



Fortune Brands Innovations, Inc.
Fourth Quarter and Full-Year 2025 Earnings Conference Call
February 12, 2026

Presenters

Curt Worthington, VP of Finance and IR

Susan Kilsby, Board Chair

Nick Fink, CEO

Jon Baksht, CFO

Q&A Participants

John Lovallo - UBS

Phil Ng - Jefferies

Matthew Bouley - Barclays

Stephen Kim - Evercore ISI

Michael Rehaut - JP Morgan

Operator

Good afternoon, everyone. My name is Shamali, and I will be your conference operator today. Welcome to the Fortune Brands Fourth Quarter 2025 Earnings Conference Call. All lines are muted to prevent background noise. Following the speakers' remarks, we will open the floor for a Q&A session. At this time, I will 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 Fourth Quarter and Full Year 2025 Earnings Call. Hopefully, everyone has had a chance to review our earnings release. The earnings release and the audio replay of this call can be found on the Investors section of our fbin.com website. Beginning this quarter, we are also including an earnings presentation, which is also available on our 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 for these non-GAAP financial measures to the most directly comparable GAAP financial measures. With me on the call today are Susan Kilsby, our

Board Chair, Nick Fink, our Chief Executive Officer, and Jon Baksht, our Chief Financial Officer. Following our prepared remarks, we have allowed time to address questions. I will now turn the call over to Susan.

Susan Kilsby

Good afternoon, everyone. Before Nick and Jon outlined our financial results and 2026 outlook, I want to briefly address the leadership transition announcement we made earlier today. Nick has been an outstanding leader of this company since he became CEO in 2020. Under Nick's leadership, the company has made numerous advancements that have truly benefited all of our stakeholders. In addition, Nick has led a team that has navigated an uncertain market environment with agility and poise. We wish Nick all the best in his new role.

Succession planning is something we talk about at the Board on an ongoing basis. The Board approached this transition through a defined, deliberate, and well-structured succession process, one that's centered around ensuring a smooth leadership transition that protects continuity while also positioning Fortune Brands for optimal performance and long-term value creation. As part of this process, we are extremely fortunate and excited to appoint Amit Banati as our new Chief Executive Officer, which will be effective in May. Amit has been on the Board of Fortune Brands for nearly six years, most recently as Chair of the Audit Committee. He has worked closely with the management team and knows the company and this market extremely well, and I believe he is an exceptional choice to lead Fortune Brands in this next phase. Amit will remain on the board as we move forward.

There will be a short period between Nick's departure and Amit's official start date in May. During this interim period, I will manage the responsibilities of the CEO's office. I will work closely with Nick, Amit, and the leadership team to ensure a seamless transition as we continue to drive the business forward. I have been a member of the Fortune Brands Board of Directors since 2015, serving as nonexecutive chair for the last five years. I am intimately familiar with our strategy and our team, have confidence in our ability to create long-term value, and I believe that we have a deep bench of talented professionals who are aligned around our strategic priorities. With that, Nick, I'll turn it back to you to cover our earnings.

Nick Fink

Thanks, Susan, and good afternoon to everyone. Thank you for joining our call. I want to start by providing additional context regarding our results and guidance and be fully transparent about the headwinds we faced in 2025 and are facing in 2026. Our industry saw significant volume deleverage, high single digits, which created intense pressure on profitability, particularly in the fourth quarter. In response, we have initiated a comprehensive profitability reset. In 2025, we reduced our headquarters workforce by around 10% and captured 60 million in continuous improvement savings. We've already identified initiatives to optimize our operating footprint and cost structure in 2026, which will lead to an estimated annualized run rate operating income savings of \$35 million by year-end. This \$35 million is not included in the 2026 guide, and the team is working on a broader cost reduction program for 2027 and 2028, which will be communicated over the next couple of quarters. But let me be very clear. We are not satisfied with our profitability today. The entire team is doing the work to identify further opportunities to structurally improve our company's performance and return the business to the level of profitability that we expect. That includes a comprehensive review of our cost structure to identify efficiencies to drive shareholder value over time.

At the same time, while we remain in early stages, we are seeing progress on our growth strategies based on the deliberate actions we took in 2025 including strengthening our commercial execution and aligning our structure. Based on our point-of-sale data, we estimate that, excluding China, outperformed the market for our products by approximately 130 basis points for the full year and approximately 300 basis points in the fourth quarter. That demonstrates an improvement in performance over the course of 2025 as our focused efforts showed results. The company remains steadfast in its long-term mindset. Fortune Brands succeeds because of its people and our ability to serve our customers with leading innovative brands, and we will continue to invest in our people, systems, and brand building. We are committed to ensuring that we are operating with discipline today while positioning the business to win for years to come, particularly when markets return to growth. Before I turn to the full year and fourth quarter highlights, I wanted to speak to the announcement around our upcoming CEO transition. I deeply appreciated Susan's comments at the start of the call. Thank you, Susan, for your kind words. After much reflection, I have decided to pursue another professional opportunity outside of Fortune Brands. This opportunity comes at a natural transition point for both me and the company, and I'm excited for what's ahead, both in my journey and for Fortune Brands.

