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Interface, Inc. (TILE)

Q3 2021 Earnings Call

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Keith Hughes
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Q3 2021 Interface Incorporated Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Christine Needles, Corporate Communications. Please go ahead.

Christine Needles

Global Corporate Communications, Interface, Inc.

Good morning and welcome to Interface's conference call regarding third quarter 2021 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 most recent Annual Report on Form 10-K filed with the SEC. The company assumes no responsibility to update forward-looking statements.

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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 re-recorded 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

Chairman, President & Chief Executive Officer, Interface, Inc.

Thank you, Christine. Good morning and thank you for joining us. The Interface team delivered strong results this quarter, and I continue to be impressed by their dedication and commitment to delivering for our customers. We saw 12% year-over-year increase in net sales in the third quarter as customer demand continued to pick up in line with positive signs of a commercial recovery across most of our regions. We generated $29 million of cash from operating activities during the quarter, and we repaid $30 million of debt to reach pre-pandemic leverage ratios.

Building on the momentum we saw last quarter, orders were up 24% year-over-year, including a 34% increase in Americas and a 12% increase in EAAA. Backlog was up 33% compared to a year ago, which is a record high for Interface, which should bode well for the fourth quarter. Despite this strong customer demand, we continued to manage through industry-wide supply chain issues.

Like most of the other companies, we're facing some challenging headwinds. We have open jobs we're working to fill in our US manufacturing facilities. We're experiencing raw material and freight inflation; and we're still facing disruption from COVID-19. As a result, it's been difficult to keep up with order demand in our manufacturing facilities, and our gross profit margins were lower than we targeted in the quarter.

To respond to this challenging operating environment, we are partially offsetting these impacts with pass-through price increases and freight surcharges. We're acting as quickly as we can, but there's a lag between raw material, freight and labor inflation and when price increases take effect.

Additionally, with the recent announcement to close our plant in Thailand by the end of 2022, we are increasing productivity and lowering manufacturing costs across our global manufacturing footprint. I'm proud of our team's efforts to control SG&A and continue to right size the business as we work through these challenging times.

Turning to our market verticals, we're seeing a significant increase in activity in education markets. K-12 schools across the US are investing in infrastructure improvements, with funds from the US government's 2021 pandemic relief aid program. These educational institutions also appreciate Interface's leadership position in sustainability. Every flooring product that goes out of the door at Interface is either carbon neutral or carbon negative.

The healthcare market also continues to be strong for us. We're positioned well with the right portfolio mix across rubber, LVT and carpet tile to suit a range of needs in that market.

Now, let's talk about the office market. We saw another quarter of growth as we have customers who are renovating their office in anticipation of their employees coming back to create more collaborative, flexible workspaces. All of this activity is good for business. Change drives renovation work and renovation work drives

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commercial flooring purchases. Additionally, more and more public and private companies are making their own carbon reduction and sustainability goals, which uniquely positions us to serve their needs.

Our dealer strategy is also showing promise. You might recall that we launched this initiative a few quarters ago to focus more closely on new and existing dealer relationships. Our Net Promoter Scores with this segment of our customer base are heading in the right direction, and our Open Air products continue to be incredibly popular with them. All-in, this is a win-win for our dealer partners, our end-use customers and our company. We're very pleased with the progress we're seeing in this area of the business.

And now, I'd like to share some incredible news with you about our European operations. Globally, we are very proud of our accomplishments so far in Climate Take Back journey. And during this last quarter, we transitioned our European carpet tile backing from petroleum-based bitumen to CQuest Bio. This means we stopped using petroleum-based bitumen on all of the carpet tile we manufacture in Europe, replacing it with bio-based materials and recycled fillers.

There was a celebration in our plant in Holland when the last bitumen truck pulled up and then drove away, because we knew that was the last bitumen truck we would ever need. This is a win for our planet, for our customers, and it's another important step forward on our Climate Take Back journey. There are so many people to thank for this milestone, and I particularly want to thank our European manufacturing team for our new manufacturing process.

Additionally, Interface has become the first flooring company to receive third-party validation of our 2030 greenhouse gas reduction targets as science-based. These now validated science-based targets commit Interface to further reduce our Scope 1, 2 and 3 emissions in alignment with our goal of becoming a carbon negative company by 2040.

Interface continues to lead the pack when it comes to our commitment to sustainability. Our relentless focus on design, innovation and sustainability continues to drive our leadership position in the industry and strengthens our foundation for future growth.

With that, I'll turn it over to Bruce for the third quarter 2021 financial recap. Bruce?

