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Interface, Inc. NasdaqGS:TILE

Earnings Call

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Call Participants

EXECUTIVES

Bruce A. Hausmann
VP & CFO

Christine Needles
Global Head of Corporate Communications

Laurel M. Hurd
President, CEO & Director

ANALYSTS

Alexander Peter Paris
Barrington Research Associates, Inc.

Brian Biros
Thompson Research Group, LLC

David Sutherland MacGregor
Longbow Research LLC

Reuben Garner
The Benchmark Company, LLC, Research Division

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Interface Second Quarter 2026 Earnings Call.

[Operator Instructions] I will now hand the conference over to Christine Needles, Corporate Communications. Christine, please go ahead.

Christine Needles
Global Head of Corporate Communications

Good morning, and welcome to Interface's conference call regarding second quarter 2026 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. 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 will turn the call over to Laurel Hurd, CEO.

Laurel M. Hurd
President, CEO & Director

Thank you, Christine, and good morning, everyone. Interface delivered another strong quarter, exceeding our expectations, achieving 4% year-over-year currency-neutral net sales growth, building on 7% currency-neutral growth in the second quarter of last year. Growth was broad-based across regions, product categories and primary market segments.

We saw healthy contributions from both price and volume, reflecting the strength of our diversified portfolio. Profitability also improved significantly this quarter, driven in part by the IEEPA tariff refunds we recognized. More importantly, continued operational execution improvements also contributed to margin expansion, highlighting the underlying strength and durability of the business.

Our strong results continue to reinforce that our One Interface strategy is working. As we've discussed before, One Interface is a multiyear strategy focused on: building strong global functions to support our world-class local selling teams; accelerating growth through enhanced commercial productivity of our commercial teams; expanding margins through global supply chain management and simplifying operations; and leading in design, performance and sustainability.

We continue to invest in design and innovation that expands our addressable market. Noravant timber, the rubber flooring innovation we launched earlier this year, which combines the durability and performance of rubber with a distinctive wood grain aesthetic is gaining momentum in the market. At Clerkenwell Design

Week in London, it was named Best Product for Health Care, and we're seeing encouraging specification activity from leading design firms. We believe noravant represents a meaningful opportunity to further expand in Healthcare and other segments over time.

We also continue to expand our reach across price points, with 2 notable additions to our carpet tile offering. First, building on our highly successful Open Air platform, we launched Open Air Neutrals at Chicago Design Days. This offering extends the collection to warmer, more neutral tones and works seamlessly across our carpet tile, LVT and nora rubber flooring portfolios.

Second, we previewed Twist & Texture, which pairs textile-inspired design with an accessible price point and quick delivery, giving customers the options they are looking for and continuing to drive share gains in the market. Clerkenwell Design Week and Chicago Design Days provided strong platforms to connect with customers and the design community and to showcase our latest products and innovations. The interest we're seeing across the portfolio reinforces our confidence in the innovation investments we're making to expand our addressable market.

Turning to manufacturing and supply chain. We're continuing to invest in automation and robotics to improve efficiency and expand margins. Last quarter, we highlighted the robotic solutions we brought online in our carpet tile manufacturing facilities in Europe and Australia. And I'm pleased to say that investments are exceeding expectations. We've also added new packaging automation in Australia and continue to invest in robotics in Germany to enhance efficiency in our rubber business. Overall, these investments are helping us reduce costs and support sustainable growth as we scale.

I'd also like to share a few highlights from our recently published 2025 Impact report. Sustainability is core to Interface and central to how we create long-term value for our employees, customers, shareholders and the planet. In 2025, we reduced our product carbon footprint across all product lines by 4% compared to 2024. We achieved this improvement through material and manufacturing innovations. Across our portfolio, 51% of materials are now recycled or bio-based, the highest in the commercial flooring industry with innovative materials like captured carbon helping to further drive carbon reduction.

