expanding margins.

2023 was a year of execution, as we worked to refine and integrate many of the transformative actions we took towards the end of 2022. There are already many tangible examples of what we have achieved but the best is yet to come. Our Fortune Brands advantage capabilities are now more effectively deployed across the organization, allowing us to advance our growth and margin journeys by reducing cost, optimizing our pricing and enabling our high growth focus areas like connected products, luxury and outdoor living.

Our organization's more efficiently structured, our planning processes are more streamlined, and we can now more effectively deploy and reallocate capital to internal priorities with the highest potential rate of return. Our businesses are now more appropriately supported by best-in-class centers of excellence, including cohesive branding strategies, and accelerated new product developments. We are better able to make the right investments that will offer the best returns.

We recently created a connected products group within our aligned organization by leveraging our acquisition of Yale and August, and together with our internal digital team and capabilities, this group is responsible for the development and execution of our connected and digital strategy across the portfolio. We believe our connected products group is optimally designed to share best practices, talent and insights across our harmonized (PH) platform and will drive our market leadership and new avenues for exceptional growth. Our newly aligned and more efficient supply chain and operations organization was able to achieve our near term inventory target levels ahead of schedule and helped drive our impressive cash flow performance.

Our recently established transformation office has been instrumental in integrating our newly acquired businesses, while also focusing the right resources on some of the most pressing challenges as well as some of the most exciting opportunities facing the business. Our leading brands and quality products inspire loyalty and confidence in categories where brands matter. Our brand power, innovation and best-in-class service provides a unique value proposition.

Our focus on innovative products and operations are drivers of growth, productivity enhancement, and margin expansion. And finally, our excellence and experience in multi-step distribution fosters strong our channel relationships with key customers, like production homebuilders, and large wholesale partners. We remain focused on those parts of the market where we believe there are outsized opportunities for growth. These include categories like connected products, luxury, material, conversion and outdoor living, and sustainability and safety.

Focusing on our digital and connected products, our modern smart water network and our connected residential locks business offer incredible growth opportunities. In 2023, we are approached $250 million in annualized sales from connected and digital products with a large and growing user base. We believe the long term opportunity for our digital and connected sales could be in the billions, as we work to introduce new products and revenue streams and convert existing mechanical products into more innovative and advanced connected and digital products. Importantly, we remain committed to our philosophy of ensuring our products offer real solutions to make life easier, safer and more sustainable. I encourage you to visit our website to learn more about our digital and connected product opportunity and watch our new video, which helps illustrate why Fortune Brands is optimally positioned to win in this exciting space.

Now turning some thoughts on the market for our products. As we enter 2024, we are starting to see signs that we may be reaching the demand trough and consumer, and trend data indicates growth should return in the not distant future. The need and desire for homes remains incredibly strong and our products are optimally positioned in the context of the larger macro environment. As is well understood, the U.S. continues to be massively under built with many first time and existing homebuyers waiting on the sidelines, eager to reenter or enter the market when rates normalize.

The December 2023 Fannie Mae Home Purchase Sentiment Index improved significantly, reflecting increased consumer confidence and expectations of future rate decreases. Finally, home equity and stock market wealth has rapidly expanded versus 2019 levels and households have been forming at elevated rates. Once the Fed definitively signals the end of rate tightening, we would expect interest rates to begin to return to historically normal levels and a corresponding significant return to growth in the housing market.

Within the larger housing market backdrop, we believe certain products and categories have opportunities for above market growth due to their idiosyncratic attributes, and this is where we are focused. Additionally, smaller ticket items, including those in our portfolio, with strong brand and feature benefits tend to outperform in softer environments. While it is difficult to call when exactly a recovery will occur, we believe this fundamental demand, together with our strong and optimally positioned brands, will result in medium to long-term tailwinds for our business in both new construction and repair and remodel.

Starting with new construction, as we communicated on our last call, we expect the single family new construction market to return to growth in 2024. As a reminder, new construction represents around a quarter of our total sales and our businesses, particularly our Moen and Therma-Tru brands enjoy very strong relationships with many large national production builders. We are just now starting to see growth in this channel as evident by recent POS improvement in Moen showerhead values and Therma-Tru wholesale, and this should be a tailwind into 2024.

Turning to R&R, the R&R market remains dynamic, 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. As we indicated during our third quarter earnings call, we expect the R&R market for our products to be down low single digits in 2024. Despite our continued soft demand environment as we enter 2024, we're confident in the mid to long term trends for R&R, which have proven to be exceptionally consistent over time.

We believe the current combination of high home equity levels, low supply of homes, aging housing stock, and the fact that many homeowners are living in homes they purchased with low, or no mortgages will cause many people to rethink their existing space and undertake R&R projects to turn what they have into what they want. Indeed, a recent study highlighted that homeowner dissatisfaction rate has doubled since 2021. As homeowners look to update and upgrade their homes with products that delight and meaningfully increase the enjoyment and functionality of their homes, our branded, innovative and high quality products will help fulfill that need.

Now turning to our individual businesses, starting with Water Innovations. This segment delivered above market sales as its leading brands, innovative products, and strong channel relationships continue to drive its performance. We believe our organic POS outperformed the market for our products by low-single digits for the full year 2023. Our results over the last four years give us confidence in this segment's continued ability to outperform the market.

Our four year organic net sales growth CAGR of 4% is 140 basis points above our broader market estimate. During this four year period, we also saw 130 basis points of margin expansion. We remain confident that the business will maintain its market beating top line performance with margin appreciation over time.

Looking forward to 2024, we continue to focus on delivering above market sales performance across the segments. We plan to continue to make thoughtful investments in our key priorities, including branding and marketing, digital and capacity. We expect to open to new facilities in 2024, including a new, highly efficient West Coast distribution center for Moen, and a state-of-the-art UK 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 look forward to seeing many of you at the upcoming Kitchen and Bath Show in Las Vegas, and I would encourage everyone to come visit our booths to see the tangible results of the strategy firsthand.

