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Earnings Call

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Call Participants

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Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by. My name is Kelvin, and I will be your conference operator today. At this time, I would like to welcome everyone to Interface, Inc.'s Fourth Quarter and Full Year 2025 Earnings Conference Call. [Operator Instructions]

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

Christine Needles

Global Head of Corporate Communications

Good morning, and welcome to Interface's conference call regarding fourth quarter and full year 2025 results, hosted by Laurel Hurd, CEO; and Bruce Hausmann, 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, 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 described in our most recent annual report on Form 10-K filed with the SEC as supplemented in our first quarter 2025 10-Q. 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 expressed 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 will turn the call over to Laurel Hurd, CEO.

Laurel M. Hurd

President, CEO & Director

Thank you, Christine, and good morning, everyone. 2025 was a record year for Interface as net sales, adjusted operating income and adjusted EBITDA reached their highest levels in the company's history, driven by our One Interface strategy.

We introduced the One Interface strategy in 2023, committing to a set of initiatives that focus on building strong global functions to support our world-class local selling teams, accelerating growth through enhanced commercial productivity, expanding margins through global supply chain management and simplifying operations and leading in design, performance and sustainability. Since launching this strategy, we've carried out these initiatives and delivered growth and margin expansion that has outpaced the industry through strong execution across the business. For the full year, currency-neutral net sales increased 4% year-over-year, driven by broad-based growth across all regions and key market segments. In addition, all 3 product categories grew in both price and volume. This growth, coupled with operational efficiency gains, expanded our adjusted gross profit margin to 39%.

Commercial productivity has been a fundamental growth driver and remains central to our strategy. Our combined U.S. selling team model is a key enabler, allowing us to harness the full strength of our sales organization and present a single cohesive interface to our customers across carpet tile, LVT and nora rubber. The U.S. team is successfully cross-selling, competing more effectively, winning more of the floor

plate and deepening customer relationships. The growth of our nora rubber business in 2025 is a standout example of how our combined teams can help drive momentum.

Global rubber billings were up 17% in 2025 compared to the prior year. We will continue to build on this in 2026 and beyond. The success in the U.S. reinforces our confidence in the scalability of this model, and it provides a lot of runway for us to expand our business in health care and education across the globe, further leveraging our local selling team. We're just getting started and excited to build on our early success.

Supporting this commercial momentum, we have continued to strengthen and globalize our manufacturing and supply chain teams. In 2025, we further aligned our global supply chain around productivity, continuous improvement and technology-enabled solutions. Our ongoing investments in automation and robotics generated productivity gains and margin expansion.

During the year, we automated key processes in our U.S. carpet tile operations, including material handling and other labor-intensive steps. We also invested in automation in our nora plant to support growth in our core nora platform. These actions have improved efficiency, reduced waste and enhanced customer service levels while positioning us for growth.

Building on the success of automation in our U.S. carpet tile operations, we are now extending these robotic solutions to our facilities in Europe and Australia. We are also further automating our carpet tile facilities to include more efficient cutting and packaging processes that will drive additional efficiencies. Looking ahead, we will continue to reinvest efficiency-driven savings into additional automation, productivity initiatives and workflow optimization, scaling proven solutions across our global operations.

Paramount to our strategy is a continued focus on product innovation that expands our addressable market as a key driver of growth. With this as a backdrop, this week, we are launching noravant, a groundbreaking rubber flooring innovation that will open new design possibilities in the resilient category. This sheet platform that is PVC-free, combines high performance, design flexibility and enhanced sustainability, complementing our existing norament and noraplan platforms. We've developed a completely new rubber offering that will compete at the premium end of the vinyl sheet category. This is an incremental growth opportunity that we expect will meaningfully expand our addressable market and resilient over time.

Importantly, it will allow us to deliver elevated rubber aesthetics to more spaces where we continue to see opportunity for growth, particularly in health care and education. The initial product, noravant timber, is the industry's first wood grain design in rubber flooring and expands the range of environments where rubber might be specified, including patient rooms, classrooms, corridors and waiting areas.

