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TILE.OQ - Q4 2020 Interface Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Q4 and Fiscal Year 2020 Interface, Inc. Earnings Conference Call. (Operator Instructions)

I would now like to turn the call over to Christine Needles, Corporate Communications. Please go ahead.

Christine Needles - *Interface, Inc. - Global Head of Corporate Communications*

Good morning, and welcome to Interface's conference call regarding fourth quarter and full year 2020 results, hosted by Dan Hendrix, Chairman and CEO; and Bruce Hausmann, Vice President and CFO. During today's conference call, any management comments regarding Interface's business, which are not historical information, are forward-looking statements within the meaning of federal securities laws. Forward-looking statements include statements regarding the intent, beliefs or current expectations of our management team as well as the assumptions on which such statements are based. Any forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that could cause actual results to differ materially from any such statements, including risks and uncertainties associated with the ongoing COVID-19 pandemic and those described in our SEC filings. The company assumes no responsibility to update forward-looking statements.

Management's remarks during this call also refer to certain non-GAAP measures. Reconciliations of the non-GAAP measures to the most comparable GAAP measures and explanations for their use are contained in the company's earnings release and Form 8-K furnished with the SEC today.

Lastly, this call is being recorded and broadcasted for Interface. It contains copyrighted material and may not be rerecorded or rebroadcasted without Interface's Express permission. Your participation on the call confirms your consent to the company's taping and broadcasting of it. After our prepared remarks, we will open up the call for questions.

Now I'd like to turn the call over to Dan Hendrix, Chairman and CEO.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Thank you, Christine. Good morning, and thank you for joining us today. 2020 was a challenging year, and we all experienced the impacts of the global pandemic. I am very proud of the Interface team across the globe for your resilience. Thank you. thank you.

In response to the pandemic, we took swift actions to put our people first. We quickly moved our office-based workforce to work from home and established stringent health and safety protocols to support our manufacturing team. We took significant actions to align our cost structure with the weaker demand environment, which helped to protect both margins and cash flow during this time.

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Some of our cost reductions were temporary, like freezing salaries and eliminating bonuses, but we expect a significant portion will be permanent changes to the way we run our business. This gives us significant earnings power as our markets recover. While we acted swiftly to control cost, we stayed focused on product innovation and our selling system. These competitive advantages position Interface for long-term success.

The fourth quarter came in as expected, with sales of $277 million, in line with the third quarter 2020 sales, but down 18% compared to the fourth quarter of 2019. Full year sales of $1.1 billion, were down 18% compared to the sales for the full year 2019. Interface continues to deliver solid cash flows, despite the soft demand caused by COVID-19. Notably, we generated $119 million of cash from operations during the year.

Globally, in some parts of APAC and Europe, we are seeing modestly improving trends. The Americas have been slower to recover. With the rollout of the vaccine, we're hopeful the market will recover. The new administrations returned to the Paris climate accord, and their focus on global warming should provide some tailwind for us. We're excited about the potential of our new cradle-to-gate, carbon-negative offerings, and we're seeing interest from customers across all industries and regions.

Turning to segments. Education, retail, health care and multifamily housing have been the first to show signs of recovery. Our retail segment was up 12% in the quarter, and we're encouraged by our consumer online business. And our nora rubber brand has also shown resilience through the downturn with our focus on serving the health care and education segments.

Selling activity has increased in recent weeks, including a growing number of sales engagements and RFPs. Sample activity in the United States is approaching pre-COVID levels, which is a good leading indicator of rebounding activity. Lastly, as the macro environment begins to open, we're seeing a number of major projects kick off, including ones that previously had been put on hold, and a meaningful growth in our project pipeline.

It is still unclear when we'll see a full rebound in the office market, but we're starting to see overall signs of improvement. We're anticipating demand may strengthen in the second half of 2021. Major companies are allowing their employees to return to the office, as we have at Interface.

They're also reconfiguring portions of their office footprints to create more open, collaborative space. This is a large opportunity for us. Based on market data and the research we're seeing, we believe that most companies are ultimately planning some level of return to a physical office. We're positioned well to take advantage of this potential recovery. We continue to be focused on product development with a robust launch pipeline planned for 2021. In fact, we're on track to a launch more styles in 2021 than we did in 2019 pre-COVID.