In addition, 79% of our manufacturing energy came from renewable sources. Overall, we cut our global greenhouse gas emissions by 36% compared to our 2019 baseline. We are focused on reaching our 2030 science-based targets and making progress towards our ambitious all-in goal to be carbon negative by 2040, without offsets.

Before we move to the financials, I'm proud to share that we were recently certified as a Great Place to Work in all 14 countries where we are eligible. This represents 95% of our global workforce, including those in U.S., Germany, The Netherlands, China and Australia. Attracting and retaining great talent remains a crucial part of our success, and this recognition reflects the strength of our culture and the engagement of our teams around the world.

Now let's turn to our second quarter results. We delivered 4% year-over-year currency-neutral net sales growth in the second quarter. In the Americas, currency-neutral net sales increased 3% year-over-year, driven by our One Interface combined selling teams and demand across our key market segments. In EAAA, currency-neutral net sales increased 5%, driven by stronger volumes and encouraging broad-based growth.

Turning to our market segments. Our diversification strategy continues to drive growth. Healthcare had a standout quarter with global billings up 19% on top of 28% growth in the second quarter of last year. Nora continues to be a meaningful growth engine in this market segment, and we continue to benefit from our combined Interface and Nora selling teams in the U.S.

Education billings were up 5% in the second quarter on top of 11% growth in the second quarter of last year. We remain well positioned across both K-12 and higher education, supported by our low-carbon, high-performing products, broad range of price points and our design leadership. The market continues to benefit from strong macro drivers, including renovation, modernization initiatives and new construction activity. Our ability to serve projects across a wide range of budgets is helping us win.

Corporate Office billings were up 5% in the second quarter on broad-based global growth, where we continue to gain share. One factor contributing to our success is the Interface Design Studio, which pairs customers with experienced interface design experts who help bring projects to life from concept to completion.

By making it easier to evaluate flooring solutions across our portfolio, our Design Studio strengthens customer engagement and reinforces our competitive position as organizations make specification decisions. We continue to see healthy underlying demand, supported by return to office trends, renovation activities and an ongoing flight to quality in Class A space where our brand, design leadership and broad product portfolio are well positioned.

Turning to orders. Consolidated currency-neutral orders increased 5% year-over-year. Orders in the Americas grew 5%, while EAAA increased 6%, driven by strength across all regions and supported by continued development of our product portfolio. Backlog was strong at the end of the quarter, up 22% year-to-date, reflecting continued momentum across the business, giving us confidence to raise our full year guidance.

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 second quarter of 2025, unless otherwise noted. Second quarter net sales were $395.7 million, up 5.4% as reported and 3.8% on a currency-neutral basis. Second quarter currency-neutral net sales were up 3.5% in the Americas and up 4.5% in EAAA.

Second quarter adjusted gross profit margin was 45%, up 524 basis points. Higher sales volumes, proactive pricing, favorable mix and manufacturing efficiencies drove 131 basis points of that improvement, reflecting the strong operational execution that Laurel referenced. The remaining 393 basis points were driven by a $15.6 million benefit from IEEPA tariff refunds and represented approximately $0.19 of earnings per diluted share. As a reminder, this tariff refund was not included in our full year guidance that we provided last quarter during our Q1 2026 earnings release.

Second quarter adjusted SG&A expenses were $103.1 million compared to $93.4 million due to higher sales commissions and variable compensation on increased sales and profits and foreign currency exchange variances. Second quarter adjusted operating income was $74.9 million, up 34% compared to $55.9 million. Second quarter adjusted net income was $51.5 million compared to $35.4 million. Second quarter adjusted EBITDA was $87.7 million compared to $64.8 million and second quarter adjusted earnings per diluted share was $0.88, up 47% compared to $0.60.