Looking specifically at our opportunity in health care, patient rooms represent a sizable portion of the hospital's floor plate. Noravant timber is ideal for this type of application. We launched with a wood grain look to support strong demand from health care customers for patient rooms to look more like luxury hotel rooms. Noravant is a design-forward, PVC-free cheap solution that also meets elevated performance, cleaning and durability requirements, needs that aren't fully served by other products on the market or in our portfolio. We view noravant as an important multiyear growth platform. Given nora's longer selling cycle, which can span several quarters, we expect noravant timber to begin contributing to growth in the fourth quarter of 2026 and build over time.

We will continue to invest in nora automation to support growth in our existing nora platform while also expanding capacity to meet anticipated demand for noravant.

We also continue to lead in design. We've been focused on expanding our addressable market by offering collections at more approachable price points while pushing our design leadership at premium price points. We've done this with the open air collection in carpet tile and with our 3-millimeter offering of LVT. These collections are largely incremental to our business and help us to better serve our customers' needs and to drive market share gains while also achieving our gross margin goals. We have high confidence that this is working, and we will continue to expand our offerings in these areas in 2026.

Our commitment to sustainability continues to underpin our product development and innovation, and it differentiates us in the marketplace. We make sustainability specifiable with a broad range of low-carbon products, the highest amount of recycled and bio-based materials globally in the flooring industry and tools that make it easier for our customers to understand the carbon impact of their choices like our carbon calculator and carbon footprint data on our floor plans.

In 2025, we unveiled the first-ever cradle-to-gate carbon-negative rubber prototype and began incorporating captured carbon in our U.S. and European carpet tile manufacturing processes. We also continue to be recognized externally, including earning a spot on Newsweek's Most Responsible Companies List and being named for the 28th consecutive year in GlobeScan and ERM's 2025 Sustainability Leaders Survey. As we move forward, sustainability remains embedded in how we design and innovate and how we stand out and differentiate in the market.

Let me now turn to our financial results. For the full year, we delivered 4% year-over-year currency-neutral net sales growth with both price and volume increasing across all 3 product categories, reflecting strong execution and continued share gains. Growth was fueled by strong performance in the Americas, where currency-neutral net sales increased 5% year-over-year, driven by our One Interface combined selling team and strength across key market segments, particularly health care and education. In EAAA, currency-neutral net sales increased 2% for the year, reflecting improving trends despite still challenging macro environment in certain markets.

Turning to our market segments. In 2025, global health care billings were up 21% year-over-year with double-digit gains in the Americas and EAAA. Our broad and differentiated product portfolio with segment-focused offerings across carpet tile, LVT and rubber is helping us capture opportunities as the global health care sector evolves. We're seeing increased investment in health care facilities to adapt to the needs of aging populations and a growing focus on preventative care. Nora remains a standout performer in this segment, and we continue to accelerate investments to support sustained growth in health care globally.

Education billings increased 8% for the full year, reflecting the success of our expanded, more approachable collection offering. We remain well positioned across both K-12 and higher education. Our design leadership, durable performance characteristics and low carbon footprint products are resonating with specifiers and procurement teams. Macro tailwinds continue to underpin multiyear demand. Modernization continues and our broader range of price points help us win projects across a wide range of budgets.

Corporate office billings were up slightly for the year as expected. We continue to take share in Class A spaces where our brand positioning, design leadership and sustainability credentials differentiate us. Companies continue to reinvest in higher quality spaces and execute targeted refresh programs to support return to office and hybrid work environments. We are capturing refresh and spec opportunities that position us well for continued growth.

As we look to 2026, our focus is to continue leveraging what's working and to advance to the next phase of our One Interface strategy. We expect to continue gaining share by expanding our addressable market through approachable price points in addition to our premium designs through launching innovative new platforms like noravant timber and through scaling commercial productivity globally. This will deepen our presence in health care and education to further strengthen our market segment diversification efforts and continue to drive growth.

The progress we've made under our One Interface strategy also gives us confidence in our ability to continue expanding margins. We will continue to pursue automation and productivity gains in our manufacturing facilities and leverage mix by prioritizing growth in our most profitable categories and markets. We will maintain a disciplined approach on SG&A, prioritizing investments that drive profitable growth and innovation while continuing to deliver efficiencies that expand margins.

With that, I'll turn it over to Bruce.