Moen is also well positioned to capture the outsized growth associated with the secular tailwinds of connected products and sustainability. Our Moen brand proposition is only strengthening, and our recent brand survey work indicates that we are the most trusted Kitchen and Bath faucet brand in North America and are perceived as the highest quality as well as the most innovative. A great example of our focus on meaningful, impactful innovation is our smart water network led by Flo by Moen.

Flo is our AI-enabled connected leak detection product and is the hub of the moment smart water network. Flo has the potential to save billions of dollars in insurance claims and offers a workable solution to many water and energy conservation needs. It is so rare to have the opportunity to develop an entirely new market for a product that is good for people, good for the planet, and good for business, and I am very excited to see what this incredible product and ecosystem will do.

Our House of Rohl portfolio has performed well as our brand product and showroom strategy resonates with luxury consumers and designers who have remained relatively resilient. The House of Rohl suite of brands combined with the power of the newly acquired Emtek business is now $0.5 billion business on an annualized basis and is well-positioned to capture an increasing share of the luxury market in 2024 and beyond. We are making key investments in capacity for the House of Rohl and combined with the customer focus and product design work that Emtek is known for, we're excited about the future of our luxury portfolio.

Finally in China, the housing market continued to be weak, and consumers remain cautious. However, by focusing on thoughtful innovation and proactively transforming as the Chinese housing market evolves into an increasingly R&R focused market, our Moen China business has strongly outperformed the market. We continue to expect big things from this business as it serves as an innovation engine for our larger water business and offers attractive optionality for future opportunities when the market returns to growth.

Turning to outdoors, our full year results for both sales and margins reflect the soft market and inventory actions in the first part of the year. Looking forward, we are focusing on the most profitable and highest returning opportunities in this space. As we accelerate our journey to evolve the brands in our outdoor segment, we're excited to unveil our comprehensive collection at the upcoming IBS industry Show in Las Vegas. Finally, we are increasingly leveraging the strong relationships we have with our channel partners as a result of the long standing partnerships in our Therma-Tru business.

Our Fiberon business is a great proof point of the power of our strong channel relationships. Our POS data indicates that our Fiberon wholesale sell through consistently paced ahead of the market with strong sequential improvement throughout the year and exited the year up mid-single digits versus last year and above the market. As people invest in their outdoor spaces, we continue to believe composite decking will gain in popularity as consumers and the trade increasingly understand the value proposition of our advanced material decking products. I am pleased with the progress the team has made and as we enter 2024, this business is well-positioned.

Our Therma-Tru and Larson brands continue to remain the brands of choice as consumers and trade professionals gravitate toward their value proposition. In the coming year, we will be introducing some innovative and fashionable new products for Larson, at key price points within our portfolio. We continue to explore new synergistic product offerings between our door brands and our larger portfolio, including Emtek hardware, and Yale connected locks, which we expect to drive incremental future growth. Our Therma-Tru doors enjoy long standing relationships with large production homebuilders and while the slowdown in new construction starts impacted us in 2023, we believe this to be a tailwind for the business in the coming year, as we exited the year with positive wholesale POS with Therma-Tru.

2023 was a year of continued transformation for the outdoors business as the team's worked hard to make the business operate more efficiently. Our margin results in the fourth quarter were proof of our commitment to delivering on margin progress. Longer term, we continue to be confident in the secular tailwinds driving the conversion to advanced, more sustainable materials in outdoor living.

This segment's long-term performance is impressive and demonstrates our ability to outperform even in the face of volatile and challenging environments. Our four year net sales growth CAGR for this segment is 6% on an organic basis, which outperformed our estimates for the broader market by 210 basis points. During the same period, we also saw 240 basis points of margin expansion on an organic basis.

Finally, our security segment performed very well in the quarter and in the year, with above market sales growth and significant margin progress. We have worked hard to transform this business from a GDP growth business focused solely on padlocks and safes, into an innovative and growth-oriented business and is able to take advantage of strong secular trends like connected products and safety. We announced several significant actions in 2023, including the transformation of our supply chain, and the addition of the connected locks team. Yale and August are expanding relationships with large home centers, and we recently announced a significant partnership between Airbnb and our Yale and August smart residential products. In addition, our connected lock products continue to receive critical acclaim and attention, including a recently launched Yale Assure Lock 2.

Our master lock security businesses now around one-third industrial and commercial and we have developed a niche in the critical and growing remote access portable security space across the globe. We're proud of how our business is helping companies around the world protect their people and their assets. Our four year organic net sales growth CAGR for this segment is 3%, which outperformed our estimates for the broader market by 220 basis points. During the same period, we also saw 380 basis points of margin expansion on an organic basis.

To recap, 2023 was a year of transformation and execution for Fortune Brands, setting the stage for future acceleration. I am immensely proud of everything that our teams achieved this past year by executing on our commitments in a challenging macro environment and investing in key long-term growth priorities. In 2024, which Dave will speak to in greater detail, we will continue focusing on driving above market growth by selectively pursuing the most attractive growth opportunities.

We expect to return to margin expansion, and we'll remain focused on generating cash and deploying capital effectively. We will execute on our largest strategy of focusing on those supercharged parts of our categories, which have the potential for incremental growth opportunities. Additionally, we will manage any periods of continued softness while actively positioning Fortune Brands innovations for the future. We will be a stronger, more efficient business that will accelerate when the markets return to growth.

I will now turn the call over to Dave.