With these results in mind, I'll turn to capital allocation. As a reminder, our capital allocation strategy is balanced and disciplined. First, we prioritize investing in the business in areas like innovation and productivity to drive growth and margin expansion. Second, we focus on managing leverage through a disciplined use of debt. Third, we continue to evaluate potential M&A opportunities that align with our strategy and that can accelerate growth and margins. Finally, and importantly, we remain committed to returning excess cash to shareholders through a combination of dividends and disciplined share repurchases.

To recap our progress against these objectives in the second quarter, we generated $38.4 million of cash from operating activities and capital expenditures were $12.2 million, which included continued investments in automation and robotics to support our growth and efficiency. We also repurchased $8.8 million of Interface common stock and paid our quarterly dividend, reflecting our ongoing commitment to return excess cash to shareholders.

Turning to our outlook. With a healthy backlog, strong order momentum and the margin performance we achieved in the first half, we are raising our full year guidance. A few dynamics are worth noting as you think about the balance of the year. Second quarter margins benefited from proactive pricing implemented to offset raw material cost increases that will flow through the P&L in future quarters.

We also recorded a $15.6 million tariff refund in the second quarter that equates to roughly 105 basis points of our improved full year margin outlook. This is reflected in our updated full year guidance. We are not assuming any additional refunds going forward. With that in mind, we anticipate, for the third quarter of fiscal 2026, net sales of $370 million to $380 million; adjusted gross profit margin of approximately 40.8% of net sales; adjusted SG&A expenses of approximately $100 million; adjusted interest and other expenses of approximately $4 million, an adjusted effective income tax rate of approximately 27.5% and fully diluted weighted average share count of approximately 58.2 million shares.

And for the full fiscal year of 2026, which, as a reminder, is a 53-week year for Interface with the extra week occurring in the first quarter of 2026, we anticipate net sales of $1.455 billion to $1.485 billion; adjusted gross profit margin of approximately 40.6% of net sales; adjusted SG&A expenses of approximately $395 million; adjusted interest and other expenses of approximately $15 million; an adjusted effective income tax rate of approximately 26% and capital expenditures of approximately $60 million.

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

Laurel M. Hurd
President, CEO & Director

Thank you, Bruce. Interface delivered a strong second quarter, and we're encouraged by the momentum we're building across the business. Growth was broad-based across all regions, product categories and primary market segments, reflecting the strength and diversification of our business.

Our strong financial position provides us with the flexibility to continue investing in the business while also returning capital to shareholders. With strong order momentum and backlog entering the second half of the year, we are well positioned to deliver another year of strong performance. I want to thank the entire Interface team for their continued execution and their passion for serving our customers every day.
And with that, I'll open it up to questions. Operator?

Question and Answer

Operator

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

Brian Biros
Thompson Research Group, LLC

Can you talk about the margins for Q3 and Q4 a little bit more? Q4 seems to imply a decline year-over-year. It sounds like that's mostly the timing of the flow-through of kind of the increased cost that I think you already put price through. So maybe just a little bit more finer point on the puts and takes for that would be helpful.

Bruce A. Hausmann
VP & CFO

Yes, you got it, Brian. It's just the timing of the flow-through. We feel really good about the gross margins, not just the historical performance that we're seeing throughout the year, but also about our forward projection.

If you look at the back half in total, gross margins are around 39% in the back half in our guide, which is ahead of our ambition, as you might remember. And if we can achieve that for the full year, if we can achieve that for Q4 -- or I'm sorry, for the back half, it'd be up about 60 bps. And if we can achieve that for the full year, we'd be up about 100 bps off of our baseline. So we feel really good about gross margins going forward.

Brian Biros
Thompson Research Group, LLC

That's a good lead into my next question, which was going to be about gross margin going forward. I know long-term guidance before was kind of the 38.5%. And I think it kind of ramped up a little bit to 39%, which I think is what you delivered last year. And you said you might finish above that this year even without the tariff refund. So is there a different view of margins going forward? Or how would you phrase that at the moment?