Bruce A. Hausmann
VP & CFO

Well, thank you, Laurel, and good morning, everyone. All comparisons provided are year-over-year versus the fourth quarter of 2024, unless otherwise noted.

Fourth quarter net sales were \$349.4 million, up 4.3% as reported and 1.6% on a currency-neutral basis. Fourth quarter currency-neutral net sales were flat in Americas on a strong prior year comp of 9.6% and up 4.1% in EAAA. Adjusted gross profit margin was 38.6%, up 169 basis points on favorable pricing and favorable product mix, partially offset by higher input costs.

In the fourth quarter of 2025, we recorded a nonrecurring inventory reserve adjustment that benefited adjusted gross profit margin by approximately 80 basis points. This item will not recur going forward.

Adjusted SG&A expenses were \$96.6 million in the fourth quarter compared to \$90.8 million. The increase was primarily due to FX translation, higher salary and fringe on merit-related inflation and higher variable compensation on increased sales and profits.

Adjusted operating income was \$38.2 million, up 16.7% compared to \$32.8 million. Adjusted EBITDA was \$49.8 million, up 8.2%. Our fourth quarter adjusted effective income tax rate benefited from the release of a \$2.9 million valuation allowance, primarily related to the use of foreign tax credits. This benefit is not expected to recur and this nonrecurring benefit added \$0.05 to our fourth quarter and full year adjusted EPS.

Fourth quarter's adjusted EPS was \$0.49, up 44.1% compared to \$0.34. Fourth quarter consolidated currency-neutral orders increased 2% year-over-year. Americas was up 3% on top of a prior year order growth rate of 9%. EAAA's fourth quarter order growth was flat year-over-year on a softer macro environment.

Turning to our full year 2025 results. All comparisons provided are year-over-year versus the fiscal year 2024, unless otherwise noted. Full year net sales totaled \$1.39 billion, up 5.4% and at the high end of our expectations. Currency-neutral net sales increased 4.3%. Currency-neutral net sales in the Americas increased 5.5%, while currency-neutral net sales in EAAA increased 2.4%, reflecting improving trends in our international markets.

Full year adjusted gross profit margin increased to 39%, up 187 basis points, driven by favorable pricing, improved mix and manufacturing efficiencies, partially offset by higher input costs. This includes a 50 basis point benefit from a nonrecurring inventory reserve adjustment as a result of strong inventory management. Excluding this benefit, adjusted gross profit margin would have been approximately 38.5%.

Adjusted SG&A expenses were \$366.7 million in 2025 compared to \$346.7 million and flat year-over-year as a percentage of net sales. The increase in SG&A dollars was primarily due to FX translation, higher salary and fringe on merit-related inflation and higher variable compensation on increased sales and profits. For the full year, adjusted operating income was \$173.8 million, up 22.9% compared to \$141.4 million.

Adjusted EBITDA was \$217.9 million, up 15.3% compared to \$189 million. Adjusted earnings per diluted share was \$1.94, a 33% increase versus \$1.46.

With these strong results as context, I'd now like to turn to capital allocation. As we've described previously, we follow a balanced capital allocation strategy that prioritizes investing in the business in areas like innovation and productivity with the goal of driving operational efficiencies, margin expansion and growth.

Second, we focus on managing leverage through a disciplined use of debt to manage net debt conservatively.

Third, having achieved several operating goals ahead of schedule, reinforcing our confidence as we move into the next phase of our One Interface strategy, we will continue exploring potential M&A opportunities through a rigorous and disciplined process. We do not need M&A to achieve our goals, but we will continue to evaluate opportunities that are aligned with our current strategy and that can accelerate growth and margins.

Lastly, and importantly, we continue to be committed to returning excess cash to shareholders through a combination of dividends and disciplined share repurchases. These 4 objectives encapsulate our balanced capital allocation strategy. To recap our progress on these objectives, I'd like to highlight several key accomplishments from fiscal year 2025. We generated \$167.9 million of cash from operating activities in 2025 compared to \$148.4 million in fiscal year 2024.

With investing in the business as our top priority, capital expenditures were \$46.2 million in fiscal year 2025 compared to \$33.8 million in 2024. In fiscal year 2026, we expect capital expenditures to increase to \$55 million as we invest in additional automation and productivity initiatives to support operational efficiencies and growth, including equipment investments related to the new noravant product line.