Dave Barry
Thanks, Nick. As a reminder, my comments will focus on results before charges and gains to best reflect ongoing business performance. All comparisons will be made against the same period last year, unless otherwise noted. As Nick highlighted, our teams executed well and delivered solid sales and margin results and strong free cash flow performance amidst a challenging market. For the fourth quarter, sales were

$1.2 billion, up 3% and organic sales were down 3% when adjusting for the impact of the extra fiscal week and FX. Consolidated operating income was $184 million, and total company operating margin was 15.8%. EPS were $0.95 or down 11%.

Our year-over-year EPS growth rate was impacted by prior period one-time items related to the cabinet separation and the extra fiscal week in 2022. Fourth quarter free cash flow was approximately $140 million. For the full year, sales were $4.6 billion, down 2% and organic sales were down 6%, excluding the 53rd week and FX. Consolidated operating income was $738 million. Total company operating margin was 16.0%. Our EPS were $3.91. Our total free cash flow generation for 2023 was an impressive $799 million.

To reflect on 2023, a recent study by the NAHB found that the highest mortgage rate seen in 20 years, combined with continued home price appreciation, resulted in the Housing Affordability Index falling to its lowest level in over a decade. These external conditions impacted demand for our products. However, our teams focused on executing key strategies and leveraging our strength in brands, innovation and channel to deliver solid results.

As we enter 2024, we are starting to see signs that demand may be reaching a trough, and we remain highly focused on long-term outperformance. We are committed to pursuing above-market growth, expanding our margins and will remain focused on generating cash while continuing to deploy our capital in effective and impactful ways. I am confident in the ability of Fortune Brands to continue to make progress towards our previously communicated long-term targets, while focusing on those immediate opportunities to drive accelerated growth.

Now, let me provide more color on our segment results beginning with Water Innovations. Sales for the fourth quarter were $663 million, up 3%. Organic sales were down 2%, excluding the impact of the 53rd week and FX. Fourth quarter sales results were driven by POS down low single digits. For the year, sales were flat, with organic sales down 5%, excluding the impact of the 53rd week and FX.

Looking forward, we expect continued R&R softness into the first part of 2024, although there are certain parts of our market, including single-family new construction channel, which are showing signs of growth. Water Innovations operating income was $144 million in the fourth quarter. Operating income for the full year was $583 million. Operating margin was 21.8% for the quarter and 22.7% for the full year. Consistent with our larger returns-focused investment strategy, our Moen brand investments are generating results. Additionally, we are making key investments in capacity for our House of ROHL luxury portfolio, and combined with the customer focus and product design work that Emtek is known for, we are excited about the future of our luxury brands.

China sales declined high-single digits in the fourth quarter and for the full year. The Chinese market remained soft throughout 2023, and though the completion of delayed projects accelerated, new home sales and starts continue to decline as the Chinese consumer remains cautious. However, as we have stated, our team's performance has been nothing short of remarkable with double-digit outperformance versus a larger market, and we are confident we will lead as that market evolves to R&R-led growth.

Turning to outdoors, fourth quarter net sales were $309 million, down 7% and were down 6% when adjusting for the impact of the 53rd week and FX. For the full year, sales were $1.3 billion, or down 12% and were down 11% when adjusted for the 53rd week impact and FX. Importantly, our sales improved sequentially versus the prior year throughout 2023. For doors, which includes our Therma-Tru, Larson and Solar Innovations brands, sales were down high single digits in the quarter. R&R softness was partially offset by low single-digit new construction growth. Recent data indicates we are starting to see growth in our products that served single-family new construction, which should be a tailwind in 2024.

Decking sales were down mid-single digits in the quarter, as weaker retail sales offset our strong wholesale channel POS. We remain focused on the most profitable and attractive portions of this growth category. Outdoor segment operating income was $43 million during the quarter, down 7%. Operating income for the full year was $174 million, reflecting operating inefficiencies and our first half inventory reduction actions. Segment operating margin for outdoors was 13.9% in the quarter and 13.0% for the full year. Importantly, our fourth quarter operating margins were 10 basis points higher than our fourth quarter 2022 results on lower net sales.

Finally, our security segment performed well in the quarter and in the year with fourth quarter sales of $189 million, up 20%. Fourth quarter organic sales were up 4% when adjusting for the impact of the 53rd week and FX. Our fourth quarter operating margins were 17.2%. Full year sales increased 14% to $723 million and organic sales increased 3% when adjusting for the impact of the 53rd week and FX.

Our full year operating margins were an impressive 16.0%, up 90 basis points from 2022, and we saw sequential improvement every quarter this year. The performance of this segment is a direct result of our application of the Fortune Brands Advantage capabilities as we have focused on higher growth opportunities and greater efficiency. Looking forward, we expect to continue to see growth and margin progress in this increasingly optimized business.

Turning to the balance sheet, our balance sheet remains strong with cash of $366 million, net debt of $2.3 billion and our net debt-to-EBITDA leverage is 2.5 times, reflecting our commitment to de-lever following our midyear acquisition. We finished the year with the full $1.25 billion available on our revolver. We purchased $150 million of shares in the full year, including $20 million in the fourth quarter.

Our 2023 free cash flow of $799 million reflects the performance of our business and our lower working capital due to specific initiatives to shrink our balance sheet. Our outstanding cash flow performance this year is a proof point of the power of our newly-aligned organization and demonstrates how the entire Fortune Brands organization is effectively working together.

In summary, our teams delivered solid 2023 results while continuing to strategically invest to best position the company for long-term growth, including investments in innovation, brand building and our digital transformation. We worked to transform into an aligned and increasingly agile organization that is prepared to respond to any macro conditions. As Nick outlined in his remarks, we believe that Fortune Brands is uniquely positioned now more than ever to deliver on our commitment of long-term growth and sustained value creation. We have a proven track record of outperformance. I remain fully confident in our ability to deliver results by focusing on those categories where there are unique growth opportunities and where we have the right to win.