Bruce A. Hausmann
VP & CFO

Yes. We're -- the way we're thinking about that, Brian, is you think about the back half run rate around 39%. We feel really good about that. Again, that will be up about 60 bps year-over-year off of our baseline. We feel really good about the run rate for the full year being up about 100 basis points off of our baseline. And as we move into the year, we're going to continue to navigate it and continue -- we know that we have -- our job is to continue improving margins. And we feel really good about how we're going into the back half and how we're going into the future periods.

Laurel M. Hurd
President, CEO & Director

I'll just add on that, Brian. We're committed to continuing margin expansion. So we're ahead of where we thought we'd be. We continue to outperform. Our productivity initiatives are delivering ahead of our expectations. And yet we know it's a really volatile marketplace. So we're watching that, but we feel really good about our ability to continue to grow our margins.

Brian Biros
Thompson Research Group, LLC

Understood. On the guidance raise, it seems like it was mostly on the Q2 beat maybe, but you also talked about the increase in backlog and the order momentum giving you the confidence to raise the guidance.

So just trying to gauge, I guess, if there's anything in the second half that is slightly expected to be better than you previously thought or if it really is just the Q2 beat?

Laurel M. Hurd
President, CEO & Director

Q2 came in ahead of our expectations, as you said, and we're pleased with that. We feel good about our momentum, which -- we felt good about our momentum last quarter as well when we provided full year guidance. So, nothing has really changed on that front. We still feel good. We came in a little bit better in Q2, and we'll see what happens for the back half.

Bruce A. Hausmann
VP & CFO

Yes. And Brian, coming off of a really strong quarter and strong first half operationally, it was great to see all the broad-based growth globally across all of our geographies, all of our products and all of our key market segments. So it gives us confidence in the solid momentum going into the second half, which we feel really good about.

Brian Biros
Thompson Research Group, LLC

Great. And then last one for me, I think, just on Education, up 5% in the quarter on an 11% comp, which I think was also then on a 13% comp a year before that. So great growth there over the last 2, 3 years. Can you talk about the strength of that market and your position there? I mean it seems like the more approachable price points are working. And I just want to make sure that we aren't confusing the trend there of the lowering percentage, just how larger numbers work.

Laurel M. Hurd
President, CEO & Director

Yes, exactly.

Brian Biros
Thompson Research Group, LLC

But it's not slowing and it almost seems like it's getting stronger and I just want to make sure that's clear and give you guys a chance to talk to that.

Laurel M. Hurd
President, CEO & Director

Yes, that's great. So we feel great about our Education business, as you said, a strong quarter on -- its sort of growth on growth on growth. And as you said, it's becoming a much bigger, bigger piece of our business. So to grow on top of it is really impressive. And I think it's a few things. We love the macros in the Education space. There's a lot of activity there, both in K-12 and higher education. But we remain really well positioned.

Our approachable price points in both carpet tile and LVT have definitely helped us gain share there. And we're also selling nora, especially in K-12, which is one of our fastest-growing markets as well. So we're finding really selling across the portfolio is helping us grow that market as well.

Operator

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

David Sutherland MacGregor
Longbow Research LLC

Congratulations on all the progress. Obviously, a lot of focus around gross margins here and just what you have been able to accomplish. And I realize there's a lot of moving parts. You talked about sales volume and pricing and mix and efficiencies. Can you help us understand just kind of maybe bridge for us the

131 basis points and just help us understand the composition of that growth? How much of it is volume leverage versus the mix, the pricing and the efficiencies?

Bruce A. Hausmann
VP & CFO

Yes. As you pointed out, David, it's a mixture of all those things. The automation and robotics that we have put into our manufacturing facilities are a large piece of that 131 basis points of operational improvement. I think the key thing that is encouraging to us is these are durable and structural changes that we made to the business, which really help us on a go-forward situation. So -- and that obviously has informed our strong guide around gross margins in the second half of the year.

David Sutherland MacGregor
Longbow Research LLC

And maybe mix as well, if you could talk to the contribution from mix. It sounds like [nora] was pretty strong.