Bruce A. Hausmann

Chief Financial Officer & Vice President, Interface, Inc.

Thank you, Dan, and good morning, everyone. Third quarter sales totaled $312.7 million, up 12.2% from the prior year period, with increases across all product lines. Organic growth, which excludes the impact of currency translation, was up 11.3%.

Sales in the Americas were up 23.7%, driven by a release of pent-up demand and a strongly recovering commercial market. In EAAA, net sales were relatively flat as certain markets like Eastern Europe, China, Southeast Asia and India faced new waves of COVID, resulting in government lockdowns. Orders, however, were up in both regions as America saw orders up 34% year-over-year, and EAAA's orders were up 12% year-over-year.

Currency fluctuations had an approximately $1.9 million positive impact on EAAA's third quarter net sales due to strengthening of various foreign currencies against the US dollar. Third quarter adjusted gross profit margin was 34.5%, which was a solid outcome in the face of the global supply chain crisis that our company and almost every other global company had to navigate through during the quarter.

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Adjusted SG&A expense for the third quarter was $77.5 million, compared to $75.5 million in the same quarter last year. And as a percentage of net sales, adjusted SG&A was 24.8% this quarter, compared to 27.1% in the same period last year. As you'll note, we are continuing to tighten up the company's cost structure, and we're paying particular attention to gaining greater efficiencies in our SG&A.

Third quarter adjusted operating income was $30.2 million, up 7.4% compared to $28.1 million in the third quarter of last year. Third quarter 2021 adjusted net income was $16.9 million, or $0.29 per diluted share, and adjusted EBITDA was $42 million for the quarter.

During the third quarter, in line with our prior announcement, we reported a $3.8 million restructuring charge related to closing of our manufacturing facility in Thailand. We expect to stop manufacturing at this facility in Q1 of 2022, and the project is expected to result in annualized savings of approximately $1.7 million, plus decreased complexity and increased efficiency of our global manufacturing footprint.

Turning to our balance sheet and cash flows, the company generated $28.9 million of cash from operations in the third quarter and $64.1 million year-to-date.

Liquidity at the end of the quarter was $391 million, comprised of $93 million of cash and $298 million of borrowing availability. Inventory was up $9 million, or 3.7% year-over-year as we continue to be focused on managing working capital while meeting customer demand. Consistent with our focus on delevering, we paid down $30 million of debt in the third quarter and we've paid down $49 million year-to-date. We are very pleased to be on track with our debt reduction goals.

Net debt or total debt minus cash on hand was $432.1 million at the end of the third quarter. And the last 12 months of adjusted EBITDA were $153.9 million, achieving a net leverage ratio of 2.8 times calculated as net debt divided by adjusted EBITDA. This is a significant milestone for us, as it brings that metric back to pre-pandemic levels.

Third quarter 2021 interest expense was $7.7 million, including a $1.8 million non-cash charge related to our previously mentioned interest rate swaps that were discontinued in 2020. And that compares to $5.4 million in the prior-year period. Capital expenditures were $5.3 million in the third quarter, compared to $11.2 million in the third quarter of 2020.

Looking at the fourth quarter of 2021, we expect the global economic recovery to be ongoing as more and more people receive their COVID-19 vaccinations combined with a significant level of global supply chain disruption and an inflationary environment that we believe will persist throughout the remainder of 2021 and likely into 2022.

We're continually monitoring the situation, and as we look to finish 2021, we are anticipating net sales in the fourth quarter 2021 of $320 million to $330 million; adjusted gross profit percentage in the fourth quarter of 35.5% to 36.5%; adjusted SG&A expense for the full year of approximately $315 million to $319 million; interest and other expense for the full year of approximately $28 million. The adjusted effective tax rate for the full year is anticipated to be approximately 26% and capital expenditures of approximately $30 million for the full year 2021. Fully diluted share count at the end of the third quarter was 59.1 million shares.

And with that, I'd like to hand it back to Dan for concluding remarks.

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Daniel T. Hendrix

Chairman, President & Chief Executive Officer, Interface, Inc.

Thank you, Bruce. I again want to thank the entire Interface team for a strong, strong quarter and one that was filled with significant milestones. As I hope everyone can see, we continue to strengthen the company by broadening our product lines, increasing our leadership position in vertical segments like education and healthcare, leading in design and, of course, leading in sustainability. The positive momentum that we see in the business is encouraging, and despite the global supply chain issues to navigate through, which are not unique to Interface, we remain very optimistic about the future.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Kathryn Thompson of TRG.