Before turning to the details of our outlook for 2024, let me first provide some thoughts on the market backdrop. As a reminder, our market outlook reflects our best estimate of when our products are consumed, the timing of which may differ from macro trends due to lag effects. For 2024, we expect the global market for our products to be flat to down 3%, with the U.S. housing market flat to down 2%. Within this market forecast, we expect U.S. R&R to be down between 2% and 4%, U.S. single-family new construction to be up between 5% and 7%, with starts up mid-single digits and completions up low single digits, and the China market for our products to be down between 7% and 9%.

We expect the market in the first half of the year to be below the midpoint of our full year range as R&R remains at the lower end of our estimate. As the year evolves, we will continue to monitor market trends as well as our performance, and we'll update our guidance if warranted. Based on those assumptions, we expect full year net sales to be up 3.5% to 5.5% with organic net sales down 1% to up 1%. We expect operating margins between 16.5% and 17.5%, the midpoint of which implies 100 basis points of margin improvement.

We expect operating leverage of around 40%. Margin improvement is expected to be driven by internal productivity initiatives, partially offset by incremental investments, favorable fixed cost leverage and favorable price cost. We expect each item to contribute roughly equally to our margin expansion and have good line of sight to delivering this improvement. Based on these assumptions, we expect full year EPS within the range of $4.20 to $4.40, the midpoint of which represents a 10% increase versus our 2023 results.

Now, let me speak to our outlook for each segment as it relates to our overall guidance. We expect water net sales up 3% to 5%, with organic net sales down 2% to flat. We expect segment operating margins between 24% and 24.5%, outdoor net sales to be up 1% to 3%, with segment operating margins between 13.5% and 14.5%, security net sales up 10% to 12% with organic net sales flat to up 2% and operating margins between 15.5% and 16.5%. We expect 2024 free cash flow conversion of around 100% of net income which implies free cash flow of around $520 million, including capital expenditures of around $200 million.

Consistent with our track record, following organic investment and paying an attractive dividend, M&A and opportunistic share repurchases remain our top allocation priorities. Today, we announced that our Board approved a new two year $650 million share repurchase authorization to ultimately replace the current authorization, which expires this March 1st. This new authorization signals our continued confidence in the strength of our business and our commitment to driving long-term value for our shareholders.

As discussed, we are going into 2024 as a more aligned and focused organization, well positioned for acceleration when the market returns to growth. We remain confident in both the long-term fundamentals of our market and our ability to outperform by focusing on those parts of the market with the best opportunities for long-term growth while making progress on our margin journey and generating cash.

I will now pass the call back to Leigh. Thank you.

Leigh Avsec
Thanks, Dave. 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 to the operator to begin the question-and-answer session.

Operator
If you would like to ask a question, please press star, one, on your telephone keypad at this time. A confirmation tone will indicate your line is in the question queue. You may press star, two, 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 star, one, to register for a question at this time.

Thank you. Our first question is from Susan Maklari with Goldman Sachs. Please proceed with your question.

Susan Maklari
Thank you. Good afternoon, everyone, and congrats on a good year.

Nicholas Fink
Hey, Sue.

Susan Maklari
Hello. My first question, Nick, is thinking a bit about the business strategically, you're obviously coming into the year, having had a lot behind you with this spin of cabinets, the acquisitions in there, and one of the things you mentioned in your comments is a focus on growing the core, accelerating investments in the connected products and that initiative. Can you talk a bit more about that, how you think of the opportunity there and the way that, that can potentially come together?

Nicholas Fink
Yeah, happy to, and those two things are both separate and interconnected, so I'll talk about them. But if you just start with the core, I mean it is pretty much printed in the DNA of our team, that the core of the business has to be healthy, right? So the core brands, how we drive them, our channels, how we serve our customers, etc. And if you think back to the remarks we just made, all of those brands, over a long period of time, have gained share and delivered margin improvement. And that combination is actually very, very important because to us, margin improvement isn't just about additional dollars to the bottom.

It certainly is a lot about that, but it is also about the fact that we are building healthy businesses that therefore have the rocket fuel to reinvest in those businesses and continue to keep that core really, really healthy. And so in that core, strong investment in brand. Even in a softer year like '23, we continue to invest in the brand and saw some really great results across the brand portfolio, making some significant strides. Even off of strong basis, a brand like Moen growing awareness, growing in consideration, even though it was starting off from the top spot for that.

Investing in innovation, the pipeline is really, really healthy. We continue to target 25% to 30% on new product sales for innovation, which we think it's a very healthy ratio. Which is a ratio, in fact, not just helping on itself, but it also tells you our core remains healthy because it's not driving all the sales. And then investing in our channel, and our channel advantages and serving our customers, and so that taking over the longer term, really bolts our historic organic CAGR, which is 7%.

And then we look to the supercharge categories of which connected is the leading one that can really drive an incremental growth over time and become future cores of this business. And that's why we work together as a team to really create the scale, things like creating a connected products group across the whole company, leveraging our digital know-how, combining as we did with Yale and August, to really start to make a big strides in there because while smaller today than the core business, compounding at the rate that it's compounding at from a growth perspective, it doesn't take off a whole lot longer before that really starts to be material. And then that's what will drive the growth rate above the historical 7% organic CAGR, and so we're very excited about that.

What's really important though, because you through the parallel between the two, is the symbiosis between both of those things. And what we've found is as we've continued to invest in this type of innovation, things like connected, that it really resonates back into the core brands. And consumers are looking for innovative brands, they're looking for tech forward brands, particularly as we see younger consumers come into their first time home buying years, are very attractive to that. And so whether or not they may be an immediate consumer of a connected brand, they're seeing it out there. They're seeing it advertised. They're seeing it in the press, and that resonates really, really well back into core health, and so those things we find are working very, very well together.

