06-May-2022

Interface, Inc. (TILE)

Q1 2022 Earnings Call

Copyright © 2001-2022 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Christine Needles
Corporate Communications Leader; Executive Director, Diversity, Equity & Inclusion, Interface, Inc.

Laurel M. Hurd
President & Chief Executive Officer, Interface, Inc.

Daniel T. Hendrix
Chairman, Interface, Inc.

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

OTHER PARTICIPANTS

Keith Hughes
Analyst, Truist Securities, Inc.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

David S. MacGregor
Analyst, Longbow Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, my name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to the Interface, Inc. First Quarter 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be an question-and-answer session. [Operator Instructions] Thank you.

Christine Needles, Corporate Communications, you may begin your conference.

Christine Needles
Corporate Communications Leader; Executive Director, Diversity, Equity & Inclusion, Interface, Inc.

Good morning, and welcome to Interface's conference call regarding first quarter 2022 results, hosted by Dan Hendrix, Chairman; and Bruce Hausmann, Vice President and CFO.

In addition, I am pleased to welcome Interface's new Chief Executive Officer, Laurel Hurd, who will provide some opening remarks on today's call.

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, belief, 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

Copyright © 2001-2022 FactSet CallStreet, LLC

Report on Form 10-K filed with the SEC. 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 Laurel Hurd, CEO.

Laurel M. Hurd

President & Chief Executive Officer, Interface, Inc.

Thank you, Christine, and good morning, everyone. I'm thrilled to be here at Interface and for the opportunity to speak with you today.

My first day with the company was April 18, after our strong first quarter results were in, as we entered into Q2 with strong momentum. I know I'm joining a great company with an amazing reputation, a strong team and a fantastic future. I'm eager to lead the company through our next phase of growth while continuing to advance our purpose and our sustainability journey.

I want to thank Dan for his stewardship of the company for the past 39 years and especially for navigating the past two years to deliver solid financial performance during an incredibly challenging macro environment.

Before I hand the call over to Dan and Bruce for the quarterly results, let me share a little bit about what brought me here and my background. I was drawn to Interface because of its reputation and leadership in design, sustainability and innovation. As I've started to work closely with the leadership team and have met many Interface colleagues across our Americas and EAAA businesses in my first three weeks, I can see that we have the right fundamentals in place, and we're primed to accelerate our success as we reach the other side of this global pandemic.

I come to Interface with 30 years of experience in sales, product innovation, brand development and general management. I spent the past 22 years at Newell Brands, most recently leading both their Writing and Baby business units. I was responsible for a $3 billion P&L, a portfolio of iconic brands, including Sharpie, Elmer's and Graco and a complex global supply chain.

My success over the years has come from developing a strong culture and amazing team, having clarity of strategy and excellence in execution with a focus on results and winning as a team. As part of my onboarding schedule, I've already met many of you. And for those of you who I have not met, I look forward to connecting with you as well. I also look forward to working closely with you as we continue to drive Interface forward and reach our full potential.

With that, I'll now turn it over to Dan and Bruce to discuss first quarter results. Dan?

Copyright © 2001-2022 FactSet CallStreet, LLC

Daniel T. Hendrix
Chairman, Interface, Inc.

Thank you, Laurel. I am so glad you're here, and good morning, everyone. Let me jump right into our results. We delivered strong first quarter 2022 results with sales up 14% and broad-based growth across products and segments.

We also had a strong adjusted gross profit margins down only 55 basis points versus Q1 of last year despite ongoing supply chain challenges, high input cost inflation and COVID-related disruptions. I'm so grateful for the hard work and dedication of our entire team. Because of our team's strong execution, paired with pricing and productivity gains, we mitigated over 1,000 basis points of input cost inflation headwinds that we experienced in the quarter.

Our top line growth continues to be strong, and our backlog continued to grow. As we closed out the quarter, our backlog was up 16% since the beginning of the year and 29% year-over-year. Orders were also strong in the quarter. Orders in the Americas were up 11% year-over-year and in EAAA, they were up 26% on a currency-neutral basis. This gives us further confidence that the commercial office market is recovering and that we're positioned for growth as we come out of the global pandemic.