We also managed net leverage conservatively through a disciplined use of debt. In December 2025, we opportunistically amended and extended the maturity date of our syndicated credit facility to 2030. The amendment added a new \$170 million term loan facility that was used along with cash on hand to fully redeem our \$300 million of senior notes that were due in 2028. These transactions strengthened our balance sheet by reducing interest expense and extending our remaining debt maturities while providing flexibility to continue paying down debt. During fiscal year 2025, we repaid approximately \$124 million (sic) [\$128 million] of debt.

In addition, we remain focused on returning excess cash to shareholders. In the fourth quarter of 2025, we repurchased \$13 million of Interface common stock. And for the full fiscal year, we repurchased \$18.2 million. In 2026, we plan to continue executing share repurchases in a disciplined and opportunistic fashion. In addition, our Board recently approved an increase in the quarterly dividend from \$0.02 to \$0.03 per share, reflecting confidence in our cash flow generation and our earnings durability.

Turning to our outlook. We entered 2026 with solid orders and a healthy backlog, up 7% year-to-date, while remaining mindful of ongoing macro uncertainty and a competitive industry environment. Notably, fiscal year 2026 includes 53 weeks, a realignment that happens every 5 or 6 years to synchronize our fiscal calendar with the calendar year. With an extra week in the first quarter of 2026 and the way that holidays fall in the fourth quarter of fiscal 2026, net-net, we anticipate this will add approximately \$5 million to \$10 million to net sales for the full fiscal year. With that context, we anticipate the following: for the first quarter of fiscal 2026, net sales of \$315 million to \$325 million, adjusted gross profit margin of approximately 38% of net sales, adjusted SG&A expenses of approximately \$94 million, adjusted interest and other expenses of approximately \$4 million, an adjusted effective income tax rate of approximately 18% and fully diluted weighted average share count of approximately 59.1 million shares.

And for the full fiscal year of 2026, we anticipate net sales of \$1.42 billion to \$1.46 billion, adjusted gross profit margin of approximately 38.5% to 39% of net sales, adjusted SG&A expenses of approximately 26.2% to 26.4% of net sales, adjusted interest and other expenses of approximately \$16 million, an adjusted effective income tax rate of approximately 25% to 26% and capital expenditures of approximately \$55 million.

And with that, I'll turn the call back to Laurel for concluding remarks.

Laurel M. Hurd

President, CEO & Director

Thanks, Bruce. I want to close by saying how proud I am of what our teams accomplished in 2025. And I want to thank our customers for trusting us and choosing Interface. This was a record year for the company delivered through strong execution of our One Interface strategy and we're just getting started. We entered 2026 with confidence in our strategy and our ability to create long-term value for our shareholders.

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

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Brian Biros of TRG.

Brian Biros

Thompson Research Group, LLC

Can you maybe talk a little bit further about the One Interface selling strategy here? It seems like it's been very successful so far, a few years into it, given the outperformance in sales and margins so far? Maybe just help us understand a little bit more on what is still to be rolled out and felt across the business?

Laurel M. Hurd

President, CEO & Director

Yes, it's a great question. So we're really proud of the execution to date. The One Interface strategy, as you said, is -- especially with the combined selling teams in the U.S. is off to a really strong start. We're making a lot of progress. As you saw, our health care billings in the year were up 21%. Our nora business was up 17%, and I really do think that's a lot to do with this combined selling team. But I think we're just getting started. We have 2 main opportunities that I'll hit on. The first is the launch of noravant, which is really exciting for us. This is a wood grain look in rubber, a first of its kind, and we expect that to be a really exciting long-term growth opportunity.

As you know, our nora selling cycle is a bit longer. So we expect that -- we just rolled it out last week at our sales meeting, and our sellers now have samples in hand. So they're now starting to share that with customers, and we expect that to start generating revenue by the fourth quarter. It will probably be somewhere \$5 million, \$10 million this year, but then expand over time. So we're excited about that. And then secondly, we've learned a lot about our combined selling teams in the U.S., and we're taking those learnings across the globe. We still have a lot of runway to go to expand health care and education, not only in the U.S. market, but in markets around the world.