Susan Maklari
Okay. That's great color. And then perhaps turning a bit, but any thoughts on how you would characterize the health of the consumer today? You talked about the potential to see a lift in R&R activity in the back half of this year. What do you think it takes to see that coming together? And how do you think it could come through across the different products and price points that you are exposed to?

Nicholas Fink
Yeah. As we think about the consumer, I think we're coming to a point now where it might be a little bit back to normal, which wouldn't be a bad thing. So obviously, and which is why we pulled out some of the CAGRs from 2019, just for ourselves, as much as help you guys sort of step back and really think about this. But looking across a bunch of consumer data, firstly, I think we've all been surprised at the resiliency of the consumer. They've had a lot to digest over the last few years, but as I look at the data, I mean, things like searches for home renovation continue to be up versus pre-COVID year. I think it was 13%.

We're seeing intent to purchase at or above long0term averages for all of our product categories. And then, of course, on top of that, you just have the fundamentals, the under built, very aged housing stock. Now, I think, $33 trillion in home equity and the very low supply of homes against aged housing stock. And so you have all of that backdrop.

I think when there's a lot of noise as there was in '23 about rates and home prices, you do cause consumers to step back a little bit and reconsider, and I think we saw that through some of the data. But I think hopefully, now we're coming to a point where that underlying pressure of either wanting new or wanting to renovate does start to turn, and so it's hard for us to call exactly when. We did see sequential improvement through all of last year, which was a positive. We're being cautious about the first part of this year in particular, and it's been a slow-ish start with the cold snap that we had a couple of weeks ago. But over the long term, I think our consumer is resilient. They're focus on the home. It's coming through the data points that we're looking at, and as that returns to growth, we absolutely expect this business to accelerate into that.

Dave Barry
Yeah. And hey, Sue, this is Dave. I'd add a little bit of color just behind what's embedded in our guidance. In our base case, assumes a 30-year fixed-rate mortgage of between 6.5% and 6.75%, which is an improvement over 2023, but still challenging around housing affordability from where we were pre-pandemic to shortly after the pandemic. Our teams have modeled what if rates dropped closer to 6%, closer to 5.5%, and from what we can see, a 50 basis point move in interest rates roughly equates to 50 basis points of incremental growth for our business on a full year basis. So to Nick's point, we've built this guide and this plan with what we see today and with some of the tailwinds coming out of 2023, and the team will remain agile around demand if affordability improves throughout the year beyond what we're expecting.

Susan Maklari
Okay. That's great color. Thank you both and good luck with everything.

Nicholas Fink
Thanks.

Operator
Thank you. Our next question is from Truman Patterson with Wolfe Research. Please proceed with your question.

Truman Patterson
Hey, good afternoon, everyone. Thanks for taking my questions. First question, kind of in general for vendors, there's been some comments about home centers pretty aggressively trying to claw back some of the pricing over the past couple of years, as well as some builders. I'm just trying to get an update on negotiations there. If you all haven't seen any pricing changes, what makes your products a bit more defensive, if you will? And any products, brand segmentation that might be a little bit less susceptible to maintaining price?

Nicholas Fink
Sure, Truman. I'll give some broader perspectives, how we think about pricing strategy generally and then some of the things that we're seeing in price interactions, and Dave may add some color. But I'll just step back for a second. As I said earlier, of course we're hoping 2024 comes a little bit more kind of return to normal. And if you think about our brands and our categories fundamental to our ability to invest in brain building, invest in innovation and even invest in those channel relationships, these are very consistent, thinking of price, in fairly small incremental that's year in and year out.

And because we do it that way, even in the height of the inflationary period through COVID, you'd see a business like our water business only take low single-digit pricing because we were keeping up the whole way through, and we were able to manage both pricing and margin. And so that pricing philosophy is very critical to the way we think about the business and a big expectation of our leaders here because it is the fuel that allows us to reinvest into the life of consumers and customers.

Now, as you look across our portfolio, in particular, we tend do not play at the entry level. All of our brands are brands, they're more premium and up. And we're seeing that in some of the share interactions. I was just a couple of weeks ago here some data with our teams, so we could see some of our brands increasingly interacting with price points above and not below, right, which is really positive sign of that we're sort of not interacting with things like private label.

The other thing I would say that we've done as part of the Fortune Brands advantage is invested heavily in our category management store set. And that is really leveraging data and analytics to understand the consumer, understand the category and understand the shelf. And by understanding the way those things work together in the elasticity, that allows us to go into some of our big customers such as the home centers and actually make price adjustments, sometimes some go down, but net up in a way that we know is going to generate velocity and gross margin that we can share with our channel partners.

And that's been a super successful approach. It has really changed the discussion for us from a kind of win-lose, lose-win to a win-win because it's much more about shelf management and delighting consumers and meeting them where they are, than it is about just moving it from one pocket to the next. So I do expect in '24, we'll see discussions around pricing in one pocket or another, but as we look for those opportunities to put prices where we can, it's going to continue to be a net contributor to our growth in '24.

Dave Barry
And Truman, as we discussed last quarter, we continue to assess and implement strategic price reposition and promotions where they make sense to drive a return. So to Nick's point, leveraging our data, our category management capabilities that we've built across the business over the past few years, to really be strategic around those price repositions and drive a return. If you look at 2023, our results included a positive low single-digit contribution from price and our 2024 guide also includes a positive low single-digit contribution from price. As Nick mentioned, once we are just back to our normal pricing philosophy pre-pandemic of incremental price each year supported by investments in brands and innovation, that actually ultimately drive more value to the consumer and to our customers at the end of the day.