The investments we made in our selling organization and product innovation are bearing fruit. We're growing in our key market segments, and we're taking share. Healthcare is up 23%, corporate office is up 21%, education is up 19%, and multi-family residential is up 12%.

And we're seeing strong demand of our carbon-neutral and carbon-negative products, which set us apart from the competition. More and more, our customers are focused on the carbon footprint of their projects. They look to us to provide high-design, high-quality products with the lowest carbon footprint on the market. We're the only manufacturer that offers carbon-negative carpet tiles when measured cradle-to-gate without relying on the offsets. As a result, many global customers, including multiple Fortune 100 customers have turned to Interface to help them achieve their own carbon reduction goals.

They also choose us because they know our environmental declarations are made with integrity. Interface is one of a few building product manufacturers and currently the only global flooring company to have our 2030 greenhouse gas reduction targets validated by the Science Based Target initiatives.

We also continue to innovate on the product side. This quarter, we launched our new collection in the rigid core LVT category to provide a maximum durability option with easy maintenance and installation. We also launched the first collection of carbon-negative area rugs through FLOR, again, measured cradle-to-gate. This is our first carbon-negative product offering in the residential side of our business. And we introduced a healthcare collection of carpet tile, LVT and vinyl sheet called Desert Scapes, which aims to connect healthcare facilities with a natural world through an integrated cohesive design.

Now, let's turn to the middle of the P&L. We made great progress in improving efficiencies through the business. Our focused hiring efforts have improved production and productivity in our US manufacturing so we can meet the increasing demand that we're seeing in our order book. As a result of these efforts, production in the US has returned to near pre-COVID levels. As you think about the rest of the year, input cost inflation will continue to be a challenge. We expect to continue mitigating inflation with additional productivity and pricing initiatives.

Copyright © 2001-2022 FactSet CallStreet, LLC

While our gross profit margin was down year-over-year in Q1, we are very proud it was only down 55 basis points on an adjusted basis. It remains a top priority for us to return to our target gross profit levels once raw material and freight costs stabilized. In the meantime, we're making every effort to mitigate the impacts of this inflationary environment.

Overall, Q1 was a very strong quarter, and one that we are very proud of. I want to thank the entire Interface team for their continued commitment to provide the best products in the industry with the most environmentally friendly attributes. I also want to thank our customers for their continued support and the trust they put in us each day to deliver great solutions with revolutionary technology.

With that, I'll turn it over to Bruce to go through the financials. Bruce?

Bruce A. Hausmann

Chief Financial Officer & Vice President, Interface, Inc.

Thank you, Dan, and good morning, everyone. First quarter net sales increased 13.7% to $288 million. Organic sales, which excludes the impact of currency translation, was 16.8%. Sales in the Americas were up 23.3%, driven by the recovery in commercial markets and our continued progress in taking share. In EAAA, sales were up 4.1% and currency-neutral sales were up 10.4%. Orders were up in both regions, including an 11.4% increase in the Americas and a 26.3% currency-neutral increase in EAAA compared to the first quarter of last year.

First quarter gross profit margin was 37.1%, down 84 basis points versus the prior-year period. And as Dan mentioned, adjusted gross profit margin was 37.9%, a decrease of only 55 basis points from the prior-year period despite over 1,000 basis points of input cost inflation that we incurred in the quarter.

For the past two years, we have focused on building earnings power by making structural changes to our SG&A. Total SG&A expense was $78.5 million or 27.3% of net sales, which was down from $79.3 million or 31.3% of net sales in the prior-year period. Adjusted SG&A expense for the first quarter was $78.6 million or 27.3% of net sales compared to $77.5 million or 30.6% of net sales in the same period last year.