Brian Biros

Thompson Research Group, LLC

On gross margins, came in very strong at the end of the year here, I guess, on an adjusted basis, kind of at that aspirational 38.5%, you've talked about before, great to see. 2026 guidance, also great to see, continued expansion there, 38.5% to 39%. Can you guys, I guess, maybe just talk about some puts and takes for margins in 2026?

Bruce A. Hausmann

VP & CFO

Yes. So Brian, thanks for noticing. It was great to see us achieve our long-term ambition of 38.5% and ahead of schedule. And as you mentioned, anything north of that baseline of 38.5% will be improvement. So just to put a finer point on it, if we achieve our high end. It's actually about 100 basis points of improvement that we will achieve this year. And there's 2 components to that. We're offsetting about 50 basis points of tariff-related headwinds, and then we're offsetting about 50 basis points of -- due to the inventory adjustment that we mentioned in our prepared remarks that got us to the baseline.

So we are very pleased with the progress that we've made around gross profit margin. A lot of the benefit is going to continue coming from the automation that we have put in at plate in our existing factories. I sometimes call that we'll get a little bit of a wraparound effect of that. And we're also putting some more of that same equipment into our international markets. We're putting some equipments into our Australia plant, some equipments into our plant in Northern Ireland. And we continue to also make investments in automation and efficiency-related equipment in our nora plant. So you put all that together, and we're expecting to continue to drive gross margin expansion. And I think that we're really pleased with the progress. And we're off to a good start continuing to drive for this year.

Brian Biros

Thompson Research Group, LLC

I had to see where that goes for '26. Last one for me. Can you talk about the introduction of these more accessible price point products? Kind of if that's fully rolled out already or if there are still more products in that kind of category to introduce in '26? And may if there's any difference in kind of the sales growth between those products and the other kind of legacy products?

Laurel M. Hurd

President, CEO & Director

Yes, sure. So we have one platform that we continue to build on. We call it the Open Air platform or the Open Collective as we continue to expand it. So we're seeing a lot of success in that collection. We continue to roll out new colors and styles there, which is great. We've got some warmer colors rolling out there.

And then we will be launching a whole new collection as well in the middle of the year, which has a different design look and feel. So we're finding -- we do a lot -- as you know, we do a lot of test and learns, and we wanted to make sure that we could maintain our premium offering in carpet tile as an example, while expanding incrementally this more mid-price point for us. And we really have proven that we can do that. We've also done the design work. I'm really proud of our design and manufacturing teams working together. So the designs that we come out within those price points, we still are happy with the margins on. So we're not dilutive there. So we are pleased with the progress, and we'll continue the momentum there.

Operator

Your next question comes from the line of David MacGregor of Longbow Research.

David Sutherland MacGregor

Longbow Research LLC

Congratulations on all the progress. It's wonderful to see. I guess I wanted to begin by just asking you about the difference between kind of the corporate growth, which was kind of flat versus what was obviously very strong in health care and education. How would you characterize the corporate market right now? And was there something that was there as an offset that left you flat? Or just maybe help us better understand that differential.

Laurel M. Hurd

President, CEO & Director

Yes. So I would say this, the corporate business, we've said we wanted to grow that business this year. We were up about 0.5 point globally for the year, and that was about in line with our expectations. The market continues to -- we feel great about the overall corporate market. As we've said before, the Class A space remains in demand. We're also excited to see that markets like New York and San Francisco are coming back stronger. But globally, it's a competitive market, and we continue to focus on gaining share in that space, which we're doing nicely.

And then as you said, our health care and education grew very nicely for the year, for the quarter and feel good about that. Our retail business in the quarter, I think that's what you're poking at in the quarter growth. Our retail business can be a little bit choppy as we've seen over time, and that was a little bit soft in the quarter. So that dragged us down a bit, but more than offset by the health care and education growth.

Bruce A. Hausmann

VP & CFO

And David, I think what you're seeing is strong execution in place. We talked a lot about diversifying the company around product categories, which we've done with carpet tile, LVT and rubber. And we've also talked about continuing to strengthen the company through segmentation. And we're really seeing that

demonstrated on the P&L through these growth rates in education and health care, which is fantastic to see. So often you see companies stay at a strategy and you wonder where is that showing up in the P&L. And I think we're the dead opposite of that. Our strategy is actually revealing itself on the P&L, which is fantastic to see.