Truman Patterson
Okay. Perfect. Thank you for that explanation. When I'm looking at your plumbing operating margin guide for '24, some decent expansion kind of gets us back to peak 2022 levels. I'm hoping you can help us think through--earlier you were talking about potential stranded costs, but could you help us think through some of the main drivers from incremental pricing potentially? Is there continued cost takeout as supply chain has improved, raw material, etc., just what's kind of driving that? And I'm asking in light, fourth quarter op margin came in a little bit sequentially, so I'm just hoping to understand the rebound there.

Dave Barry
Yeah. I think regarding the quarter and the year, we expected water to be around 23% for the year and they finished at 22.7%, which in our view, is around 23%. And we're not trying to optimize their margin quarter-on-quarter, so we feel good about where they finished and are confident in our path to 24% to 24.5%. As I highlighted in my portion of the prepared remarks, our margin expansion initiatives are really threefold. So they're internal productivity initiatives driven by our combined organization. Think of these as strategic sourcing, procurement savings, distribution savings, indirect sourcing savings.

We'll have favorable fixed cost leverage, as you'll recall from 2023, especially in the first half. We had some headwinds in the P&L as we reduced our inventory. These did impact the Water margin. And then there is favorable price, cost in water. I'd say, of those three initiatives, water benefit from each of them. And again, keeping with a bit of a theme, it is a return to normal, back to normal margins for them, which we would expect to be 24%, 24.5%. And then our long-term goal of 25% plus, we still see a path to get there as volumes return to that business.

Truman Patterson
Okay. Perfect. Thank you all for the time.

Nicholas Fink
Sure. Thank you.

Dave Barry
Thank you.

Operator
Thank you. Our next question is from Matthew Bouley with Barclays. Please proceed with your questions.

Matthew Bouley
Hey. Good evening, everyone. Thanks for taking the question. First one on the kind of organic growth outlook and maybe the cadence through the year, I think I heard you say that you're thinking the first half of the year would be kind of below the midpoint of the full year range. It sounds like R&R is towards the low end of your full year guide. So any color, there's a couple of pieces. What are you seeing into January? Love to get a little specificity on the outdoors business, particularly given where that business is operating right now, and then just kind of a finer point on what you mean by below the midpoint into the first half. Thank you.

Dave Barry
Yeah. Hey, Matt. This is Dave. I'll start with that one. So if you think about first half, second half around the guide, as we mentioned, we expect the market to be more challenged in the first half versus the second half by probably 100 basis points or so driven by our U.S. R&R assumption. We exited the year with R&R down, probably around 5%, maybe it gets a little bit better in the first quarter, down 4%, 3.5%, 4%, but sequentially then getting better from there.

In the first half, we would expect total sales growth of around 6.5% to 7%, which would imply organic sales down low-single digits. I think that'd be pretty consistent with our POS expectations for the first half, and then the second half would be up 2% to 3% in total in organic, with organic sales up the same low single digits. So what we've seen to start the year, I'd say January has been slow. The extreme cold that came through, we see it impact our POS data which is down mid-teens over the past four weeks in retail and e-commerce and actually consistent with the BofA, the Bank of America credit card data that's published from improvement, also down a similar amount.

But we're seeing demand from new construction activity remains steady and parts of the channel that support that demand have healthy inventory levels. I'd say for the quarter, looking at sales growth of 2% to 4% and operating margins around 14% to 14.5%, which would imply an EPS of $0.71 to $0.75. We do expect margin improvement in all segments in the first quarter versus prior year, and the overall expectations for margin improvement are 100 to 150 basis points ahead of last year, so we feel good about that progress.

And then I'd say outdoor specifically, actually sales to start the year have held up pretty well. We see the channel getting ready for a spring season, which looks promising, so we actually feel good about the order rates in January for outdoors as the channels are putting some inventory in to reflect their expectations through the spring.

Nicholas Fink
Just to add since Dave mentioned the weather, just because it's interesting, we also saw exceptional uptake through our e-commerce channels for Flo over the last two weeks. Now small base, that will take some time to build, but just we're going to dig further into it, but to the extent there's a correlation between a freeze like that. We saw a lot of homes damaged and we did a lot of leaks and kind of seeing it come through in e-commerce was a very interesting sign (ph) to that.

Matthew Bouley
Agree. Yeah, that is interesting. Thank you for that, Nick and Dave. Second one and appreciate all that color. That was perfect. Just a high-level question on cash flow. You're speaking to kind of normalizing to that 100% conversion in 2024. Obviously, the portfolio has evolved relative to where you were before the spin, recent acquisitions. You've got a whole organizational realignment. What's kind of the right way to think about cash conversion through the cycle going forward with the sort of new portfolio as it stands today? Thank you.

Dave Barry
Yeah, I'm happy to touch on that and I think is evidenced by our results this year, the business can and will be extremely cash generative. We drove almost $800 million of free cash flow cash conversion near 200%. And interestingly, if you step back and look at the prior three years for this business, we're now averaging over 100% cash conversion, and so I feel like the end result in '23 kind of got us through the last of the post-COVID supply chain challenges, inventory management challenges, demand swings, and we're back to a steady base.

So going forward, working hard to deliver 100% free cash flow conversion of net income or better, while continuing to invest in the business from a capital expenditure standpoint around key strategic initiatives and capacity where needed. And then I think if you look at what we did with that cash flow, in 2023, we were able to fulfill our capital deployment goal quite effectively. So we've acquired and closed on the assets from ASSA ABLOY, $800 million.

We've invested about $255 million in the CapEx about $160 million of that was for capacity in our water business and Outdoors business. We paid about $120 million of dividends and repurchased $150 million of shares while deleveraging down to 2.5 times net debt-to-EBITDA. And so I think a really good proof point of the aligned organization driving cash and then us deploying it effectively, and we look to continue that going forward into 2024.