First quarter 2022 operating income was $27.4 million, up 62% compared to $16.9 million in the prior-year period. Adjusted operating income was $30.6 million, up 54% versus adjusted operating income of $19.9 million in the first quarter last year.

Fully diluted earnings per share was $0.22, up 83% versus $0.12 in the first quarter last year and adjusted earnings per share was $0.28 per diluted share, up 65% versus $0.17 in Q1 of last year. First quarter's adjusted EBITDA increased 36% to $42.9 million in the first quarter of 2022. Please refer to our press release for reconciliations of our GAAP to non-GAAP numbers.

Turning to our balance sheet and cash flows, the company used $17.7 million of cash from operations in the first quarter of 2022 as we return to a more customary seasonality in our business where our operations typically use cash in the first half of the year and generate cash in the back half of the year.

Liquidity at the end of the quarter was $359 million, comprised of $76 million of cash and $283 million of borrowing availability. Inventory was $319 million, up 20% since the beginning of the year as we increased raw materials, work-in-progress, and finished goods to accommodate increased demand.

Our balance sheet remains strong. Net debt, or total debt minus cash-on-hand, was $445.7 million at the end of the first quarter and the last 12 months of adjusted EBITDA was $180.9 million and our net leverage ratio was 2.5

Copyright © 2001-2022 FactSet CallStreet, LLC

times, calculated as net debt divided by adjusted EBITDA. We continue to have confidence in our strong balance sheet and our capital structure.

Depreciation and amortization totaled $10.7 million in the first quarter of 2022 versus $11.9 million in the prior-year period. Capital expenditures were $4.8 million in the first quarter of 2022 compared to $5.2 million in the first quarter last year.

Now, turning to our outlook. We continue to grapple with our high-inflationary environment, significant levels of disruption in the global supply chain, periodic COVID-related shutdowns, particularly in Asia and macroeconomic uncertainty. As the company monitors the situation, it is anticipating the following.

For the second quarter of 2022, net sales of $350 million to $360 million, adjusted gross profit margin of approximately 33% to 34%, adjusted SG&A expenses of approximately $85 million, adjusted interest and other expenses of approximately $8 million, an adjusted effective tax rate of approximately 29% and fully diluted weighted average share count at the end of the second quarter of approximately 59.4 million shares.

And for the full year of 2022, we anticipate year-over-year net sales growth of approximately 10% to 12%; adjusted gross profit margin of approximately 35% to 36%, adjusted SG&A expenses that are approximately 25% to 26% of net sales, adjusted interest and other expenses of approximately $31 million, an adjusted effective tax rate of approximately 27%, and capital expenditures of approximately $30 million.

We expect to continue to proactively mitigate the significant inflationary environment we're in with price increases and productivity initiatives. We will also continue to assess and activate opportunities to leverage our SG&A dollars globally. Our strategy is working, and we are winning in the marketplace. We thank you for your continued support as we leverage our brand, continue to optimize our cost structure and continue taking share.

And with that, I'd like to turn the call back to Dan for concluding remarks.

Daniel T. Hendrix

Chairman, Interface, Inc.

Thank you, Bruce, and thank you, everyone, for participating in our first quarter 2022 results. Interface has seen strong and consistent growth in orders and sales as discussed during today's call, and we look forward to continuing momentum we're seeing in our results and in the marketplace. We expect great things from Laurel as our new CEO, and I'm staying on as Chairman, I'm excited to see where she takes our great company next.

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

Copyright © 2001-2022 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Keith Hughes from Truist. Your line is open.

Keith Hughes
Analyst, Truist Securities, Inc.

Q

Thank you. A couple of questions on the results. Could you give us a feel in the quarter what were – what was price? And what did units contribute to the growth?

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

A

Hi, Keith. This is Bruce. Good morning. As we mentioned, we had about 1,000 basis points of inflation that we incurred in the quarter. And we offset that similarly with price and with productivity. There are some pockets of higher pricing around the globe, and there are some pockets of higher productivity but we're pulling both levers and getting great results to offset this inflation. So it's a very similar outcome around pricing productivity. And our units were obviously up as you can see by the volume that we had.