David Sutherland MacGregor

Longbow Research LLC

Okay. Good. And then you talked about the 7% increase in backlog. Could you just kind of open that up a little bit to the extent you can or do you feel comfortable discussing? And just help us understand North America versus EAAA and the contribution from the Open Air platform versus the premium spec product and just maybe a little more detail around that backlog number?

Bruce A. Hausmann

VP & CFO

So it's our normal blended business. It's a good solid backlog. We feel really good about it. And we feel that gives us air cover as we enter into 2026, which also gives us comfort around -- as you can see, we gave a good, strong guide for Q1. And so with our order rates and our backlog, it gives us confidence as we enter into 2026 and enter our guide for Q1.

Laurel M. Hurd

President, CEO & Director

And it's pretty consistently spread across all the initiatives. I don't think there's one thing weighing it more heavily than others.

David Sutherland MacGregor

Longbow Research LLC

Yes. So it's pretty broad. Okay. That's interesting. And then can you just talk a little bit about -- you talked about the SG&A discipline on your prepared remarks. I mean a lot of growth opportunity here, which is really encouraging, but how do you make sure that as you pursue those growth opportunities, you're also kind of managing that SG&A and we don't repeat the sins of the past that occurred long before your arrival, but we're probably a big issue? And just talk about the leverage opportunity there.

Laurel M. Hurd

President, CEO & Director

Yes. I would say this, and Bruce is an awesome partner on SG&A control. I feel very comfortable, man. We know where every dollar is and are very, very disciplined in what and how we spend it. We do a lot of gating of spend as well. So we're sure that we're ready to spend the money. As we've mentioned before, we're focused on making sure that we drive the front end of the business. So the sales and innovation get the investment while we do everything possible to be efficient on the back end of the business. And as you know, also, our -- a lot of our SG&A is variable compensation that's tied to revenue. So that's also another nice element that we have that will flex up and down.

David Sutherland MacGregor

Longbow Research LLC

Okay. And the last question for me was just costs. And you talked about costs a couple of times, both on the quarter and on the annual numbers as offsets to price/mix benefit. How should we think about what you've got embedded in your guide and kind of where the surprises could potentially occur?

Bruce A. Hausmann

VP & CFO

Well, let's talk about our assumptions first. We're assuming some modest inflation in our raw materials. We're assuming status quo around tariff-related costs. And obviously, that's a moving target that we're watching daily.

And David, the second part of your question was surprises. I think that one of the things that we are really focused on is that as a good management team and as being strong operators, surprises are going to come our way. And we just have to navigate through them, and we just have to work through them. And we need to -- for example, if there's an increase in tariff costs, we just need to make sure that we offset those through continued pricing and productivity initiatives. And so we take this business day by day, week by week, month by month, and we make sure that whatever is coming at us that we continue to navigate through it and that we achieve our goals.

David Sutherland MacGregor

Longbow Research LLC

Congratulations on all the progress.

Operator

Your next question comes from the line of Reuben Garner of Benchmark.

Reuben Garner

The Benchmark Company, LLC, Research Division

I was wondering if you had any insight into your business in the U.S. by geography and/or customer size? In other words, any signs of acceleration in maybe some of the major cities? Any signs of acceleration with some of your larger customers of late?

Laurel M. Hurd

President, CEO & Director

Yes. We've seen the -- in the U.S., I would say, and this is maybe particularly to the corporate side of the business. We've really seen New York and the Bay Area come back strong. So they were definitely obviously harder hit in COVID. It took a longer time to recover, but we're seeing those really strengthen, which is encouraging. Texas remains strong. The Southeast again remains strong. So we're seeing that regional migration continue to happen.

And with respect to our customer size, we do a lot of our business. About 80% of our business is renovation and 20% new construction. So I don't have a lot to add with respect to customer size. I think they're all kind of in the same trend.