In recent years, we have embarked on a significant multiyear transformation building on Fortune Brands distinctive strength in brands, innovation, and complex channels while making changes necessary to position the business for sustained outperformance and future growth. This transformation has boosted collaboration and agility and is already driving results. We've built exceptional teams of experienced leaders backed by committed and high-quality workforce. I am very proud of what we have accomplished together. Now the journey moves into a stage focused on disciplined action and ongoing execution. Through a thorough and well-structured succession process, the Board concluded that Amit Banati is the ideal choice to be my successor, and I agree. Amit has deep experience as both a commercial leader and a financial leader at some of the world's leading branded companies including as CFO of Kenvue and Vice Chairman and CFO of Kellanova. Amit has a proven ability to drive results and will bring strategic clarity, operational rigor, and a brand and customer-first mentality. I know he is looking forward to meeting our associates, customers, and shareholders in the coming months as he transitions into his new role. I am very proud to welcome Amit to the executive team.

Turning now to our 2025 full year and Q4 highlights. Jon will provide details but let me provide a few highlights. In addition to demand headwinds, we were also impacted by tariffs in 2025. In response, we leveraged our newly aligned global supply chain team to offset a substantial portion of our tariff exposure through strategic sourcing actions and adjustments to our logistics and transportation networks. For the remaining tariff-related impact, we utilized advanced analytics, data science, and deep customer and consumer insights to execute targeted and disciplined pricing actions across our portfolio. These capabilities would not have been available to us prior to our headquarters transformation. Notably, we undertook most of our incremental tariff pricing actions early in 2025, earlier than many competitors. This helped maintain pricing integrity as market conditions evolved and strengthened our customer relationships as we were recognized for our early action and transparency. This also set us up to return to normalized pricing for most parts of our portfolio in 2026, which should further enhance our competitive position. These combined efforts allowed us to fully mitigate the dollar impact of tariffs in 2025, consistent with our previous commitments.

We are confident in our ability to sustain that mitigation flexibility in 2026 including through selectively promoting and strategically driving volume while continuing to support sustainable share gains over the

cycle. We also took action this past year to further strengthen our core brands. In water, we maintained our strong share with builders and resigned with some of our largest customers. Our Powerhouse Luxury Platform delivered as we increasingly leveraged our cohesive and unique portfolio of designer-focused brands in the House of Rohl. We took important steps to reposition our e-commerce channel, particularly in water, addressing the executional issues that emerged in late 2024, building momentum through the year and entering 2026 with an improved foundation for sustainable growth. To be clear, we are continuing to take concrete actions to further improve our performance in this channel. In outdoors, at Therma-Tru, we continued to experience lower seasonal channel inventory builds in the fourth quarter as wholesale customers reduced orders in response to weaker external data points. However, our position in fiber loss stores is strengthened by our North American manufacturing and new countervailing duties on Chinese imports, enhancing our competitiveness.

At LARSON, our strategic and [inaudible] reset drove share gains reflecting our ability to deploy our brand building and channel management capabilities across the organization. While decking faced a challenging demand environment, our performance in the quarter did not meet our expectations. As we enter 2026, the team is laser-focused on making structural improvements to restore momentum, maximize value, and best position our Fiberon brand. At Master Lock and Sentry Safe, our brand campaigns and retail merchandising initiatives continue to resonate with consumers. Yale continued to see positive results from the introduction of our new Yale Smart Lock with Matter, a product which saw a sequential growth of over 50% in the fourth quarter. Finally, Yale signed 12 new product integration partnerships in 2025, which we expect to fuel growth in 2026 and beyond. Overall, security exited the year with improved momentum and a stronger foundation for growth in 2026. Our digital portfolio continues to represent an important growth platform for the company, and we are confident in its ability to differentiate us long term. Notably, for Flo, we launched our new subscription model, entered into a number of new partnerships with national insurance providers, and drove additional growth in e-commerce and wholesale. Going forward, we intend to continue expanding partnerships and increasing adoption across our channels, and we are confident in our ability to drive long-term value in this space.

Finally, we are already observing the positive impact of our new structure including upskilled talent, effective tariff mitigation strategies, enhanced data analytics, and RGM driving strategic pricing across products and channels. Our new branding campaigns such as those from Master Lock and LARSON utilized our newly aligned best-in-class marketing capabilities. In addition, we can now more easily leverage our portfolio across channels. For instance, our success of the Yales Locks in multifamily markets has created opportunities for Flo, and the security segment is beginning to pursue prospects in single-family new construction through doors. We expect to see further opportunities for both growth and margin improvement over time as the benefit of our newly aligned organizational structure continues to scale. While we strengthened our core and growth platforms in 2025 amidst an adverse market environment, there is still more being done. We have identified a number of additional initiatives across the company focused on increasing profitability, operational efficiency, and footprint optimization.

Turning to the market backdrop. Repair and remodel spending and single-family new construction tapered through the fourth quarter, and early data points for 2026 suggest that near-term demand remains uncertain. The fundamentals of U.S. housing remains strong with aging housing, high levels of home equity, and gradual improvement in affordability. We believe we are well positioned in the market to capitalize on the upside opportunities when they arrive. Importantly, our categories uniquely benefit from being smaller ticket brand-driven investments where consumers continue to prioritize quality, reliability,

and innovation even in more value-conscious environments. That said, we acknowledge that macroeconomic uncertainty continues, consumer confidence is still low, and it is unclear when a full recovery of our markets will occur. Our outlook for 2026 does not include a near-term demand inflection or a recovery from current levels. In closing, we are taking proactive steps including a comprehensive review to find efficiencies to drive shareholder value. Despite anticipating continued near-term macroeconomic uncertainty, we remain confident in our strategy and our team's ability to deliver. With that, I will now turn the call over to Jon.