Keith Hughes
Analyst, Truist Securities, Inc.

Q

So of the 17%, excluding currency round numbers, I mean are we looking at 6 points, 7 points of unit growth, is that kind of roughly right?

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

A

That sounds around right, yeah.

Keith Hughes
Analyst, Truist Securities, Inc.

Q

Okay. Now, the orders in Europe are well above sales trends, even excluding currency, which is honestly a little surprising given what's going on in Europe. So if you could provide some commentary there? And then also orders in the United States, which are a little bit below the sales growth, what do you see the trend...

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

A

Yeah.

Keith Hughes
Analyst, Truist Securities, Inc.

Q

...is in Americas?

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

A

Copyright © 2001-2022 FactSet CallStreet, LLC

Well, it's interesting. The business just continues to accelerate. And by the way, the orders have continued to be strong as we've moved through Q2. In Europe, specifically, we've had a haircut from currency. For example, if you look at the revenue line, we had about a 600 basis haircut from FX translation in Q1, it will be similar in Q2. But as you mentioned, the orders are very strong. Our backlog continues to build. And despite all the stuff going on in Europe, our business is very strong.

Similarly, in the US, we have seen – we haven't seen anything letting up. We continue to have very strong orders and a lot of strong momentum as we move through Q2 so far and as we're entering into Q2. So we're very bullish on a strong Q2 and on a strong year and about the numbers that we're seeing in the business.

[indiscernible] (17:53)

Daniel T. Hendrix
Chairman, Interface, Inc.
A

Keith, this is Dan. I think one thing that's really happening is the office market is really starting to come back for us, particularly in the United States.

Keith Hughes
Analyst, Truist Securities, Inc.
Q

Okay. So I think you're not alone, but that's sound great. Final question on the, I understand why the gross margin is going to be [indiscernible] (18:13) second quarter with its raw material inflation. As you head in the second half of 2022, do you think you will be even on cost, or is there still going to be some margin drag that goes into the third quarter as you normally know that they end up but as you try to...

[indiscernible] (18:27)

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

Keith, this is Bruce. As we think back a couple of quarters ago when the Fed was talking about temporary inflation, we had hoped that we would see by now some give on that, and we'd start seeing some relief. Unfortunately, we have not seen that yet. The freight costs are still up. The raw materials costs are still up, and that inflationary momentum continued through Q1. So it will take some time for all that to flush through the P&L, if you think about the timing of buying raw materials, to building inventory, to actually having that inventory release into the P&L.

We are – our current hope is that towards the latter part of the back half of the year, is that we'll start seeing some relief on that. But meanwhile, we're not sitting back. We are absolutely pulling hard on two big levers to offset that. One is pricing and one is productivity because we know that we need to make sure that we protect our margins as we move through the year.

Daniel T. Hendrix
Chairman, Interface, Inc.
A

Keith, I would think of it this way that I actually believe, unless we see a lot more stuff happening out there in the marketplace related to input costs is that the second quarter should be our bottoming out and then you should start seeing improving in the second half of the year.

Copyright © 2001-2022 FactSet CallStreet, LLC

Keith Hughes
Analyst, Truist Securities, Inc.

Q

Okay. Excellent job on SG&A. That's all from me.

Daniel T. Hendrix
Chairman, Interface, Inc.

A

Thank you, Keith.

Operator: Your next question comes from the line of Samuel Darkatsh from Raymond James. Your line is open.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

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

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

A

Great.

Laurel M. Hurd
President & Chief Executive Officer, Interface, Inc.

A

Great.

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

A

How are you, Sam. Good to see you.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Dan, I wanted to again say how terrific it's been working with you all these years. I've learned an awful lot from you. I've enjoyed every minute and best of luck and wishes with your next chapter. And Laurel, obviously, congratulations on being named to the post.