As we look to grow our carpet tile share, we plan to expand our Embodied Beauty collection to EAAA in the first quarter of 2021. We first launched this product line in the Americas in the fourth quarter of 2020. The industry-first cradle-to-gate, carbon-negative carpet styles are generating a lot of interest, particularly with our global end-use customers as they work to meet their own publicly declared, time-bound commitments for carbon reduction.

And I'm proud to share that key elements of our carbon-negative carpet tile innovations are now patent protected. This U.S. patent award is the culmination of 2 decades of research and development that started in the early 2000s with our Cool Blue technology. This is an incredible achievement in Interface and further cements our leadership position and competitive advantage. We're not stopping there. In select markets in Europe in the first quarter, we expect to launch our first cradle-to-gate, carbon-negative microtuft carpet tile collection.

The dealer channel is an important focus for us. In the Americas, our Open Air product platform is ideally positioned for the dealer market. It allows us to design, manufacture and quickly bring to market sets of products that are attractive, high-quality, and it meet today's budget needs. Open Air styles work particularly well in areas with large floorplate footprints, and we're expanding with new colors, patterns and combinations in 2021. These styles also appeal to customers in the commercial office, tenant improvement and education segment. It is encouraging this product launch has seen the fastest take-up in the Americas marketplace in my memory.

On the resilient side, we continue to have significant opportunities within rubber and LVT products. In EMEA, we just launched several new rubber tile styles in our norament family that play into the concrete look design trend. In Americas, we plan to launch a new vinyl sheet offering designed to meet stringent infection control needs on patient floors and other health care applications. This is an exciting expansion that complements our

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flooring opportunity in health care. We're also looking at additional resilient product category expansion opportunities, and we'll provide more updates on this later in the year.

Overall, we continue to drive innovation as we look to capitalize on trends and create market opportunities, all the while helping customers lower their carbon footprint of their projects. We continue to advance our manufacturing in line with our sustainability priorities and to standardize on new backing systems globally.

One great example of this is our CQuest Bio backings. These backings offer the same performance qualities as our existing products but are made with materials that have a net negative carbon footprint when measured cradle to gate, supporting our work to decarbonize the built environment. In our Europe manufacturing, we expect to transition our entire portfolio to our CQuest Bio backing system in 2021. These moves in our Americas and EMEA manufacturing should allow us to continue to meet growing customer demand for non-petroleum-based backing options.

Sustainability is top of mind for our customers. It is becoming table stakes. Several Interface customers, including multiple large global technology and Fortune 100 companies, have chosen our products due to our carbon-negative and non-PVC offerings and have made commitments for our CQuest Bio backings product line. Because every flooring we sell is made carbon neutral through our Carbon Neutral Floors program, Interface helps end users achieve their carbon commitments. We provide lower carbon footprints across our entire portfolio.

These offerings and technology provide us with a competitive advantage. Carbon matters to our customers. 90% of our top customers have publicly declared their own time-bound carbon reduction goals. We are confident we will have even more success in the future because of our sustainability value proposition and the differentiation that our products bring to the market. And carbon matters to us at Interface.

We are dedicated to finding solutions to reduce the carbon footprint of our products, and our goal is to become a carbon-negative enterprise by 2040. These steps are good for Interface, good for our customers and good for the planet.

With that, I will turn it over to Bruce for Q4 and full year 2020 financial recap. Bruce?

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Thank you, Dan, and good morning, everyone. Our fourth quarter results came in as expected with net sales of $276.9 million, down 18% compared to the prior year period. Declines in carpet tile were somewhat moderated by lesser declines in LVT and rubber.

Sales in the Americas were down 27%, with declines across all project categories other than rubber. In EMEA, sales were down 13% in local currency and down 7% in U.S. dollars. Carpet tile was down for the quarter, while LVT and rubber were essentially flat. Lastly, sales in Asia Pacific were down 12% in local currency and down 8% in U.S. dollars. Declines in carpet tile were partially offset by growth in rubber, while LVT was flat. There were, however, some good signs as order levels have continued to stabilize.

Fourth quarter adjusted gross profit margin was 35.5%, down 550 basis points from the prior year period. Given the 29% decline in carpet tile production in the fourth quarter, we believe this is a solid margin that reflects our strong supply chain, solid plant operations and our ability to flex our plant and cost structure to changes in demand.

We also continue to build earnings power through structural changes in our SG&A. SG&A expenses were $77.3 million in the fourth quarter or 27.9% of sales. Adjusted SG&A expenses were $72.7 million in the fourth quarter or 26.2% sales, which represented a 260 basis point improvement over prior year as a percentage of net sales.