Jon Baksht

Thank you, Nick. As a reminder, my comments will focus on results before charges and gains unless otherwise noted, and comparisons will be made against the prior year. I'll start with our full year results. For the full year, total company sales were \$4.5 billion, down 3%. Excluding the impact of China, sales were down 1%. The decline in sales was primarily due to lower volumes across our segments, reflecting the challenging market environment throughout 2025 as the macro uncertainty negatively impacted consumer sentiment as well as the market demand for our products. This is partially offset by higher price realizations including strategic adjustments to mitigate tariff-related costs. As we have highlighted previously, we employed a disciplined approach to pricing and implemented the majority of our price actions in early 2025. Excluding China, our point of sale was roughly flat compared to the market for our products, which we estimate declined by low single digits for the year. Importantly, our exposure to the Chinese market has continued to decrease. In 2025, China made up less than 5% of our total revenue compared to approximately 10% of total revenue in 2021.

Consolidated operating income was \$699 million, down 10%, and operating margin was 15.7%, down 120 basis points, largely due to lower sales volume and the impact of higher manufacturing costs including tariff costs. The tariff impact was mitigated by continued productivity gains across the segments as we leverage our global supply chain team to execute strategic sourcing actions and adjustments to our logistics and transportation networks. As a reminder, we covered tariff costs on a dollar-for-dollar basis with strategic pricing actions, but that did impact margins by roughly 20 basis points. Operating income also reflects roughly flat SG&A, which benefited from \$56 million in reductions to incentive compensation. Earnings per share were \$3.61, down 12%.

Now turning to fourth quarter results. Total company sales were \$1.1 billion, down 2%. Excluding the impact of China, sales were flat. Our fourth quarter results reflect a market that softened more than expected in water and outdoors, primarily due to wholesalers responding to weaker construction data in the quarter and strategically choosing not to build inventories ahead of the spring building season. Overall, price realization increased mid-single digits offset by a mid-single-digit decline in volume, driven largely by overall market conditions. Importantly, excluding China, we estimate our point-of-sale outperformed the market for our products across all our segments, and we delivered point-of-sale growth. We continue to see double-digit declines in the Chinese market. We are taking action in China to significantly reduce costs and reposition our business in that market. Consolidated operating income was \$158 million, down 13%, largely due to lower sales volumes and the mix impact in our more profitable products and channels. Strategic and targeted investments in brand and marketing was offset by lower incentive compensation. As a result, operating margin decreased 170 basis points to 14.7%. Adjusted earnings per share were \$0.86, down 12% due to the decline in operating income.

Turning to our segment results. Beginning with water, sales were \$617 million for the quarter, down 4%. Excluding China, our point-of-sale increased low single digits compared against an end market for our products, which we estimate was down low single digits. Within wholesale, we saw significant pressure as customers took a cautious stance on replenishing inventory levels ahead of the spring building season. Our House of ROHL luxury portfolio delivered another strong quarter of low double-digit net sales growth, benefiting from resilient higher end demand and continued success with designers and trade partners. Flo experienced double-digit growth with strong performance in e-commerce and wholesale. Moen was down low single digits mainly due to wholesalers closely managing their inventory levels ahead of the spring building season. We gained share with national and regional builders with 16 net builders gained in the quarter and 67 net builders gained for the year. In e-commerce, we continue to see recovery following the actions we took earlier in the year with improving trends through the fourth quarter and positive momentum exiting 2025. Moen improved its Black Friday and Cyber Monday e-commerce results with sales for those key online shopping milestones up double digits compared to the prior year.

The main negative impact on revenue was China, which experienced a significant decline in part due to a pause in government subsidies for certain housing products and the well-publicized financial challenges of the country's largest builder. Excluding China, our sales were down 1%, driven by volume declines mostly in wholesale, partially offset by price. Water's operating income was \$141 million, down 8%. Operating margin was 22.8%, down 90 basis points, primarily due to lower overall volume and higher investment in sales and marketing and e-commerce, which helped drive both sequential and year-over-year growth in the channel. For the full year, water sales were \$2.4 billion, down 5%, and operating margin was 23.3%, down 20 basis points. Similar to the quarter, China was the largest driver of the decline in both sales and operating margin.

Turning to outdoors. Sales for the quarter were \$295 million, down 3%, driven largely by modest volume declines, partially offset by price. We estimate the market for our outdoors products declined low single digits during the quarter. However, we believe our point-of-sale exceeded the market by low single digits. Our point-of-sale performance was particularly strong relative to the market at LARSON, reflecting the benefit of our in-aisle reset this year. Therma-Tru's results largely reflected the soft wholesale demand environment and a lower inventory build as the sequential uplift in orders during October and November tapered off in December. However, we estimate that Therma-Tru's point-of-sale performance was slightly above its market. Fiberon on point-of-sale was more challenging with softness in retail and wholesale. Since the end of 2025, we also lost Fiberon business with a key retailer that are actively pursuing new share gains with wholesale customers. Outdoor operating income was \$42 million, down 24%, with operating margin of 14.2%, a decrease of 400 basis points. These results reflect the impact of lower volume, product mix, and higher manufacturing costs. For the full year, outdoor sales were \$1.3 billion, down 2%, and operating margin was 13.3%, down 280 basis points. Our margins were impacted by lower sales unit volume, material cost inflation including tariff costs, partially offset by manufacturing efficiencies. As Nick noted, we're not satisfied with our outdoor margins, and we believe that the initiatives we're pursuing will primarily impact this segment with the objective of returning our outdoors margin profile back to 2024 levels or better.