Two questions, if I could. And Laurel, this is probably – this is patently unfair given you've only been on board for a few weeks, but I wanted to get at least an initial sense of your thoughts as to two significant strategic areas going forward for the organization. The first would be how or whether the European carpet tile business fits into the overall portfolio?

And then secondly, whether you believe Interface should bring its LVT supply in-house and self-produce or retain the third-party sourcing model? Now again, I know you're early on, but at least the pluses and minuses of each alternative would be helpful at a high level.

Laurel M. Hurd
President & Chief Executive Officer, Interface, Inc.

A

Copyright © 2001-2022 FactSet CallStreet, LLC

Sure. So week three, I'll give you an early view, which is just that I was over in Europe last week and was really impressed with the team there. And as Bruce said, there's strong momentum. So I'm encouraged by what I see. So early days feels like, I like what I see there, but obviously, a lot more to learn.

With respect to LVT, I don't know the answer to that yet. I know I'm really impressed with the business that the team has built and the success and the momentum that we're seeing. So from a sourcing model of bringing that in-house, I think there's more to learn on that.

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

Got you. And obviously, we'll be looking forward to your answers after a deeper dive. The second question – I don't know, Dan, Bruce, free cash flow conversion this year expectations. I think originally, or at least a few months ago, you were kind of guesstimating around $80 million or $90 million or so free cash flow. After the first quarter, both seasonality and what you're seeing out of inventories and costs, what's a good place to think about free cash flow for the year?

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

Sam, this is Bruce. We're not coming off that number. Our cash flow, we're still anticipating a strong cash flow year. So what you're seeing in Q1 and as you're very conversant with is that in Q1, we typically use cash because we pay bonuses, taxes and insurance. And so we are very confident that the business is going to have a strong cash flow year as previously discussed and as previously described.

Daniel T. Hendrix
Chairman, Interface, Inc.
A

Yeah. I'll agree with that.

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

And at what point – if I can sneak another one in, I apologize, you're at 2.5 turns leverage now. At what point does the capital structure get where you would feel comfortable deploying that cash flow towards the stock itself?

Daniel T. Hendrix
Chairman, Interface, Inc.
A

Yeah. This is Dan. I would say that's always on the table and you look at that balance sheet, that 2.5 turns, one to two. And we'll take it under consideration every board meeting should we be buying back stock.

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

Very helpful. And again, Dan, best wishes in your next chapter.

Daniel T. Hendrix
Chairman, Interface, Inc.
A

We actually grew up together in this business.

Copyright © 2001-2022 FactSet CallStreet, LLC

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

We did. We both have multiple scars on our backs to show for it. That's right.

Daniel T. Hendrix
Chairman, Interface, Inc.

A

We did.

Operator: Your next question comes from the line of Kathryn Thompson from Thompson Research Group. Your line is open.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Hi. Good morning. Thank you for taking my questions. I wanted to circle back up just on the end market segments, multi-family, healthcare, education, and office. First, focusing on office, hearing some themes in this earnings season, not only for you, but from others for an improvement in office. Let's again remind us what the numbers are in terms of the outlook for office in terms what you're seeing with orders, but also a little bit more color in terms of trends you're seeing in that office segment specifically? Thanks.

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

A

Hey, Kathryn, I'll take a stab at answering your question and then maybe pass it over to Dan for some more color. We are continuing to see acceleration in the office market. It was up 21% this quarter. And we aren't seeing the orders stop. We're seeing a lot of different companies that are either – that are looking at their space and they're saying we need to redo this space to make it to accommodate it for a post-COVID environment where they were saying they want to spruce up their space to get their employees to come back and see something new and fresh.

Also with a lot of the customary turnover that happens around leases, we're seeing a refreshed leasing space. And so there's just a tremendous amount of activity and change going on in corporate office. And it's every permutation that you can think of. And of course, all that is great for our business.

Daniel T. Hendrix
Chairman, Interface, Inc.

A

Yeah. Kathryn, I think we're seeing that globally, too. That's not just the US phenomena. That's globally actually.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Okay.