Fourth quarter operating income was $20.9 million compared to operating income of $27.9 million in the prior year period. Fourth quarter 2020 adjusted operating income was $25.6 million versus adjusted operating income of $41.5 million in the fourth quarter last year.

Fourth quarter 2020 net income was $19.6 million or $0.33 per diluted share, while adjusted net income was $16 million or $0.27 per diluted share. And adjusted EBITDA was $37.2 million for the quarter. Please refer to our press release for reconciliations of our GAAP to non-GAAP numbers.

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Looking at full year results. Net sales were $1.1 billion in 2020, down 17.9% compared with $1.3 billion in 2019. Organic sales were down 18.4% for the year. Gross margin was 37.2% in 2020, and adjusted gross margin was 37.7%, down 240 basis points versus adjusted gross margin in the prior year.

Adjusted SG&A expenses were $305.5 million or 27.7% of sales compared to $389.1 million or 29% of sales in 2019. This represents an $84 million year-over-year decrease in adjusted SG&A expense and 130 basis points of improvement as a percentage of net sales. Full year operating loss, which include a $121 million noncash charge related to impairment of goodwill and intangibles, was $39.3 million in 2020 compared to operating income of $130.9 million in 2019.

Adjusted operating income was $110.5 million in 2020, down 26% versus adjusted operating income of $149.8 million in 2019. Net loss was $71.9 million or minus $1.23 per share in 2020 compared with net income of $79.2 million or $1.34 per share in 2019. Adjusted net income was $67.2 million or $1.15 per share in 2020 compared with adjusted net income of $93.5 million or $1.59 per share in 2019.

Turning to our balance sheet. We generated $21.8 million of cash from operations in the fourth quarter of 2020 and had $398 million of liquidity at quarter end. Year-end inventory was down $24.9 million or 9.8% compared to 2019, driven by a 29% year-over-year decrease in carpet finished goods inventory. In sum, we effectively controlled costs and closely managed our working capital and cash flows during this ongoing period of softened demand.

We repaid $4 million of debt in the fourth quarter. Net debt, or total debt minus cash on hand, was $473.5 million at the end of the fourth quarter. Full year 2020 adjusted EBITDA was $145.7 million, resulting in a leverage ratio of 3.2x calculated as net debt divided by adjusted EBITDA.

Q4 2020's interest expense was $13 million, which included $7.5 million of onetime charges related to November's $300 million bond offering and a 5-year extension of our syndicated credit facility. These 2 transactions materially strengthened our capital structure and the company's balance sheet. The bonds are due in 8 years, and our banking group was very supportive in renewing our credit facility for another 5 years.

Depreciation and amortization were $12 million in the fourth quarter versus $11 million in the prior year period. And for the full year, depreciation and amortization were $46 million versus $45 million in 2019. Capital expenditures were $16.1 million in the fourth quarter and $62.9 million for the full year of 2020 compared to $20.8 million in the fourth quarter of 2019 and $74.6 million for the full year in 2019.

Looking ahead at the full year of 2021, we anticipate continued soft demand in the first half of the year. However, we anticipate a recovery toward the back half of 2021, as the COVID-19 vaccine continues to roll out, markets continue to open, children continue to return to school and employees continue returning to the office.

As Dan mentioned, we created significant earnings power from the swift actions we took in 2020 to align our cost structure to demand. We anticipate full year 2021 adjusted SG&A expenses of approximately $330 million, which is $59 million or 15% lower than the pre-COVID adjusted SG&A expenses that we saw in 2019. As Dan mentioned, even with the return to normalcy, we will continue to limit many of our costs, such as travel and expense, discretionary spending and hiring beyond sales and manufacturing personnel. We continue to have a tight handle on the operational and financial levers that are in our control.

Looking at the first quarter of 2021, we expect revenue to be down both sequentially and year-over-year due to several factors. First, as you may recall, the business is customarily softer in Q1 versus other quarters due to seasonality. For comparison, from the fourth quarter of 2018 to the first quarter of 2019, net sales sequentially declined $39 million due to seasonality. And from the fourth quarter of 2019 to the first quarter of 2020, net sales sequentially declined $51 million due to seasonality and COVID-19. And as you may recall, the first quarter of 2020 had 14 weeks of operating activity versus 13 weeks in the first quarter of 2021. When you pull all this together, we're likely to see net sales decline sequentially from the fourth quarter of 2020 to the first quarter of 2021 by approximately $25 million.