In security, sales for the quarter were \$166 million, up 6%, due to a combination of slightly higher volume as well as pricing actions taken in response to tariffs supported by brand investments and improved execution. Point-of-sale results were positive versus the market for our security products that we estimate was slightly negative. Importantly, we gained traction across our retail, e-commerce, and digital channels,

and sales are up in every major category globally. Yale generated double-digit growth with particular strength in e-commerce. Security operating income was \$22 million, up 52%. Operating margin was 13.4%, up 410 basis points. Through strong execution, we were able to improve manufacturing costs. In addition, the prior year results were negatively impacted by a third-party software outage, which impacted our distribution center. Operating margin improvement was partially offset by mix and slightly higher nondiscretionary costs. For the full year, security sales were \$693 million, flat versus the prior year on lower sales volumes, partially offset by price. Sales were up in each of our main categories in the U.S. Operating margin was 15.1%, down 100 basis points, primarily due to lower sales unit volume, material cost inflation including tariff costs, partially offset by manufacturing efficiencies.

Turning to the next slide, our balance sheet and cash flow profile continue to be a source of strength. We finished the year with net debt of approximately \$2.3 billion, resulting in net debt to EBITDA of approximately 2.6x. While this is slightly above our expectations, we remain committed to reducing leverage to below 2.5x in the near term. We have ample liquidity of \$1.1 billion including cash on hand and over \$860 million of undrawn capacity under our revolving credit facility at year-end. Further, as we announced last month, we successfully extended our existing \$1.25 billion senior unsecured revolving credit facility for an additional five-year term. Our full year CapEx was \$112 million, and our free cash flow generation for the full year was \$367 million, representing cash conversion of over 120%. In the fourth quarter, we repurchased \$10 million of shares, and for the full year, we repurchased \$248 million of shares. Overall, we believe our balance sheet provides the flexibility to execute our strategy, support disciplined capital deployment, and continue investing in the long-term growth and transformation of Fortune Brands. We are also taking deliberate actions to reduce our working capital levels with a particular focus on a multiyear initiative to optimize our inventory position across the organization.

Turning now to our outlook for full year 2026, our guidance takes into account the continued uncertainty around the timing and pace of improvement in our end markets and does not include a second half inflection. We do, however, contemplate a relatively modest market recovery from first quarter levels through the balance of the year. For 2026, we assume global market declines of low single digits reflecting continued headwinds in the early part of the year followed by modest improvements as conditions stabilize. Within that, we assume the U.S. market for our products declined low single digits, driven primarily by repair and remodel activity with new construction contributing later in the year. For U.S. repair and remodel, which comprises most of our portfolio, our assumptions contemplated a decline of low single digits reflecting deferred project activity, aging housing stock, and gradual improvement in consumer confidence. For U.S. single-family new construction, we assume a decline of mid-single digits, reflecting continued near-term uncertainty and a more modest recovery profile relative to longer-term fundamentals while also taking into consideration that the vast majority of our products are installed later in the construction process.

Finally, for China, our guidance assumes market contraction of low double digits, consistent with current conditions and our expectations for demand trends in that market. For 2026, we expect net sales growth of approximately flat to 2%, reflecting our view of the macro environment as well as our expectation for continued market outperformance across our portfolio and the full year impact of tariff-related pricing actions taken last year. We expect operating income margin of approximately 14.5% to 15.5%, supported by share gains and pricing discipline, offset by higher manufacturing costs driven by tariffs and inflation including commodity inflation offset by productivity initiatives. Our guidance assumes that tariffs continue at current rates through 2026. Our guidance also assumes a more normalized level of incentive

compensation, additional systems investments, and incremental strategic brand spend. Together, these account for over \$80 million of incremental SG&A relative to 2025. On an earnings per share basis, we expect EPS of approximately \$3.35 to \$3.65. Consistent with past practices, any share repurchases beyond equity compensation dilution are not included in our guidance nor is the annualized run rate operating income savings of \$35 million.

Lastly, to put our EPS guidance range in perspective relative to our market outlook for 2026, we would have the opportunity to exceed the high end of our range if the market were flat instead of down low single digits. From a quarterly phasing standpoint, our year-end 2025 balance sheet includes the impact of tariffs as well as lower volume-related absorption incurred during the second half of 2025. Those tariff costs and under absorption of manufacturing capacity will flow into our income statement during the first half of 2026. Additionally, the reduced incentive compensation this past year was weighted to the back half of 2025, which will impact the comparability during the second half of 2026. We expect to generate free cash flow of approximately \$400 million to \$450 million in 2026, supported by our operating performance and continued progress on working capital initiatives. Our free cash flow guidance assumes capital expenditures of approximately \$110 million to \$140 million and cash restructuring costs of approximately \$25 million. Our capital mix is roughly 50% weighted towards growth or return-generating initiatives. One item to note, to drive increased transparency into our cost structure as we report SG&A in 2026, we expect to see a reclassification of over \$100 million from SG&A to cost of goods sold. This is largely related to customer freight that is activity-driven. It is only a reclassification and will not impact company or segment margins.