Brian Biros

Analyst, Thompson Research Group LLC

Q

Hey, good morning. This is actually Brian Biros on for Kathryn. Thank you for taking my questions. I guess, to start, can you touch on how volume and price trended across the two segments in the quarter?

Bruce A. Hausmann

Chief Financial Officer & Vice President, Interface, Inc.

A

Sure, Brian. This is Bruce Hausmann. Good morning. A lot of the volume that you saw on the top line was more volume based. We had some pricing activity. You might remember that we did some pricing activity in Q1. We did more pricing activity in Q2 and we're going to – and we did more pricing activity in Q3, and we'll do some more the rest of this year. Some of that's coming on pricing on our products, as well as we're adding some freight surcharges to offset the increased costs that we're seeing in the freight line.

Brian Biros

Analyst, Thompson Research Group LLC

Q

Maybe then in the EAAA segment, I guess, sales were flat, so I assume pricing was up so that implies volume down, any like magnitude of those two that you could share?

Bruce A. Hausmann

Chief Financial Officer & Vice President, Interface, Inc.

A

Yeah. That was most – the orders were up 12% in EAAA. That was most – the reason why the billings were flat was mostly attributable to the new waves of COVID that we saw in Eastern Europe, China, Southeast Asia and India. And what we saw in EAAA in particular, was we saw – we had orders in hand, we had inventory ready to ship and the customer just couldn't accept the product because the job site was either delayed due to a COVID lockdown or it was delayed due to the job site needing other materials that were – had supply chain issues that they needed to bring in first before they could bring in the flooring products.

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So actually, on balance, the EAAA region had a very strong quarter and all those orders will ship as soon as those job sites reopen up and those COVID lockdowns ease. It was just – it's just really a timing thing between the quarters.

Brian Biros
Analyst, Thompson Research Group LLC

Q

Got it. Has that – those lockdowns, have they continued into Q4 or how's that trended sequentially?

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.

A

Yeah, I mean, I'm sure you see in the newspaper. Russia, for example, has had increased case counts and Germany has had increased case counts. And so there's just – there are different waves. For example, in Q3, Malaysia had their borders closed entirely. We couldn't ship any product into Malaysia for a while. And so it just ebbs and flows and it goes week-by-week.

I think the good news is that we're getting the orders. We're getting the business. We know we're taking share. And it's just a matter of when the job sites can open and we can actually get the product to the customer to put down on the floor.

Brian Biros
Analyst, Thompson Research Group LLC

Q

Got it. And then maybe thinking a little bigger picture, I guess, into next year, how would you characterize the biggest bottlenecks currently? I guess maybe the biggest change sequentially from last quarter to this quarter and how those kind of play out into – to next year?

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.

A

Yeah, I mean, I think the biggest thing that's on our mind for next year is – is we're thinking about inflation and we're thinking about price increases, and we're being very assertive with our price increases around passing the inflationary cost that we're seeing on to our customers, because we have to. And we're going to certainly see – we saw that in Q3, we'll certainly see that in Q4, as you saw from our guide.

And I think that we may see some of that in the first half of next year as well. I'm sure you heard the Fed talk this week about the short-term inflation that some of the stuff should normalize in 2022, but it's the question of timing. And we don't know if that's going to be Q1, Q2 or Q3. And so we're just navigating through it. We're making – we're making sure that things like, for example, freight surcharges are things that we can do now and that we can change later and so if the freight cost ease into next year.

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Yeah. One of the biggest things that we're fighting is labor actually in the United States and we tried to hire a lot of people in our LaGrange facility.

Brian Biros
Analyst, Thompson Research Group LLC

Q

Yeah.

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Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

And that's not new...

Brian Biros
Analyst, Thompson Research Group LLC
Q

Yeah. My question is kind of...

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

That's not new to us.

Brian Biros
Analyst, Thompson Research Group LLC
Q

Yeah. My question is kind of more related to labor, and I guess, do you think that gets any better at all into 2022 or just more of the same for...

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

Yeah. We're starting to hire people in – yeah, we're starting to hire people. We're trying to hire 100 people in LaGrange.

Brian Biros
Analyst, Thompson Research Group LLC
Q

Good luck. I'll pass it along, thanks.

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

Thanks.

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

Thank you, Brian.

Operator: Your next question comes from the line of Keith Hughes of Truist.

Keith Hughes
Analyst, Truist Securities, Inc.
Q

Thank you. Question on the fourth quarter revenue guidance. How do you think that's going to break out between the two regions in terms of their contribution to growth?