Looking at gross profit percentage, we estimate Q1 2021's adjusted gross profit percentage will be approximately 37% to 38%. Our best estimate of Q1 2021 adjusted SG&A expense is that it will be about 1/4 of the full year's estimated $330 million. Interest and other expense is $8 million to $9 million per quarter, and we estimate that 2021's adjusted tax rate will be approximately 27%.

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Fully diluted share count at the end of 2020 was 58.7 million shares. As we continue to vigilantly manage cash flow, we have moderated capital spending plans and anticipate capital expenditures to be $30 million for the full year of 2021. And lastly, we're anticipating moderate levels of input cost inflation in 2021, but we anticipate passing those cost increases to our customers through price increases.

With that, I would like to turn the call back to Dan for concluding remarks.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Thank you, Bruce. I am proud of the team and what we accomplished in 2020. As a result of our efforts, we were recognized as a United Nations Climate Action Now Award recipient and one of the Fast Company's Most Innovative Companies. We were once again recognized as one of the top leaders among global brands in the 2020 GlobeScan, SustainAbility Leaders report.

In addition to our environmental initiatives, Interface is continuing our commitment to social initiatives in our business. We established a global diversity, equity and inclusion task force to develop our long-term strategy. We're embarking on this journey with a thoughtful and measured approach, seeking input from our employees to identify specific areas of opportunities globally. We want every employee to feel they belong and that they can thrive at Interface. As with our other ESG initiatives, our Board of Directors and Executive Leadership team will have oversight and monitor our progress in this important area.

As we move into 2021, we continue to put our people first, especially with health and safety protocols to mitigate any COVID-19-related matters. We'd like to thank our employees for their perseverance through this uncertain year. We expect to enter and exit 2021 from a position of strength and be successful, resilient and agile during these changing times.

With that, I'll open up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Kathryn Thompson from Thompson Research.

Kathryn Ingram Thompson - *Thompson Research Group, LLC - Founding Partner, CEO & Director of Research*

I have a follow-up question on inflation, and it's a trend that we've been watching for a lot of different categories, but it's not just on raw materials, but it's health care and several other buckets. A couple of follow-up question for this. I know you're passing on pricing, but to kind of give your hedging and the timing, you have a little -- you're a little bit different than some of your peers in terms of the cost flow through.

Help us understand what we can expect in terms of timing? And then also, could you give us some color just in terms of other inflationary pressures beyond raw materials?

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Kathryn, this is Bruce Hausmann. Thanks for the question. We're really focused in this area. As you know, we have a very unique supply chain, which is highly concentrated on recycled materials. So unlike a lot of our competitors, we have a competitive advantage where we're less susceptible to the rises and falls and the spikiness that often happens with virgin materials. So that's a competitive advantage for us. We also have long-term contracts in place with our suppliers where we're able to get great visibility into what inflation is coming.

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So in terms of timing, it's probably more likely to come in the back half of 2021. We've had great success historically at passing cost increases over to our customers, which we're planning to do and which we're teeing up our cost and infrastructure around to be able to do in the back half.

Rough numbers, if you sort of think about a blended rate on -- because you mentioned input costs and health care and all that stuff, it's probably around a 3%-ish increase if you blend everything in whether it's yarn, latex, PVC, health care, et cetera. So those are the kinds of numbers that we're looking at right now for the year. And again, we plan on mitigating it with price increases.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Which we've already taken some actions there.

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Yes.

Kathryn Ingram Thompson - *Thompson Research Group, LLC - Founding Partner, CEO & Director of Research*

Okay. And then on -- just in terms of growth in the post-COVID world, what type of feedback are you receiving for customers on types of projects they are either -- products, rather, they're either more or less willing to include in projects? And really, is there -- have you seen any change and a greater focus on soft versus hard surface for flooring products?

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Kathryn, this is Bruce again. The most resilient product that we've had throughout the pandemic has been rubber. And as you know, our nora products focus very strongly around health care and education segments. Done extremely well. We continue to see great traction in that area, followed by LVT and then followed by carpet.