Daniel T. Hendrix
Chairman, Interface, Inc.

A

This time it's renovation work, it's not new office work.

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

A

Copyright © 2001-2022 FactSet CallStreet, LLC

Yeah, correct. It's not – we're not seeing a lot of new construction – sorry to interrupt you, Dan. It continues to be a lot of R&R work around the world.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Okay. And you also noted that I believe you said that multi-family was up 12% in the quarter?

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

A

Yes, correct. That's correct. Again, another strong segment for us.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

And maybe give more color in terms of sequential trends you're seeing there and your thoughts on the outlook for the full year for multi-family?

Daniel T. Hendrix
Chairman, Interface, Inc.

A

Well, Kathryn, it's a small – it's a pretty small part of our business. To be honest with you. We're getting the common areas. We're not getting the areas – the big areas. It's growing for us. Our outlook probably will grow with the market 12%.

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

A

Kathryn, I would think of that space for us has grown double digits this year just with all the activity that's out there.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Okay. And then finally, on healthcare and education, any additional color you can give on the segments and market segments?

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

A

I'll take a stab at it. Kathryn, and I'll pass it over to Dan. Boy, Education is – there's just so much tremendous momentum behind education. And part of that is that there has been a huge amount of government spending that's been allocated toward doing education-related R&R work. And a lot of that hasn't even been released yet and a lot of those projects haven't even started yet. So we see continued double-digit growth in [indiscernible] (27:24), and we see that as having a very, very long tail just given the fact that there's so much R&R work to do and there's so much government money that has been allocated in that direction.

Healthcare, of course, we're benefiting from macro trends that you're well aware of, particularly in the US. And again, another strong vertical for us. Where we're extremely well positioned. And I think if I go back to the nora acquisition, you might remember they were – nora is very strong in healthcare. And so we're seeing a lot of traction around nora revenue in healthcare and then revenue synergies where we're getting other business – we're getting – while nora is in there, we're getting business around carpet and LVT because we already have

Copyright © 2001-2022 FactSet CallStreet, LLC

those relationships and we already are in there doing a lot of the other work that we would have gotten through the nora business.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Okay. So I think it's fair to say for [indiscernible] (28:22) trends for the quarter versus last year?

Daniel T. Hendrix
Chairman, Interface, Inc.

A

Can you repeat that questions, Kathryn?

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Okay. One additional question I wanted to follow up on is just there's unintended consequences from the conflict with Ukraine and Russia. How is that impacting your business in kind of obvious or less obvious ways?

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

A

I'll take a stab at that, Dan, then have you weigh in. So as we mentioned, our Russia business is around $8 million in revenue annually and around $2 million of profit annually. We have about $1 million in assets there. So clearly, that business is at risk with the war there. The good news is that it's immaterial relative to the total company, but our hearts and minds and prayers go out to the people and what they're going through that conflict.

The supply chain disruption in Europe around this is real. And so, I think we baked that into our guide based on everything that we know today. Clearly, it's an evolving situation that moves every single day and every single week. But there is an energy crisis going on in Europe, where energy is up, particularly natural gas and which affects us and our affects our business. And so, that's something that we baked into our thought process around GP for the rest of the year.

So we're watching it really, really closely. And I'll go back to what I mentioned earlier. To the extent that we are incurring inflationary pressure as a result of that, we are not going to sit still. We are going to make sure that we're leaning forward to offset those costs with higher pricing and productivity.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

Okay. Great. Thank you for taking my questions today. Best of luck, Dan, great working with you.

Daniel T. Hendrix
Chairman, Interface, Inc.

A

Yeah. Thank you.

Kathryn I. Thompson
Analyst, Thompson Research Group LLC

Q

[indiscernible] (30:30).

Copyright © 2001-2022 FactSet CallStreet, LLC

Daniel T. Hendrix
Chairman, Interface, Inc.

A

Thank you.

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

A

Thanks.