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

Yeah, I think it will be fairly evenly mixed, Keith, I think both regions are really well positioned to have strong growth in Q4 and frankly strong growth in the next year.

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Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

We have backlogs, record highs in both regions actually.

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

It's true.

Keith Hughes
Analyst, Truist Securities, Inc.
Q

And talking about early next year, some of the raw material inflation that you and many others were talking about, supply chain disruption, do you think that's going to continue into the – at least the early parts of 2022?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

I think from – yarn is our biggest raw material input, and I'm hoping that peaks. And I'm hoping freight actually peaks as well. Container charges have gone up significantly, as you know. I'm hoping that that peaks in the first quarter.

Keith Hughes
Analyst, Truist Securities, Inc.
Q

We've had inflation and cost, obviously. Have you had any issues getting materials across the world, some of the main ingredients to making carpet?

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

Keith, we've been really fortunate in that regard. The short answer is no. We've had no production issues due to not having the raw materials that we needed to create products, which is great. And I just – it's a shout out to our operators. They've really been looking ahead and making sure that they navigate through to the raws that they need. The big bottleneck, and we mentioned this to Brian on the earlier questions has really been labor in our US manufacturing facilities where we have quite a few open jobs that we'd like to fill that would increase our capacity.

Keith Hughes
Analyst, Truist Securities, Inc.
Q

Okay. Final question on LVT, a lot of port congestion, obviously, did you miss sales – LVT sales in the quarter due to not being able to get it off the ship?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

No. We had a pretty good inventory position going into it and we have been very fortunate on our supply chain.

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

Yeah. That's a great example where we've been striking the balance of making sure we invest in the right amount of working capital, to make sure that we have enough product on hand to meet customer demand.

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Keith Hughes
Analyst, Truist Securities, Inc.

Q

Okay. Thank you.

Operator: Your next question comes from Samuel Darkatsh of R&J.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Hey, Dan, Bruce. Good morning. How are you?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Hey. Sam. Good.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

A couple of questions. One, a clarification question. When – as you see your inputs and labor constraints today, when do you imagine that your price cost will turn neutral based on the pricing actions that you've already announced and what have you – what's the timing, is it 1Q, 2Q? When do you expect to get price cost neutrality?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

My sense is Q2. We're chasing raw material input costs and I'm hoping that they're peaking, as I just said. In Q2, if we can – if we can actually see some kind of at least flattening of raw material price increases in freight, then Q2, we should get it.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Got it. And then, Bruce, can you quantify what the pricing rollover effect on sales would be for 2022, sales over 2021 sales? Since you've been raising prices as the year progresses, obviously there's going to be a favorable rollover. What – how much growth would you get next year from that pricing rollover?

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.

A

That's an interesting question, Sam. We're working through our AOP right now around pricing and how much of that will flow through to next year, it should be meaningful, because of all the pricing activity that we're doing here in the back half. We should get some pretty good flow through.

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Yeah, Sam, usually when we have price increases like this inflationary, people will actually tend to go down market on that. And so you don't really see the growth in the top line because they're actually changing the mix. So that's really hard to quantify what that would be.

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Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Do you anticipate that mix degradation occurring now, though? I would think that you have a somewhat or at least more inelastic demand backdrop or at least activity backdrop than normal now? Or maybe I'm wrong?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Yeah. Well, we introduced Open Air which is the dealer product program that's at a lower price. Same margin, but lower price. And we're seeing a lot of growth in that. So it's really hard to figure out what kind of price increase will impact sales next year due to that.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

(

Got it. My last question, and thanks for bearing with me. So the SG&A cut in 3Q and 4Q versus your original expectations? Can you be a bit more specific in terms of where that came from, how much of that was discretionary versus maybe structural and what a realistic SG&A footprint looks like next year based – if we assume kind of mid-single-digit growth?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Yeah, Sam, we're just continuing to take a hard look at the cost structure of the company globally, and we've been doing a lot of work around spans and layers looking at the – for example, the number of direct reports that each manager or director has to her or him, and also looking at where work is done, whether it's done locally or regionally or in corporate, and we're trying to make sure that we get the mix right so that we meet customer demands while also being the most efficient that we can be globally and leveraging our SG&A.

And we're just – this is an area that I just want to emphasize. We are really proud of the management team that we've done great work in great strides at bringing our SG&A as a percentage of revenue down, and it continues to be a real focus for us.

Regarding the guide for next year, when we release our Q4 earnings, we'll be able to provide more guidance around all of our metrics, quite frankly, some revenue growth, our GP and our SG&A run rates and our tax rates. But, for now, I think that you can sort of think about a lot of the reductions that we're making are permanent reductions to the cost structure that flow through.