I think as more and more customers are looking at their office space and looking how they want to potentially reconfigure it in a post-COVID world, that there is great opportunity for all products in all segments. As you know, we continue to diversify the corporation into new [segments] particularly around health care and education. We're way less dependent on office than we ever have been before. It's only about 47% of our revenue now. But we're well positioned for our customers who are looking at ways to create a new office environment in a pre-COVID (sic) [post-COVID] world and/or other R&R activity that we think is going to happen as there's less urbanization and there's less densification of offices in the post-COVID world.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Yes. Thanks, Bruce. Kathryn, I'd say that we're getting traction on our dealer strategy, particularly in the United States. We introduced Open Air, which is a product that really hits squarely in the dealer market. And I've never seen a quicker take up of any product that we've introduced even over Entropy.

I love our online business. We don't talk much [about] it before, but our online business is really exploding as well. And the carbon matters story is resonating with our customers in the United States. We're winning business every day because carbon matters in our carbon-negative product. I love the fact we got a patent issued on that product. And now we're rolling it out in Europe, and we're going to roll it out in Asia as well.

So I'm really excited about everything that's going on. Now we have a non-PVC back as well. We have a bio back that allows us to compete in markets where we were held out because of PVC. So I like our strategy in growing the top line.

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Operator

And your next question will come from David MacGregor from Longbow.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Wanted to ask you a little bit about the gross margins and 35.5%, down 550 basis points. Normally from a seasonality standpoint, fourth quarter is a little bit better than third quarter, not by a lot, but a little bit, which would -- if we look at third quarter, 37.2%. And I realize there's a lot of other things going on in the background, which suggest there was maybe a couple of hundred basis points of other pressure in here.

So I know there's a lot of parts in gross margin arithmetic, but is it possible to unpack this a little bit for us and just help us understand something of the moving parts? I mean there's the raw material inflation, which you've already indicated, you didn't feel was maybe as big of a deal because of your yarn and your contracting. But were you maybe a little more aggressive in terms of quoting activity, just given the 29% decline in production in carpet tile?

You talked about the dealer strategy. You're rolling that out. I'm guessing that, that -- congratulations, by the way, on it being a very fast pickup, but I'm guessing that, that was maybe a little source of gross margin pressure as well. And if you can just unpack that for us, it would be a big help.

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Yes. Thanks, David. This is Bruce. As I hear your question, I think what -- one of the things you're trying to get at is, are we seeing any pricing pressure? And the answer to that is no. Our pricing continues to hang in there strong.

Really, the biggest impacts that we had in Q4 around gross margin was just that our volume was down in our carpet tile plants, and it was down 29% in the fourth quarter. It was down 27% for the year. And so there's just less fixed cost leverage in a situation like that.

We've been -- done -- our supply chain has done a great job at managing input cost inflation. They've done a great job at passing that through to customers to the extent that we've seen any of that. And I also want to just thank our operators. They've done a great job at flexing the plants up and down as demand has changed.

So in sum, we feel -- we're really pleased with the gross margins that we saw in Q4. And we remain optimistic around gross margins as we go into next year due to very agile operators and due to the mechanisms that we have in place to maintain strong gross margins.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Yes. And I would say that we've reengineered Open Air, where we're not taking the gross margin hit at the price points we're selling it at today. We changed the thread ups, and we changed how we make that product to make it a more efficient product. So we're not taking dilutive margins on that product.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Okay. So as you roll out that dealer product, I mean, initially, I think the expectation was that could be mildly dilutive to gross margins. Now you're saying that it should be neutral to gross margins.

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Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

On this one particular product, yes.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Okay. And so I guess that kind of brings around the question of how do we think about incremental gross margins, not operating margins, but incremental gross margins for 2021 just based on everything that you feel lays before you now?

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Yes. So David, this is Bruce. We're really -- we're mainly providing some guidance around the first quarter, which we think will be around 37% to 38%. And then it's a little bit of a sort of see how it plays out in terms of top line volume. Obviously, as top line volume picks up, we continue to get additional fixed cost leverage, which helps us a lot on that line. And then we'll just -- we're going to kind of keep watching this quarter-by-quarter and month-by-month, and we're going to make sure that we continue to execute on these [gross margins but] it will a critical part of our cost structure.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

And we're also going to continue to rightsize this company based on what we see on the top line. I'm not happy with $331 million (sic) [$330 million] either. We had to add back a lot of bonuses and variable costs into that. But we're continuing to rightsize the company, and we're not done rightsizing Interface going forward.

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Yes, David, I think Dan was referring to our SG&A number there.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Right.

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

And so what Dan is referring to is that we're going to continue to take a hard look at that number.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Yes. We're going to continue to look at that. And we've got a lot of initiatives to try and think about how to restructure Interface going forward.