Before concluding my remarks, I want to put our 2026 guidance into the proper context. As Nick mentioned, the market backdrop has been challenging, and there remains uncertainty on the timing and pace of recovery. We are not satisfied with our margins, have identified initiatives we are actioning, and we'll continue to identify opportunities to drive shareholder value. In summary, we are navigating the current environment. And while the improved sales performance relative to the market in the back half of the year demonstrates the resilience of Fortune Brands' portfolio, we are not standing still. We have a strong portfolio of brands that reflect the effectiveness of our advantaged capabilities. We continue to take actions to improve efficiency while investing in the innovations and capabilities that support sustainable long-term growth. As we close out 2025 and look ahead to 2026, I'm confident in our ability to execute at a high level, supported by our strong balance sheet, disciplined cost structure, and the strategic actions we have outlined today. With that, I'll now turn the call back to Nick for final thoughts.

Nick Fink

Before we wrap up this call, I want to express my gratitude to all of our stakeholders. Serving as CEO of Fortune Brands has truly been an honor, and I appreciate all of you with whom I've had the privilege of working both internally and externally over the past 6 years as CEO and 11 years with the company. I have absolute confidence in our strategy, the leadership team's capabilities, and the incredible future that I believe lies ahead. Together, we've built a solid foundation, achieved real progress, and set a clear path forward. Thank you for your partnership and dedication to this great company. I am confident that the company is in great hands with Amit and in a position to deliver significant lasting value for its stakeholders. I am excited for the value that he will help create. Curt, back to you.

Curt Worthington

Thanks, Nick. 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

Thank you. We will 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 yourself 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 poll for questions. Our first question comes from the line of John Lovallo with UBS. Please proceed with your question.

John Lovallo

Good evening, guys. Thanks for taking my questions. Jon, I guess the first one would be the consolidated sales outlook is flat to up 2%. So, what's driving the expected 70 basis point year-over-year decline at the midpoint in margin? I mean, I know you talked about tariffs, input cost inflation, but offset by some productivity. So, could you help us just kind of unpack that a bit?

Jon Baksht

Yeah. Sure. If you look at some of the cost environment that we're facing, there is -- I mentioned on the prepared remarks, as we start rolling over some of the tariff impact and under absorption from our balance sheet into the P&L into the first half of the year, you are going to see some margin compression as it does take a quarter or two depending on the category that you're looking at on our P&L of where that flows through. And so, as we roll those increased tariff costs and you're going to start seeing that. And as we talked about on the last call and just to reemphasize here, we saw in 2025, last time we talked about \$80 million of tariff impacted the actuals came in closer to the low 60s. So, we were able to mitigate some of those tariff impacts. But on a full year basis going into 2026, last call, we were talking about 200 million. From a mitigated basis, we were able to bring those tariff costs down. And so, on a mitigated basis, we're looking at about 151 million of tariff impacts in 2026, so an increase of just over 100 million year-over-year. But now as you break into that a bit further, we are looking at different efficiencies. Nick touched about some of the continuous improvement that we have. So, the broader balance is, we do have some manufacturing inflation including commodity inflation, offsetting that with CI -- with continuous improvement. So, net-net, that's -- those are some of the impacts of that margin compression that you are seeing.

Nick Fink

And John, this is Nick. I'd just add, as we said in the prepared remarks, we've also identified certain operational efficiency initiatives, and we are going to continue to identify more of those. We've referenced some that we're certain as to the ability to deliver less certain as to the time. So, we didn't bake it into our guide, but that will be part of our initiatives to drive the margins back up to a level that we feel is acceptable.

John Lovallo

Okay. Understood. And then my follow-up would be for Susan. Susan, Amit has been on the board for five years and clearly has a strong history of working with brand-focused companies, but he doesn't have any CEO experience or really building products experience outside of being on the board. So, I'm just curious what makes him the best candidate in your eyes? And what was the timeline that you had to work with to make this decision?

Susan Kilsby

Thank you, John, for the question. As you -- let me talk -- address timeline first. As you can imagine, we -- the Board goes through a succession evaluation process on an ongoing basis. And we have looked at a number of different candidates over a reasonable amount of time, and Amit was obviously a candidate as we were reviewing our succession opportunities. He has -- Amit has a very strong -- while he doesn't have building products expertise, he has a very strong background in consumer-branded products. He is a proven leader who has a deep commercial and financial experience, and he's worked with a lot of different branded -- consumer-branded companies developing and delivering profitable growth and executing enterprise-wide business transformation. And as you know, we have been going through quite a robust transformation with Nick in the lead, and we have -- we believe Amit is the right person to continue that transformation.

John Lovallo

Okay. Thank you, guys.

Operator

Thank you. Our next question comes from the line of Phil Ng with Jefferies. Please proceed with your question.

Phil Ng

Hey, guys. Well, Nick, thanks for the partnership. Really enjoyed working with you and good luck with your future endeavor.

Nick Fink

Thanks, Phil. I really appreciate it.