Operator: Your next question comes from the line of David MacGregor from Longbow Research. Your line is open.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yes, sir. Good morning, everyone. And Dan, maybe I maybe just add my sentiments to those expressed by Sam so nicely earlier. Dan, it's been a pleasure working with you and Laurel, good luck. I guess wanted to just start off – yeah, it's really been great, Dan, thank you for everything.

I want to start off by just asking about the commercial LVT business and just supply channels, availability. You mentioned in passing in your press release that you gained share. Was that in the carpet tile business? Did that extended the LVT? Supply channel providing you with maybe a little bit of a share gain advantage here versus some of the product that's more coming out of China. Just if you could talk about that LVT flow right now and any advantage you feel you may be achieving?

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

A

So I'll take a stab at it, and then I'll hand it over to Dan for some more color around it. I got to tell you, the LVT business continues to remain very strong, growing double digits. All of our data says that we are absolutely taking share and are a leading or top three provider of LVT in the commercial space.

And when we think about David, that we grew that business from zero only a few years ago. We're just so pleased with the progress that we've made there. And the differentiation of our product and the ability of our selling organization to sell the differentiators around our LVT having the greatest recycled material of any LVT out there as well as the other product differentiation that we bring. And we've also done some great design around LVT that also differentiates our products.

So that business is doing really well. And we're going to continue putting the pedal down. We have not had – our suppliers has been great around producing it. There have been some fits and starts around freight and shipping from time to time. But what we've done to offset that is we've invested a little more working capital to make sure that we've got the products that we need when our customers need it so that we can manage lead times effectively.

And you mentioned carpet, I would also say that we believe that we're – all of our data says we're taking share in carpet. We have a lot of momentum around carpet, and that business is doing quite well as well.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Copyright © 2001-2022 FactSet CallStreet, LLC

Remind me on the commercial LVT, that's coming out of Korea, isn't it or...

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

Correct. Yeah, that's where our manufacturing – correct, it's Korea.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Okay. And so I guess just getting back to my original question, is that providing you with a share advantage or some kind of a competitive advantage in terms of just having a better flow of product or is it significantly different?

Daniel T. Hendrix
Chairman, Interface, Inc.
A

Yeah, David, I think the supply line from Korea is a lot better than from China as well, but have some of the [indiscernible] (33:27) ...

David S. MacGregor
Analyst, Longbow Research LLC
Q

Right. Right.

Daniel T. Hendrix
Chairman, Interface, Inc.
A

So yes, it's a competitive advantage that we're in Korea versus China. That's for sure.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Yeah, okay. Second question was just, I guess with respect to the commercial markets overall, and I'm just thinking back over the years where you've seen some of your competitors subsidizing their commercial business with their residential business, of course, you said that that's occurring, that works against you and that you don't have a residential business. So are you seeing any signs of that right now? And did that come into play in terms of the price cost you reported in the second quarter – in the first quarter, excuse me?

Daniel T. Hendrix
Chairman, Interface, Inc.
A

I don't think so, David. I don't think they played the residential off their commercial that way. I think they think of it as the discrete business that are distinct. So I think from a pricing standpoint, we – everybody goes low sometimes, but it's pretty fair out there from that standpoint.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Okay. Thank you. Last question...

Daniel T. Hendrix
Chairman, Interface, Inc.
A

I don't see them trying to buy commercial share really.

Copyright © 2001-2022 FactSet CallStreet, LLC

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah. I mean we've seen that in the past, but it's not happening right now, which is good to hear.

[indiscernible] (34:31)

David S. MacGregor
Analyst, Longbow Research LLC

Q

Right. Okay. And then last question for me is just back to Keith's point about the SG&A, it's really been a tremendous execution. Can you go into a little more detail around just exactly, unbundle that SG&A number for us, just tell us where you're making the gains? Obviously, you're seeing some inflation across the cost structure there. But obviously, you're making gains as well. Could you detail that for us?