Bruce A. Hausmann
VP & CFO

Yes, mix definitely helps. That's one of the things I love about Laurel. She has just really, really helped ingrain that into the organization, how important that is. really focusing on mix, and it's around geographic mix, product mix. And that's a huge helper, obviously as well, is helping us to improve our margins.

Laurel M. Hurd
President, CEO & Director

And also, David, the price that we took helped read through as well. So, it was a mix of all those things.

Bruce A. Hausmann
VP & CFO

Yes. We mentioned we did take some proactive pricing. We're seeing and you're aware of this, David, we mentioned this on our last call. We're seeing low single-digit inflation cost increases in our raw materials. So we did do some proactive pricing in Q2. And obviously, as you know, the mechanics of the accounting, that's -- those costs sit up in inventory, but they flow through the P&L in future quarters. So...

David Sutherland MacGregor
Longbow Research LLC

Right. which gets back to your timing observation around 3Q versus 4Q gross profit.

Bruce A. Hausmann
VP & CFO

Exactly. That's just how they flow.

David Sutherland MacGregor
Longbow Research LLC

Sure. Within nora, and I realize you've got a mix there of different products. But -- and you talked about noravant and the progress you made there with the PVC-free product. But can you just talk about norament and data centers and the extent to which you feel you're succeeding with that product in heavier gauges in data center markets?

Laurel M. Hurd
President, CEO & Director

Yes. I think data centers is still small for us. It's something that we've got a bit of success in, but really where we're seeing the success is in labs. So we've got strong performance throughout in bio, in labs, in higher education. And a lot of our corporate relationships that historically we've sold carpet tile and LVT to some of the strong, whether it's pharma or biotech companies, we're now selling nora and norament into their labs. So that's, I think, the play that has been really successful for us.

David Sutherland MacGregor
Longbow Research LLC

Okay. And just sort of leveraging off the story of success, maybe just talk about product innovation as a driver behind expanding total available markets and just what that might represent as you think longer, maybe 2, 3 years out, how you are expanding the total available market? You've got the medium price point now with the carpet tiles as well. So I realize it's happening in a number of different places within the mix. But just how should we think about that as a top line driver?

Laurel M. Hurd
President, CEO & Director

Yes, it's a great question, and we're really focused on the product portfolio. I'm pleased with the progress that we're making. And we think about it really in 2 buckets. The first is, how we drive market share gains in our existing markets, and we're focused on that day in and day out. And then really, as you said, continue to focus on where and how can we best expand our addressable market in a way that really suits our brand and also holds up our margin requirements and fits our selling system.

So, a few examples. As you said, there's approachable price point in carpet tile, and that's been really successful. We're expanding the Open Air collection, and we're also launching our next platform on that. So we're really pleased in carpet tile. We've done that consistently across our other product forms.

So LVT, we have a more approachable price point of LVT and a thinner gauge. And then we also have some noraplan rolled goods that are at more approachable price points. So we've been taking that consistently across our product portfolio. And then the other example of that, as you said, is noravant and our first launch of noravant Timber, the wood grain look, which takes all the benefits of rubber and adds this new design element, which is primarily -- the primary opportunity for that incrementally is really patient rooms, as we've talked about.

So that's another example of -- that's really going after the premium end of the vinyl sheet market that we don't play in today. So we're thinking about that really systematically looking category by category and how we can continue to expand the market.

Bruce A. Hausmann
VP & CFO

And David, with all that interesting stuff that -- with all that stuff that Laurel articulated, I think it's really helped us diversify the company. And I think we're seeing the results of that in the P&L. When we're able to say quarter-to-quarter, and we've been able to say this for a while, all product lines are growing. and that we're growing in our key market segments consistently. And this quarter, we grew very broadly across geographies. It's really encouraging to see this -- the innovation really kicking in on the P&L and on the results.