Phil Ng

Kind of kick things off, perhaps maybe a question for Jon. The macro is still certainly very murky at best. Not easy to ask to forecast. How did you approach your market growth assumptions? And then you're still assuming outgrowth versus the broader market. How much line of sight do you have for that outgrowth, as well?

Nick Fink

I'll start philosophically with a couple of comments, and then Jon can work us through how we built this model. I'd just start by reiterating, I think, what we all know, which is we really do believe in the fundamentals of this marketplace. And for all the reasons why I won't repeat that you're very familiar with the demographics, the equity that is on the home, aging housing stock, et cetera. But as we built our model -- and it's very helpful to have Jon's perspective coming into the company. We kept in mind that, for the last couple of years, we've all been waiting for a recovery that hasn't materialized. And ultimately, we

decided as we built the model that we wanted to model a year for 2026 that essentially looks like 2025 without an inflection and without an improvement. And we'll call an improvement when we see it. But if we weren't seeing the inflection and we wanted to build a model and a plan that reflected what the current trends were that we've seen all through and frankly, even before that and build something that's realistic and achievable for the company. And as we said in the prepared remarks, we're not satisfied with where the profitability is. We're pleased with the market outperformance and the momentum that that is gaining. But we're not satisfied with the profitability, and we didn't want to depend on the market recovery to drive that. We're going to depend on initiatives. And so, that was a little bit of the philosophy that went into approaching this year.

Jon Baksht

Yeah. And, Phil, to build on that, too. As you know and you've known me from my prior roles, as well, one of the things coming in early last year was trying to understand what our market drivers were. I think we have a unique set of market that's not one comp you can look to externally to say this is what drives all of our different segments, all of our different brands. And so, there is a correlation model that we have here at the company that, given the market uncertainty last year, probably need some refinement. And it's not - - as you've seen over the course of the last couple of quarters, we have -- the market outlook we've missed, and we want to get better at that. And our market outlook projections and the historical correlations, yes, there's been some uncertainty and, yes, there's been some tariffs impacts that were affecting things, but we're looking to tighten that up and really get the right data points that -- and the correlations refined so that we understand and can better project what that market outlook into the future will be as best as anybody can.

And so, looking at 2026 specifically, what we saw in Q4 since the last time we were on a quarterly call, Q4 did decelerate in terms of what we were expecting, and you can see that in our results. And as we looked at some of the pullback in the market activity, as Nick said, we wanted to be very measured in how we looked at 2026 and really look at the current market environment from Q4 going into Q1 and really taking that forward and not projecting a large inflection by the back part of the year. Could that prove to be conservative? Perhaps. But from what -- the way that we're approaching it is we are trying to be measured in terms of looking at the current market environment and using the best data points we have available and external and internal data points of what the market will look like for our various segments.

Phil Ng

That's great color. My next question is on outdoors. Margins obviously came down pretty hard. Perhaps some of that's destock. And you called out further margin compression when we look out to 2026. Help us understand what are some of the drivers there. And I think you're calling for a path for recovery, hopefully, back to 2024 levels. That's a big step up, right? What are some of the things that you need to happen for that to materialize? You called out some share loss in Fiberon, as well. Is that core to what you've done? Because that business has been a little choppy. So, just kind of help us think through the margin compression and the path to getting back to 2024 levels.

Nick Fink

Sure. So, to start, what we saw in Q4, just very specifically, we were expecting -- and I think we talked about it on the call and even some follow-up meetings after the call. We were expecting some channel inventory building going into the back part of the year and wholesale specifically. We had seen a drawdown the prior year, and we were thinking that we were going to see some more normalized levels. And frankly, we saw

that at the beginning part of the quarter, but then by the end of the quarter, we really saw that drop off quite a bit. And so, with that softness, that did bring down -- if you look at our broader scale just from an overall leveraging standpoint and broader scale, it did impact our margins, and there was also a very large mix element that contributed to that -- the margin piece. And so, in terms of particularly between the channels and also between the products, there was a mix element that impacted the margins. And when we start looking at next year, 2026 I should say, and what the impacts and the opportunities are, we did have some losses at Fiberon with a key customer there that we need to build back up, and we're looking at different initiatives in terms of optimizing our footprint and cost structure there. We mentioned the 35 million of annualized OI cost-saving improvements that we think will benefit the outdoor segment, primarily. But from that standpoint, it will take a bit of time to get that executed. And so, I think we're optimistic that, once we execute some of these actions, we're going to see some material margin improvement back to '24 levels, which implies 17% plus. So, there's initiatives that we have underway to really get that going again.

Operator

Thank you. Our next question comes from the line of Matthew Bouley with Barclays. Please proceed with your question.

Matthew Bouley

Hi. Good evening, everyone. Thank you for taking the questions. So, maybe on the water guide, both the top line and margins. So, on the revenue side, I think you said 0% to 2% is the guide. So, my question is on that. I price is kind of running at this mid-single-digit rate right now for the whole company, I mean, is the assumption that volumes actually are down in water? And is there anything on the share side that is driving that? And then with the margin side of it, what are you expecting on raw materials? So, if copper stayed at current levels, how would that impact your margin expectation for the year? Thank you.