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

A

Steve, this is – I'm sorry – sorry, David, this is Bruce. I would say it has started with the tone and tenor from the top, and then that has filtered down to our regional presidents and our commercial area leaders that is a very, very strong focus on SG&A that we need to be making sure that every dollar that's invested there has a return. And so I wish I could say it's one or two areas. It really isn't. It's in every single corner of the business.

And we have really pushed this out across the globe that we need to have the organization focused on optimizing every dollar, and we need to have the organization focused on zero-based budgeting around SG&A and making sure that every dollar that we're spending in that area is a dollar that's going to either reduce costs or bring a return to the business.

It really probably is 50-plus different things that comprises the strides that we've made there. And we're not done yet. We're going to continue as an organization to scrutinize all of our SG&A dollars because we know that's important. And so we're really proud of the progress we've made, and we're going to continue to keep a focus on it.

Daniel T. Hendrix
Chairman, Interface, Inc.

A

Yeah. David, this is – I would say that we did some structural things around India, around Latin America, closing the Thailand facility. So we took out probably 20% of our head count that were structural [ph] to date (36:28), particularly related to the SG&A area. And we didn't cut any salespeople in that process. I'm very proud of that part of it.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah. Good to hear. And is there any risk that is kind of the world normalizes here that there's expenses that return back into the P&L, maybe you're benefiting right now from some deferred expenses or you're in a steady state?

Daniel T. Hendrix
Chairman, Interface, Inc.

A

Copyright © 2001-2022 FactSet CallStreet, LLC

As you see our sales increase, you have variable comp. You don't realize that part of the equation, David, is variable. We love the fact that it's variable for sure. And you're going to see some T&E investment as we go through our customers. Those are the two areas.

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

Yeah. I would say the third area, David, and this is a good thing and is sample expense goes up. Some of those are variable costs. But again, there's a strong emphasis. And I want to publicly thank the team across the globe because I'm sure they're all listening to this. Thank you. Thank you. Thank you to the team for your leadership around scrutinizing every dollar of T&E. Again, it starts with tone and tenor at the top and it is absolutely being driven by our president and being driven by our commercial leaders to have a strong focus on SG&A and leveraging that line.

David S. MacGregor
Analyst, Longbow Research LLC
Q

If I could squeeze one more in. Just maybe talk about the market acceptance on the carbon-negative and the progress you're making there? And maybe if you can differentiate between spec channel versus the dealer channel in that response? Thank you.

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

Dan, you want to take that one, or do you want me to take that one?

Daniel T. Hendrix
Chairman, Interface, Inc.
A

It's showing up, David, in the spec market. It's not really showing up in the dealer market from the carbon-negative and the carbon-neutral products. But the reception is tremendous related to the carbon-negative products.

And the EC3 calculator with Gensler, I'll show you some data on that. The take-up of that calculator is really, really very nice. We're actually loving what's going on with making carbon one number in a spec for the carbon footprint. So it's moving the right way for us. We're going to win the marketplace with carbon negative, for sure.

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

David, if I could just piggyback off of Dan's comments. We are – it is definitely a differentiator for us. And one thing that I love about Interface and about this great company is that our customers can see right through the greenwashing noise that that's going on out there at times. We – as Dan mentioned in our prepared remarks, we're one of the – we are the only global flooring company that is having our green gas reduction targets validated by the Science Based Targets initiative.

So when we put numbers out there, we stand by them with integrity and with action. And our customers, with just a little bit of research, can see that and they can see through the greenwashing that's going on in the rest of the industry, which gives us a strong foothold and strong differentiation.

Copyright © 2001-2022 FactSet CallStreet, LLC

David S. MacGregor
Analyst, Longbow Research LLC

Q

Thanks very much, everyone, and congrats on all the progress.

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

A

Thank you.

Operator: And there are no further questions at this time, Mr. Dan Hendrix, I turn the call back over to you for some final closing remarks.

Daniel T. Hendrix
Chairman, Interface, Inc.

Yeah. Well, thank you all for listening to this call. And I can't wait to hear Laurel and Bruce's call next quarter. Thank you all. Have a great day.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.