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.

A

Yeah. One of the things that we're really focused on, Sam, is getting it to 26%.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

So the $80 million of run rate you think is a workable number over their near to intermediate term?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

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Yeah. We're focused more on SG&A as a percentage of revenues. So between the next 15 to, call it, 18 months, we're focused on getting it down to 26% over time, so.

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

Or lower.

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

Yeah.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.
Q

Thank you. Thank you, both.

Operator: Your next question comes from David MacGregor of Longbow Research.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Yeah. Good morning, everyone. I wonder if I could just start off by asking you to remind us on your fiber cost, your yarn cost. What percentage is recycled versus virgin fiber? I know you've got a very high percentage of recycled fiber, but could you just remind us on the proportions?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

Yeah. It's about half, David.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Okay. And what's happening with recycled fiber costs?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

That is going up less than virgin, for sure. A lot less. Yeah.

David S. MacGregor
Analyst, Longbow Research LLC
Q

So is that fairly – would it be fair to characterize it as relatively stable or...

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

No, it's – well...

David S. MacGregor
Analyst, Longbow Research LLC
Q

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...inflation maybe just not hit it yet?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

Well, inflation in yarn actually is labor and freight as well and now energy if you're manufacturing in Europe. So the input costs are pretty stable but the process costs are not.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Okay. Maybe just a couple of the sort of qualitative points you made on your prepared remarks, you talked about the European CQuest Bio product. Congratulations on that. I know that's a big milestone in the industry. How differentiated are you on that? Are you unique in that sense or are there any of your competitors that have also left the bitumen behind and moved on to a bio-backed product?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

We're very unique in that. I would say that Tarkett has a bio-based product as well in Europe. That's one of our biggest competitors there, but we're very unique in that.

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

One of the unique things is that every product that goes out the door now is a bio-based product. So the bitumen has gone away entirely on every carpet tile that goes out the door in our manufacturing plant, which is which is a huge accomplishment.

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

And Tarkett is not at that place.

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

Correct.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Right, right. And is the market – in your spec writing is the market really specing that product now as you're leaning pretty hard into that or is this something where you think you're just out in front and it'll have future benefits?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.
A

We're starting to show up specs.

Bruce A. Hausmann
Chief Financial Officer & Vice President, Interface, Inc.
A

Particularly in the United States.

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David S. MacGregor
Analyst, Longbow Research LLC

Q

Congratulations on that progress. With regard to the dealer market initiative here in the United States. Can you just – you talked about the fact that you're seeing strength in K-12 and healthcare, but I've always thought of that dealer market as being maybe more of an office market, but maybe you could just help us understand just what the growth drivers are behind your share growth there? Is it adding number of dealers? Is there sort of a growth in the...

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Yes. Yes.

David S. MacGregor
Analyst, Longbow Research LLC

Q

...distribution line that's helping this?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

It's pretty simple, David. We're focused on the dealer. We're acting like they're customer now. And not like they're an enemy, and we're having a lot of success in that market. And the dealers are very segmented, by the way.

David S. MacGregor
Analyst, Longbow Research LLC

Q

In what sense?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

They focus on healthcare, education and the office market.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Right. Right. So is it still largely an office market at this point?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Yeah. It's half our business.

David S. MacGregor
Analyst, Longbow Research LLC

Q

In – within the dealer channel?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

No. It's segmented. Dealers – everybody has to install product and dealers install it.

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David S. MacGregor
Analyst, Longbow Research LLC

Q

Okay. Maybe I could follow-up with you offline on that.

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Okay.

David S. MacGregor
Analyst, Longbow Research LLC

Q

And then just you talked about earlier on about the demand recovery. You're seeing commercial market recovery occurring. I guess how much of the growth in the backlog numbers or in the order growth numbers you cited here would be related to the dealer market versus your spec business?

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

It's – that's really hard to actually quantify that, because 80% of our business goes through the dealer market. We just know we're focused on the dealer and we're winning discretionary business out of the dealer. But to quantify it, would be very difficult.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Okay. All right, gentlemen. Thank you very much.

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

A

Thanks.

Operator: At this time, there are no further questions. I will now turn the conference over to Dan Hendrix for closing remarks.

Daniel T. Hendrix
Chairman, President & Chief Executive Officer, Interface, Inc.

Well, thank you for listening to our call. And I'm going to just going to say it, Go Braves. Talk to you next quarter.

Operator: This concludes today's conference call. You may now disconnect.

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