Nick Fink

Why don't I start at with just the topline and Jon can take us through the margin piece. But water we're seeing nice and improved market outperformance, which is giving us confidence and the momentum as we said in the prepared remarks. We saw really nice share gains in brick-and-mortar, really nice share gains with our builder customers. Improved performance in e-commerce, we've called that out, but we think there's still some room to go there. So, again, nice recovery but a lot of opportunity as we continue to build momentum. And so, against that, we also took pretty modest pricing for 2026 in the segment to get on the moment side of the business. House of ROHL is different and a whole lot less price sensitive. But on the Moen side, they're pretty modest price increases because, as Jon described, we've gotten so much of the tariff mitigation work done and sorted in 2025. And so, we think we're very well positioned to continue building the momentum. And then relative to the competitive set, leverage -- it should be some pricing advantage to continue to drive that outperformance.

Jon Baksht

And then in terms of -- just to build on that in terms of some of the margin impact from commodities. We are -- for the company, we're looking at roughly \$40 million of impact for commodity inflation from our cost of goods sold. I would say about just under half of that is in the water segment. There's just impacts across different commodities, but probably brass probably or the most substantial one. So, there is an impact from that.

Matthew Bouley

Okay. Got it. Thank you for that detail. Secondly, the cost program of the savings of 35 million, I think I heard you say it's not included in the guide. So -- but you'd be at run rate by the end of '26. So, I mean, just is there a timeline around these actions and when they might begin to impact the income statement even if you're not including this in guidance?

Jon Baksht

Yeah, there's -- it's -- there's still some execution that needs to be done and that we've got a few moving pieces there. So, no exact timeline. We're trying to execute it as quickly as possible because, clearly, we'd like to get those savings. We feel absolutely confident it will occur by the end of the year, and it is an annualized run rate savings. And so, it won't be the full 35. Going into 2026, you'll get -- sorry, going to '27, it will be the full run rate savings. But we are trying to execute it as quickly as possible. It won't necessarily be right away, but we're working on it.

Matthew Bouley

Okay. Great. Well, Nick, best of luck in your next role, and thanks, guys, for all the detail. Good luck.

Nick Fink

Appreciate it.

Operator

Thank you. Our next question comes from the line of Stephen Kim with Evercore ISI. Please proceed with your question.

Stephen Kim

Yeah. Thanks a lot, guys. Appreciate it. [Inaudible] I'm on a plane, so it might be noise. But my first question, I guess, relates to the change. I think, Nick, you described the timing as being somewhat natural. It comes at a natural time, I think, for you and the company. I was curious if you could elaborate a little bit more on what you meant by that. And what -- specifically, I was curious if we should expect any kind of assessment of the product portfolio or other personnel changes in the business segments this year? Thank you.

Nick Fink

Yeah. Well, why don't I start with the first part, Stephen. I'll give you some perspective. I don't want to speak too much for others, but I'll certainly share my perspective on that question. And just let me start with the timing. The company has been on quite a transformational journey really since 2022 when we announced the divestiture or the spin of our cabinets business. It was 40% of revenues if you recall at the time. And that was really Phase I of what's been three phases of transformation. So, Phase I was portfolio, Phase II was our operating model, and Phase III was really the refining of that operating model and then getting our footprint to match our strategy, which we've now completed, and we're really starting to see the momentum of -- the connection of people coming together and some organic ideas that are happening in the business. And now we turn to a time that I'm actually quite excited about, but we're now building momentum behind execution.

We called out some execution issues in 2024. We rectified those. You can see the momentum building. And so, I actually feel very confident now about where the company is heading, what we've achieved, and

the direction that is set and the team that we have by the way. I think they're some of the most talented people I've ever had the pleasure of working with. And so, this is an opportunity that came my way. I wasn't necessarily expecting it but something that was quite intriguing to me, and I have given a lot of thought. And that cross section of really that opportunity coming at a time where I think we've completed a lot of that heavy lift and the teams in place and executing well is what I meant by it felt quite natural. And then I don't want to speak for our Board, but I do feel that there's a lot of continuity and a great candidate like Amit not only has great enterprise experience, has great commercial experience having led business units for well over a decade inside of large multinationals and a real belief in this team, the talent, and the strategy behind this company.

Susan Kilsby

Maybe I'll just add a few words to that because we have had the opportunity to have Amit sitting in the boardroom for the last five years, and you've had the last couple of years as Chair of the Audit Committee. He's been intimately involved in with the leadership team, with the business and understands it well. And I think he's -- given his background and his experience and his deep knowledge on execution and enterprise-wide business transformation, we feel like, at this time, he's the right person and is truly an exceptional candidate to take us forward from here. And really, Nick has done an extraordinary job bringing us all to this point, but I think that Amit's presence and as we move on from here is really a very -- an exceptional opportunity for the company and for Amit.

Stephen Kim

Great. I appreciate that. And, yeah, certainly look forward to working with Amit. So, shall I take from your comments that we should not expect any major personnel changes in the business segment leadership or a reassessment of the product portfolio?

Susan Kilsby

There is nothing planned at this time.

Stephen Kim

Okay. Excellent. Thanks so much.

Operator

Thank you. Our next question comes from the line of Michael Rehaut with JP Morgan. Please proceed with your question.