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Yes. And we've talked about it -- sorry, David, this is Bruce again. We talked about it before, but really we're principally focused on operating income margins. At the end of the day, that's what we need to be driving, and that's where we need continue improving. Now sometimes the mix between GP and SG&A will change, but we're going to use those levers inside the middle of the P&L to get to the right outcome on the bottom.

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Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

We're seeing some positive activity, David. We're seeing sampling pick up. We're seeing RFPs pick up. We're seeing customer visits picking up. And we're seeing a lot of interest in our carbon-negative product.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Let me -- last question then. Let's get you to elaborate a little further on that then, if you would. How much of that's in the U.S. versus overseas? And how much of that is kind of prospective?

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

I would say -- yes, if you go to Asia Pacific is coming back. Asia -- I won't say Pacific. Asia, Australia has been okay. But China is coming back, India is starting to come back. But the biggest positive to me is that our U.S. business is starting to see a lot more activity. We're starting to see some big RFPs come through. We're starting to see a lot more sampling activity. Our salespeople are more active and more positive. And I think we're hitting the market with the right kind of products, to be honest with you.

Operator

(Operator Instructions) Your next question comes from Keith Hughes from Truist.

Keith Brian Hughes - *Truist Securities, Inc., Research Division - MD*

First question on the SG&A. You had a good run here in 2020, cutting that down given the fall-off in the market. I guess with the demand you're talking about here for '21, I don't really understand why -- you talked about taking costs out permanently. Why is the SG&A estimate for the year, why is it going up so much considering that the -- most states, there's still a little -- some [race to life] is still kind of uncertain at this point. What kind of spending is coming back?

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Well, the only spending coming back in that number, really, Keith, is the variable comp that we added back on salary increases and bonuses that we budgeted, and all that's variable comp. The bonus is obviously a variable comp. You have to earn it, hit performance targets. But we had $306 million and we're at $331 million (sic) [$330 million], there's $25 million of variable comp that we put back in there. So I'm all focused on how to reduce it. Yes, I am all focused on how to reduce the SG&A cost, Bruce. I mean -- I'm looking at Bruce, then yes. Keith, so we're really focused on how to continue to go after that number, Keith.

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Guys, this is Bruce. One number that I want to make you -- go ahead. I was going to say one number I want to make sure aware of...

Keith Brian Hughes - *Truist Securities, Inc., Research Division - MD*

[Costs] is about flat.

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Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Yes. If you talk about that, it's kind of flat, correct. And there was a lot of furlough in that number where it's funded by governments around the world. But we're going to continue to really look at SG&A and go after it.

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Keith, the one thing I wanted to mention is -- this is Bruce, is that structurally, if you look at the number compared to 2019, it's down 15%. We've taken about $59 million of costs out of the SG&A structure, which is a great outcome. That the money comes back, as Dan mentioned, only comes back if we hit our targets because it is variable comp. It's -- there were some things that we did in 2020 where we stopped 401(k) match. There weren't very many bonuses paid, very, very few. And so...

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

And the stock comp.

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

Our stock comp was basically 0 in 2020. So now as we think about 2021, a lot of that stuff resets, and we're just -- we're trying to bake that into our thinking as we want to hit our targets for the upcoming year.

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

And we're going to continue to challenge the structure.

Keith Brian Hughes - *Truist Securities, Inc., Research Division - MD*

Great. Second question. You had said -- I think you said this earlier, Dan, your -- was it your quoting or your samples or something like that was back to a pre-COVID high, something along this range. Was that worldwide, U.S.? Can you just give me some specifics on (inaudible)

Bruce A. Hausmann - *Interface, Inc. - VP, CFO & Treasurer*

He was asking about sampling activity, and he's asking about geographies, U.S. versus Europe versus...

Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Most of the -- well, activity is picking up everywhere around the world, to be honest with you. You got pockets of strength in Europe. And where they've had the lockdowns, the second lockdowns, you're seeing less activity. But the most encouraging to me is what's going on in the U.S.

Operator

I have no further questions in queue. I turn the call back over to the presenters for closing remarks.

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Daniel T. Hendrix - *Interface, Inc. - President, CEO & Chairman*

Thank you all for listening to our call, and we're very encouraged about the vaccine rollout. We're very encouraged about how we're positioned in the marketplace to win. And hopefully, we'll have a lot better conversations and positive conversation next quarter. Thank you.

Operator

Thank you, everyone. This will conclude today's conference call. You may now disconnect.

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