David Sutherland MacGregor
Longbow Research LLC

Yes, it definitely is. And just to tie this back to capital allocation, do you feel like you've got sufficient capacity in place right now to support the expansion of your total available markets?

Laurel M. Hurd
President, CEO & Director

Yes. I would say at this point, we feel good about our ability to support demand. And the good news about things like the productivity and automation investments in our nora facility in Germany is those kind of -- they do a few things for us. They help improve our efficiencies. They're actually some of the toughest jobs to fill that we're automating, and they help us drive more throughput. So it helps enhance our customer service levels and increases our available capacity. So that's how we're looking at it today, but we're watching it regularly to see if we need to continue to expand and invest, which we'll do.

David Sutherland MacGregor
Longbow Research LLC

Got it. Last question for me is just, you mentioned back to the office or back to work as a driver in the Corporate segment. Where do you think we are in that journey? Are we in early innings, mid-innings, late innings? Just what's your sense from what you're hearing back from your sales people?

Laurel M. Hurd
President, CEO & Director

Yes. In Corporate, we've said for a while, we feel really good about the corporate space, and it fits so well with the Interface brand and our value proposition because there is such a strong return to work. I think it's accelerating. I would say people are really coming back to work around the world. I see it everywhere I go. And the need to update the office space to the new ways of working is happening. So we're seeing a lot of renovation work. And it feels on the early end of that, certainly as more and more companies are bringing people back.

David Sutherland MacGregor
Longbow Research LLC

How much forward visibility do you have on that?

Laurel M. Hurd
President, CEO & Director

I mean it's talking to customers and the trending that we're getting and thinking about the work that's coming through the A&D firms. So it's -- we see it in our opportunity pipeline, certainly, and then obviously, in the order book as it flows through. A lot of it is just feeling the market and getting out there with customers.

Bruce A. Hausmann
VP & CFO

And David, you're aware one of the great dynamics of our business is just the lease turn rates. So when leases are turning, it typically means some sort of renovation remodel around, oftentimes flooring and paint. And so as those leases are turning and as companies are thinking about the design of the future of their office or landlords are encouraging tenants to stay and providing tenant improvement dollars to do that, all that kind of goes into this mix around the R&R work that we're seeing in office, which is really helpful for our business.

David Sutherland MacGregor
Longbow Research LLC

Are you still seeing pretty high levels of tenant improvement budgeting?

Bruce A. Hausmann
VP & CFO

Yes, we are.

Laurel M. Hurd
President, CEO & Director

Yes.

David Sutherland MacGregor
Longbow Research LLC

Those dollars are still there. Congrats on all the progress.

Operator

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

Alexander Peter Paris
Barrington Research Associates, Inc.

Congrats on the beat and raise. I got a couple of questions. First off, performance was led by Healthcare with global billings up 19%. Corporate and Education were both up 5%. Are there any other markets to call out, customer segments to call out beyond the big 3, government, retail, et cetera?

Laurel M. Hurd
President, CEO & Director

No. If I look at -- the big 3 really account for the majority of our business and our primary focus. The government was up a little bit. Our retail business was up a little bit. So nothing really notable outside of the ones that we've highlighted.

Alexander Peter Paris
Barrington Research Associates, Inc.

All right. Then perhaps we can dive a little deeper into Education. Q2 is really the education season, but I think that also bleeds into Q3 as well. What does Q3 look like?

Laurel M. Hurd
President, CEO & Director

So it's really -- most of the billing has happened in Q2 as we ship the product in time for renovations that happen before kids go back to school. So, again, as you said, we had a really strong Q2 and feel good about where we are for Q3 as well.

Bruce A. Hausmann
VP & CFO

Yes. And it's coming off of double-digit growth. I feel really good. Education is -- we have such a great value proposition in that space. We feel really good about our momentum there and about our value proposition, about the future.

Alexander Peter Paris
Barrington Research Associates, Inc.