Bruce A. Hausmann

VP & CFO

Yes. And one thing that helps us, Reuben, is that our customer concentration is so low I think that -- I think that that's another strength of the business. We're not dependent on any 1 or 2 or 3 or 4 customers. We have a big diverse group of customers, which I think is actually a strength.

Reuben Garner

The Benchmark Company, LLC, Research Division

Great. And then the health care and education pieces of your business were very strong. Can you dive a little more in how much of that do you think is share gain? How much kind of runway you see in spending in those 2 particular categories as we get into '26 and beyond?

Laurel M. Hurd

President, CEO & Director

Yes, sure. We love the macro environment about -- around both health care and education for Interface, but I'll take each of them. Education is -- we -- both K-12 and higher ed have some nice tailwinds around them. There's investment happening there. And they prefer products like Interface. So we've got a strong product offering. They care about their carbon footprint and really well aligned to our strategy. There are some share gains in education. A lot of the -- expanding our approachable price points across both LVT and carpet tile has given us more access and share gains in K-12, especially. So that's been a nice win for us.

And then health care, again, great macros there with the aging population, more focus on preventative care, a lot of technology happening in health care that we think will continue to benefit us. So strong environment and then, again, some share gains there. So this is the place that has been most strongly impacted by our combined selling team, where we have our sales force focused on each market. They're focused on all of the product categories that we sell, Interface and nora, and that's really unlocked some health care environment. So an example of that where we may have had a really strong nora business with a particular health care customer, but we hadn't had carpet tile in the waiting rooms or LVT in outside of an elevator bank. We're now selling them the full suite of products, which is really helping us grow our overall health care business.

Bruce A. Hausmann
VP & CFO

And Brian -- I'm sorry, Reuben, we have a -- one of the things that's great about these 2 market segments is we just have such a strong right to win inside of them. If you look at how our products are made and how they are catered around design, performance and sustainability, both of these market segments are just so well suited for exactly what we do and we're -- and how we do it, which is -- that's why we are, I think, seeing the traction that we're seeing.

Reuben Garner
The Benchmark Company, LLC, Research Division

Great. Congrats on the strong close to the year and good luck in '26.

Operator

Your next question comes from the line of Alex Paris of Barrington Research.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

And I'll just do a few cleanup cats and dogs here. Congrats on the quarter, much better than expected. Even if you exclude that nonrecurring inventory adjustment, I think adjusted gross margins would have been 37.8%, if you exclude it, and that's above both our estimated and consensus, yes. So -- and then EPS of \$0.44, excluding that. So -- and that still exceeds. So I just wanted to talk, first of all, about Q1. I get it extra week. The -- and also before we get into it, adjusted gross margin is really just gross margin because the amortization is -- the add back of amortization is behind us, right?

Bruce A. Hausmann
VP & CFO

That's right. Are you referring to the nora purchase accounting amortization?

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Yes, I'm sorry, yes.

Bruce A. Hausmann
VP & CFO

Yes. That's no longer hitting the P&L. That's fully burned off.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Okay. And that was essentially the add-back for adjusted gross margin. So we're just -- we're talking GAAP gross margins. All right. So the gross margin forecast for first quarter is above our expectations. Why is the tax rate so low? Does that have something to do with the inventory adjustment?

Bruce A. Hausmann
VP & CFO

I know you're referring to Q1 -- in Q1. Yes, the main reason is that -- so this is when stock up -- or when our employees have their LTI vest, and -- this is pretty mechanical, but I'll get into it. So if you take the strike price between the market price, that is a tax deduction that we -- that the company gets and you get that deduction in the period of vesting, which happens in Q1. And so that is a tax deduction in the quarter in Q1, which is why the rate -- our tax rate is lower in Q1.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Got you, because for the full year, it's 25% to 26%, which is more in line with our expectations.

Bruce A. Hausmann

VP & CFO

Exactly. But in Q1, we get a nice -- we get a deduction for that, what I just described.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Got you. I appreciate that color. And then, Bruce, your comments about gross margins lead me to another question. For the full year, you're guiding for adjusted gross margins of 38.5% to 39%, you said at the high end, that would kind of represent a 100 basis point increase because you got a couple of grow-overs, the tariff impact and the inventory adjustment. First question about the tariffs. What was the impact of tariffs in 2025? And what is the impact of tariffs based on what you know now? I know it's a moving target in 2026.