Matthew Bouley
All right. Thanks, guys. Good luck.

Nicholas Fink
Thank you.

Operator
Thank you. Our next question is from Phil Ng with Jefferies. Please proceed with your question.

Philip Ng
Hey, guys. The security business had a quite strong quarter from a margin standpoint for 4Q, as well as the full year, but you're guiding to kind of flattish margins for 2024. So I'm just trying to gauge if there was any one-offs in the fourth quarter and why perhaps not a bigger step-up in profitability just because the integration of ASSA seems to becoming along very well?

Nicholas Fink
Yeah. Phil, thanks, this is a great question. Why don't I take just a minute here to give you some perspectives around security and Dave can break it down. But we're feeling really good about the security business, both the top line progress and the margin progress. And again, sort of back to that philosophy, we want a business that can generate healthy margins so we can invest drive growth and move it from what was historically a GP grower into something quite a bit more exciting and the team has executed fabulously on that path. And so we're really there, and we're seeing that progress now. And so before I hand it over to Dave, he'll break it out for you between the organic piece and the acquisition, just know it's made great progress, and we very much feel that this business is on the path to do what we want it to.

Dave Barry
And Phil, I'd say the simple answer, the organic business, will continue to expand margin, and we expect them to deliver a margin in the high teens in 2024. And then as you know, we're absorbing half a year of Yale and August. In that business, the margins are going to fluctuate a bit quarter-to-quarter, just based on investment timing, on and customer generation and load-ins, etc., and so we expect we're comping the acquisition in the first half, so their margin is more like a high single digit. So that's where you're seeing the dilution come into the overall security segment. But the base business is performing well. We're accelerating, as we mentioned in the prepared remarks, accelerating some retail wins, some online wins with Yale and August and really excited about that business going forward.

Nicholas Fink
I'll just add there, on the Yale and August business, our contribution margins comparable to the portfolio and then really investing for double-digit growth with that digital conversion rate.

Philip Ng
Okay. Super. And then, I guess, Dave, you were talking about back to business back to normal in terms of supply chain and stuff like that. Certainly a lot of news flow on the Red Sea side of things, any impact in terms of importing components and stuff of that nature? And then how should we think about inflation as well? Sorry.

Nicholas Fink
Oh, no, no, go on, finish.

Philip Ng
And how should we think about inflation as well? How is that kind of playing out? Has that started to calm down? I do appreciate you guys are expecting a favorable price cost spread, but talk us through some of the components.

Nicholas Fink
Yeah. So I'll start there, and Dave will talk a bit about the inflation. Obviously, the Red Sea and the impacts of the Panama Canal are not kind of lost on us, and those two things sort of working hand-in-hand. Our team has done a great job to maintain service levels. That will mean we will put a bit more capital to work this year to ensure that we don't have disruption for our customers. We may have to put it more expense to work this year to ensure that we don't have service disruptions for our customers, but we always feel that's preferable to protect the business, protect service levels.

It does seem to be improving somewhat in the Panama Canal, which is good news because that allows us to take the lines off of the Red Sea, which has obviously been very challenging. But with the protective measures, we think that we find from customer service perspective and may absorb some one-time capital or other expense in order to do that.

Dave Barry
And then I'd say, overall, Phil, on inflation/deflation. So starting with 2023, we actually finished the year with net inflation in the P&L. If you take into account materials and freight having slight deflation offset by labor and indirect with continued inflation. Looking forward, we do have areas of deflation on the balance sheet that will come off into the P&L, but again, we see inflation above trend in things like labor and indirect and as Nick mentioned, seeing some pressure on freight from what's going on with both the Middle East and through Panama Canal with water shortage and restrictions on capacity. So I would characterize for 2024, our overall COGS base, if you think of that is $2.7 billion. We would expect roughly less than 1% of net deflation when looking at all the inputs and cost over that base.

Philip Ng
Okay. Super helpful. Thank you.

Operator
Thank you. Our next question is from John Lovallo with UBS. Please proceed with your question.

John Lovallo
Good evening, guys, and thank you for taking my questions. The first one is on the $650 million new share repo authorization, which is on top of the $435 million. Just curious how you're sort of thinking about that in the context of doing $150 million last year. But if you go back to '21, you did $450 million. I think you did $580 in 2022, so how aggressive could you guys be and where do repos kind of fit within the capital allocation priority list?

Nicholas Fink
John, great question. So that $650 million in addition too, but that other one expires March 1st, and so then the $650 million will be our go forward until we authorize more, or in fact now, our track record has been to do share repurchases really opportunistically and to look for dislocations in value. We run a returns-focused model against our own plans and we've over time, done really, really well.

I mean, if you look at how it has tended to play out, it's from a sort of priority perspective, always, first and foremost, in our own organic opportunities. Those are the most surest and highest returns. And then just interestingly, the way it tended to work out is kind of 50/50 between share repurchase and acquisition opportunities over the long run. Now, with acquisitions, we also remain very returns focused and so there are some nice things we may take a pass on if we don't feel comfortable that the returns are there, and those might be times where share repurchase is preferable. There will be plenty of capacity, and we'll continue to look opportunistically, but when there are those dislocations, I think our track record speaks for itself. We will be there.

Dave Barry
Yes, I think, John, if you look at 2023 as a good example, we had an acquisition that was of nice size, fewer share repurchases. So it really is that interplay between, right, is there attractive accretive M&A? And if not, can we opportunistically buy back shares? I think the other lever that we watch is our leverage ratio, and we've de-levered faster than we expected following the ASSA acquisition and our continued path to de-lever further in 2024. And as long as cash flow remains strong as we think it will, it gives us opportunity to deploy it effectively, which we will continue to do.