Michael Rehaut

Great. Thanks very much. And, Nick, best of luck to you in the future, and, Amit, I look forward to working with you. I wanted to start off with first question on the digital portfolio and the aspirations there. I was wondering if you could kind of just review -- I'm sorry if I missed it -- what sales were you able to generate as you closed out 2025 and how you're thinking about that portfolio growth over the next couple of years given the ongoing efforts that you're making with insurance companies and other facets of the digital portfolio in terms of lock in, lock out and the security side, et cetera?

Nick Fink

Yeah. I'll give you some thoughts. Jon may have some perspectives [inaudible]. We finished the year where we expected to finish the year for the digital portfolio. So, we're very pleased with that performance,

notwithstanding had been in the marketplace. It did what we believe that we do. And so, happy there. And then within that, we saw Flo growth in excess of 50% for the year. So, still very powerful momentum behind the Flo business. And we really just kicked off our subscription service, which is our leak protection service, which is now up and running. And we believe, based on our market research, that could be a real unlock for Flo because what we're finding is, while the value prop is enormous, there is a buy-in cost when you're installing the device and having to pay for the installation that, for some consumers, it's still a hurdle. But when we offer it as a subscription, the insurance savings are actually a net gain for that consumer right off the bat. And so, it's just getting into market now, but we think -- not just direct-to-consumer but also working with our insurance partners to make it just -- we're offering this to you, and it's a net gain in your pocket from the minute you install it is potentially a very big unlock for that business. And so, that's good. And then we saw some really nice recovery on Yale particularly towards the end of the year, and we've launched that Smart Lock with Meta, which also performed very strongly. And so, we're feeling good about the portfolio and the momentum still on track with where we believe it should go. And the final piece [inaudible] connected lockout tagout where a lot of progress was made in getting the product set right and getting some, let's say, test bed customer setup for '26, and there's some really interesting stuff in the pipeline. So, that portfolio still looks very exciting to us.

Jon Baksht

And, Mike, one thing just to add in terms of our presentation of our financials. We talked about last quarter that we were looking at really providing more transparency and really tightening up our -- the way that we report, so it's more consistent and -- from quarter-to-quarter and transparent. And I think you'll -- hopefully, you've seen that a bit this quarter. We've got a new investor deck out there. We walked through the segment financials. Expect to see that on a consistent basis going forward. One note, though, we don't have a page on connected because we do split connected between both water and security depending on the products, and we continue to look at how we disclose for that segment. And you might have noted, we didn't guide to it this year. It's not because it's not growing, and it's not because we're not happy with this performance, but it's still less than 10% of our portfolio. It's an exciting part of the portfolio, but as we look at our reporting for that, look for that in the water segment for Flo and connected products there. Look for it in the security segment for the Yale connected lock, lockout tagout. And so, we'll continue to provide updates. But since it is a smaller segment for us and still growing, it is a bit more volatile quarter-to-quarter. And so, we are -- we'll continue to keep you abreast of it, but it's -- we'll probably look at it in a slightly different way and also open to feedback as we meet with yourself and investors following up this quarter.

Michael Rehaut

Okay. No. I appreciate that, and I understand in terms of the approach there. I guess, secondly -- and I apologize if some of this was touched on earlier in the call but just wanted to understand, particularly for outdoors and water, the margin decline in '26 versus '25 despite roughly flat or flat to slightly up sales. And I wanted to understand how much of that is due to perhaps a timing of mitigation of tariffs. In particular, I'm thinking about maybe the first half of '26, you're still in the hole and maybe you're just getting to breakeven in the back half. And so, that's kind of one of the bigger drivers there, or if there's anything else I'm missing. And maybe more broadly, how that kind of parlays into how we should think about first half versus second half during the upcoming year.

Jon Baksht

Yeah, sure. Happy to hit on all those points. So, there are several factors flowing through here. And so, you're right. There is some declines in both of those two segments, the outdoors more so than water. And I touched on that earlier in terms of we did have some loss at Fiberon there, and that's probably going to be -- have a more of an outsized impact on that segment in terms of how that impacted margins for our projections for 2026. But I would say across the portfolio, particularly water and outdoors, the dynamics I hit on earlier on the call in terms of our operating costs, what I said in the prepared remarks, the tariff impact is flowing into the P&L. Really, you're starting to see that in the next couple of quarters, and that will have an impact on margins and also with the lower volume. So, we under absorbed in Q4, and you'll see with the volume declines that we're looking at into both water and outdoors next year, that is also going to have an impact on some margin compression. The other piece -- and you're right to think about the phasing in terms of the first half of the year. The only other point that I would make is I touched on also in the prepared remarks is around SG&A. We did have a benefit of \$56 million of incentive compensation that was in the '25 comps due to our underperformance to plan. As we reset that plan, that was -- that did have an outsized impact in terms of our accrual in Q3 and then also Q4. And so, that will -- so, yes, you're right about the phasing for the first half in terms of the tariffs and kind of our manufacturing absorption impact in the first half, but then in the second half, those costs for that incentive compensation reset do hit the business units. And so, that is also, as that gets rebuilt, will impact the comps into the back part of the year.

Michael Rehaut

Thanks so much.

Operator

Thank you. And we have reached the end of the question-and-answer session. And, therefore, I'll turn it back over to management for any closing remarks.

Curt Worthington

Thank you, everyone, for joining our call.

Operator

Thank you. And this concludes today's conference, and you may disconnect your lines at this time. We thank you for your participation.