And within education, what are the strong product lines? Obviously, you talked about it before, design leadership, low-carbon, high-performing products, carpet tile, LVT, maybe some additional color there on product categories.

Laurel M. Hurd
President, CEO & Director

Yes. It's really -- so what does -- if I take -- I'll take it in pieces, K-12 our carpet tile does well in the kind of approachable price points. We've launched some colors, so the brighter colors are strong for that market. So we've got some new collections that are doing well there as well as LVT has also historically been really strong in K-12. And then as I mentioned briefly, nora has been a really strong growth driver in K-12 as well.

It sort of started in the cafeteria space and the maintenance folks in K-12 really, they love working with the product. It's easy to clean. So we've seen growth in nora as well. And then in higher education, again, it's really across categories. So we'll see LVT in some of the living spaces. We'll see carpet throughout the education buildings. And in labs and science spaces, we've got nora. So it's a cross-category sell there as well.

Alexander Peter Paris
Barrington Research Associates, Inc.

Great. And then regarding the tariff refunds, I think you had said last year that about 15% to 20% of your COGS are subject to tariffs. What did you pay in tariffs in 2025? And is this -- I know there's no further tariff refunds in your guidance, but is this one and done?

Bruce A. Hausmann
VP & CFO

Well, it still holds true that about 15% to 20% of our COGS are subject to tariffs. We're paying those every day still. The refund that we got was the IEEPA tariff refunds that we -- and it was a onetime refund. That's the Supreme Court ruling that those were deemed illegal. So we filed for the refund. That was for the tariffs that we paid as a blend of last year and this year, sort of blended over the 2 different periods. But we're still subject to tariffs, and we're still paying tariffs every single day going forward. And that's baked into our guide.

Alexander Peter Paris
Barrington Research Associates, Inc.

Yes. So the $15.6 million you got, that's part of the new revised full year guidance.

Bruce A. Hausmann
VP & CFO

Correct. And the ongoing tariffs that we're going to -- that we believe we're going to have to continue paying around 15% to 20% of our COGS are subject to tariffs. That's in our guide as well.

Alexander Peter Paris
Barrington Research Associates, Inc.

Got you. And then on proactive pricing, just to be clear, you said you're seeing raw material cost increases, inflation, and this is an attempt to get ahead of those increases.

Laurel M. Hurd
President, CEO & Director

Yes. I think as we said, we took -- we've taken price across the market, really across the globe in response to the known increases that we were getting in our input costs. And our teams are really effective at executing price increases. I'm proud of the work that they've done to get ahead of it and it flows through the P&L over time with inventory.

Alexander Peter Paris
Barrington Research Associates, Inc.

Great. And then last question for me. Repurchases in the second quarter, repurchases in the first half. I think it was $8.8 million in the second quarter and around $21 million year-to-date. Is this new or accelerating? It is opportunistic, obviously. What color can you put around share repurchases?

Bruce A. Hausmann
VP & CFO

Yes. You've got the numbers right. So it's around $21 million year-to-date. Our thinking on that is just disciplined and opportunistic. And we're going to continue to return excess cash to shareholders through share repurchases and through dividends. We -- that's a key part of our balanced capital allocation strategy.

Alexander Peter Paris
Barrington Research Associates, Inc.

And how many shares did you repurchase in the second quarter? How many shares did you repurchase year-to-date?

Bruce A. Hausmann
VP & CFO

Around 310,000 shares. So...

Alexander Peter Paris
Barrington Research Associates, Inc.

That's year-to-date?

Bruce A. Hausmann
VP & CFO

No, that was in the second quarter. In the first quarter, it was...

Alexander Peter Paris
Barrington Research Associates, Inc.

Oh, that was in your quarter.

Bruce A. Hausmann
VP & CFO

Yes, $461,000 in the first quarter.