Bruce A. Hausmann

VP & CFO

Yes. So in 2025, if you look at our gross profit percentage, it diluted our percentage by around 20 basis points. And we're anticipating that it will be about 50 basis points year-over-year impact going into 2026.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Is that part of the -- is that because there was no impact in Q1 of 2025, you got 4 quarters of it this time?

Bruce A. Hausmann

VP & CFO

That's right. The tariffs started kicking in sort of in the middle of last year. They started, I think, in Q2, but they really started kicking in, in the back half. So anyway.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

And then any impacts...

Bruce A. Hausmann

VP & CFO

Yes, I just want to clarify, we're covering dollar for dollar. I just want to -- I want to make sure that I'm doing a good job communicating. We're covering dollar for dollar, but it does have a dilutive impact on our GP percentage. So...

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Yes. I think you mentioned it last quarter. I appreciate that. And then any impact that you could determine at this point with the Supreme Court's decision to strike down the previous tariffs and replace them with 10% and 15% reciprocal tariffs? Is there any incremental impact? Or is it too soon to figure that out right now?

Bruce A. Hausmann

VP & CFO

Yes. Great question. We're obviously watching it day by day. It was interesting. We were at 15% tariffs last week and then the Supreme Court struck that down, as you just mentioned. And then on Saturday, we were back to 15% kind of right back where we started. So we'll see. It's to be determined. It's obviously moving target day by day. So...

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Okay. And then I think my last question here. Can I get global billings by category, health care, corporate office, education for Q4? You gave it for full year.

Laurel M. Hurd

President, CEO & Director

Yes, I can give you that, Alex. So let's see. Corporate globally in the quarter, corporate was flat. Education was up 11.6%, so between 11% and 12%. And health care was up 11.7%.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Great. Just trying to see if there's anything else here. No, I think that's it. Again, great quarter and great guide.

Operator

Your next question comes from the line of David MacGregor of Longbow Research.

David Sutherland MacGregor

Longbow Research LLC

Just, I guess, a high-level question that kind of ties back to noravant. And you've made such great progress with One Interface in terms of the reconfiguration of how you go to market, so much more efficient. Your coverage is so much better now than it's been in the past. Does that lead you to -- within the broader thought of capital allocation, start thinking more about investing in new product development and coming up with whatever comes after noravant and just pursuing other product categories, other market tiers? Just maybe talk about the inclination to lean more aggressively into product development and leverage the benefits on the go-to-market.

Laurel M. Hurd

President, CEO & Director

Yes. Thanks for asking the question, and we're really excited about noravant. I think you're hitting on exactly the right point. So I appreciate you bringing it up. We're really focused on innovation. And I think we're just getting started here as well. Obviously, innovation takes time, and we've got incredible folks across our R&D organization and our product organization and design who have incredible ideas and technology that really support our strategy and align with our brand. So very sustainable technologies, and we're lining them up. As you know, we added a new leader of product category management, who's really focused on helping us identify the commercial opportunities that take all of the great innovation that we're working on and bring it to market effectively.

So noravant, I think, is a really big platform for us that we expect to drive growth. We would say this product category, and it is really a new category for us, could deliver somewhere \$50 million to \$100 million over the next 5 years. So it's a really important platform. And we'll continue to bring out the beauty of this product category. We're starting with a wood grain look, but it gives us a ton of design flexibility and the ability for us to bring Interface's design capabilities to rubber in a whole new way is really, really exciting. So I think you're going to see a lot of runway on this category for us. And we've

got more in the works. So again, it takes time, but we're really focused on it. I think there's a lot of ammunition here for us to go.

Operator

There are no further questions at this time. And with that, I will now turn the call over to Laurel Hurd, President and Chief Executive Officer, for final closing remarks. Please go ahead.

Laurel M. Hurd

President, CEO & Director

Great. Thanks, all. I just want to thank the entire Interface team on -- for all of the progress in 2025, just a fantastic year. And thanks to everyone's support. Thanks to all of our customers. And thanks to everyone for joining the call.

Operator

Ladies and gentlemen, this concludes today's call. We thank you for participating. You may now disconnect your lines.

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