John Lovallo
That's helpful. And then on the $55 million of production impact that you guys are lapping, I know you don't anticipate recovering all of that, but can you just sort of remind us of the magnitude of the impact by each segment and will most of this reversal, whatever the number is, be a first half phenomenon?

Dave Barry
Yeah. So if you think about, just to put it into context, right, we're coming off of a year in 2022 with extremely high production in sales. Sales started to slow second half of '22, and then we pulled back our supply chain hard late '22 into early '23. Our 2024 plan has production more balanced to sales, but we're not at that level that we were in 2022, so that's why we're not fully recovering the overhang that we experienced in the P&L in '23.

I think if you look at the split, it is split between water and outdoors, probably a bit more towards water than outdoors, maybe 60-40 and the timing of it, yeah, it will recover a bit more through the year as we're building, as we're producing in line with demand. And you're not going to have these big production ramps and large favorable absorption in any one quarter.

John Lovallo
Great. Thanks, guys.

Nicholas Fink
Thank you.

Operator
Thank you. Our next question is from Adam Baumgarten with Zelman & Associates. Please proceed with your question.

Adam Baumgarten
Hey, good afternoon, everyone. Just kind of going back to your comment around demand potentially troughing. I think there is a bit more optimism out there, and you cited some of the macro indicators, but anything you're seeing in the business? I know you talked about sequential improvement in a lot of areas throughout the year, but anything you're seeing maybe January aside, given some of the weather that gives more confidence that we're maybe close to a bottom here?

Nicholas Fink
Yeah, I'd say it's more sort of the longer, when I say longer, I mean, more than like three weeks, series of data, Adam. So when we look at the sequential improvement, we look at the drivers, we look at the search data, we look at purchase intent, things like that. I'd say just given January is a lower volume time of the year anyway, and then you throw--I mean, here in this region where we are, that was the coldest sequential data temperature since 1996. On top of that, it just skews the data, so it's very hard to read through. I mean, in that BofA data that Dave referenced, while it was consistent with ours, things like snow blowers and shovels were way up, and so I think we'll need a few more weeks before we can see it definitively in the shorter series, but longer series stuff would point towards that.

Adam Baumgarten
Okay. Got it. Makes sense. And then just on SG&A, maybe how you're thinking about that in 2024 and what a good percentage of sales is from a long-term perspective, just given the shift in the portfolio over the last year.

Dave Barry
Yeah, still, Adam, driving a lot of transformation and so you'll see some incremental investments in 2024, contemplated within the margin guide that we gave. I'd say the teams have built a plan to be thoughtful around those investments and pace them so that they're seeing the top line come through and seeing the margin appreciation come through before we make them but we're pacing those investments. And then I think longer term, as we drive transformation, our goal is to be a top quartile performer.

We want to be efficient. We want to continue to invest in brands and innovation and a lot of the transformation investments we're making today are to get as efficient as we can in the non-core activities in the back of the house activities that aren't as value creating and some of our investments in branded innovation. So that's the long-term goal. I think that's how you would think about it, knowing we'll still make some investments this year to drive transformation.

Nicholas Fink
Sorry, just a quick example of what Dave just referred to, if you look at sort of our corporate line expense. I don't have the actual number in front of me, but I would guess core, kind of core corporate functions probably CAGR growth below inflation and have done really well than historically. And then the rest of the growth in investment is really coming from things like digital, Fortune Brands advantage capabilities, things that will really, over time, continue to drive the transformation of the company and help us grow.

Adam Baumgarten
Got it. That's helpful. Best of luck guys.

Nicholas Fink
Thank you.

Dave Barry
Thank you.

Operator
Thank you. Our last question is from Stephen Kim with Evercore ISI. Please proceed with your question.

Stephen Kim
Thanks very much, guys, appreciate the opportunity to ask a question here. You made a comment, which I thought was pretty striking, Dave. I believe you mentioned that you were incorporating a 6.5% to 6.75% mortgage rate assumption, but I think you said that if mortgage rates came in 50 basis points lower than that, I assume you mean for the full year, that it would add only about 50 basis points to your overall sales.

First of all, did I hear that right because that seems very low? I assume it probably scales dramatically if, let's say, rates are 100 basis points lower or something like that, but can you just give us a little more color around the analytics because I think you said your team sort of ran some numbers and stuff? That would be very helpful.

Dave Barry
Yeah, be happy to, Steve. So looking at the data that we have that we use to create the market forecast, the team sensitized rate environment relative to our demand going back over time and that's what we're seeing. We didn't change our assumptions around outside the U.S. demand, so that could be a piece of it. So that remains down in China, high-single digits in Canada is a bit worse than the U.S. But the math they ran, just as a, I think, a model for us and a guide would be, yes, 50 basis points in rate would be 50 basis points of incremental growth.

I think probably where the model could use some refinement is the R&R data is more murky. We're definitely more correlated to rates new construction than our data and so maybe there's outside growth coming from R&R that we're not picking up. That correlation is harder to see based directly just on rate.

Stephen Kim
Gotcha. Okay. Well, we'll probably take the over on that, but that's fine.

Dave Barry
You're right.

Stephen Kim
The second question, just to clarify, your guidance points, I assume they exclude any impact from an extra week because I was under the impression that you might have an extra week in 2024. Just wanted to clarify that and then also, the D&A ran a little bit hotter than we expected this quarter. Can you give us a sense for what kind of a good run rate would be for D&A?

Dave Barry
Yeah. No extra fiscal week. We're tired of talking about that. So happy not to have one in 2024. And then I'd say for D&A, running close to $30 million.

Stephen Kim
Per quarter, you mean, obviously?

Dave Barry
Per quarter. Yeah, per quarter.

Stephen Kim
Got you. All right. Great. Thanks so much, guys.

Dave Barry
Yep. Okay.

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