Operator

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

Reuben Garner
The Benchmark Company, LLC, Research Division

Congrats on the strong quarter. Let's see, so Healthcare and Education, obviously, very strong. If you said a Corporate or an office growth rate, I didn't hear it. But just curious, the -- what the opportunity there is to see an acceleration? You mentioned return to office. There's also some other pretty strong leading indicators, whether it's lease turnover, absorption, just general business confidence recoveries that have been on the way up. Like how do you think about the office portion of your business on a go forward? And can you remind us what percentage of your business that is today? I know it's probably much smaller than it was even just a few years ago.

Laurel M. Hurd
President, CEO & Director

Yes. So the Corporate Office grew 5% in the quarter. So we had strong -- and it was really broad-based growth across the globe. So we're seeing that return to work trend really helping us. And it's a few things. It's not only return to work, but there's also a flight to quality. So when folks are -- companies are looking at their space, it's that Class A space that's really driving the activity.

And -- sorry, excuse me, fighting a cold. So the underlying trends there are great really around the globe, and we're continuing to see that. It represents -- Bruce, what's the number year-to-date.

Bruce A. Hausmann
VP & CFO

Yes. Office is around -- year-to-date, it was around 44% of our total billings. Yes.

Laurel M. Hurd
President, CEO & Director

But we feel great about it. We felt great about it for a while. I think it's still early days as folks are coming back to work. And we've got a really good -- we're selling across the product portfolio. We're also leveraging our Interface Design Studio, does a really nice job helping our customers design for what comes next after return to work and more need for collaboration space. Sometimes it makes the floor plate more complex to design. And they do a great job helping them. And when they work with our customers, we really sell across the portfolio across LVT, carpet tile and nora as well.

Reuben Garner
The Benchmark Company, LLC, Research Division

Great. And then new products-wise, I can't remember the name of the product, but at NeoCon, there was a new health care product launched. How is that launch gone? Is that a meaningful portion of the growth that you've seen? Or is that something that will take a little bit more time to kind of be material within your Healthcare results?

Laurel M. Hurd
President, CEO & Director

Yes. Thanks for mentioning that. The noravant timber is the new product that brings all the benefits of rubber with a wood grain look that you saw at NeoCon. And that's not really reflected in our Q2 Healthcare numbers. So we just launched that to the market. NeoCon was the first place that we showcased it and got samples to our sellers in late Q1. And that really starts with sampling and then mockups.

We're really pleased with the progress to date. It's early days. It will be a meaningful new platform for us. We've gotten some strong specs from our A&D customers and some major health care systems. So we're feeling really confident about it, but that's yet to come. That will really help impact our long-term growth in health care as we continue to expand the portfolio with noravant.

Reuben Garner
The Benchmark Company, LLC, Research Division

Got it. And then last one for me. The SG&A spending a little bit higher than we had, and I think it came up. Can you just talk about a couple of things? One, is that where we would see the bulk of the freight inflation impact? And two, the mix benefits that you're getting on the gross margin line, are there offsets in terms of selling expenses or otherwise that we need to think about going forward?

Bruce A. Hausmann
VP & CFO

Yes. So just to clarify the geography in the P&L, the freight, most of the freight lands on the cost of goods sold line, not the SG&A line. So what we're seeing on the SG&A line, the increase in dollars is mostly due to variable selling commissions. I'm sure you noticed that we overachieved the high end of our net sales guide. So I'll take that all day long. We had to pay more variable sales commissions to our selling people as a result of that. And by the way, I think I'll take that all day long.

So, and also just variable comp -- we do have a variable comp that affects all employees around the globe. That has also increased the dollars as a result of the stronger sales and strong business performance that we're seeing. And then one last thing. We had foreign -- if you just look at it in U.S. dollars, foreign currency actually in USD also affected the dollars as we translated things like euro and Australian dollars into U.S. dollars. It increased the dollars of SG&A spend that you see on the P&L when we translate everything into USD.

But we -- I want to just -- kind of get on in front, we are all over SG&A. We know where every dollar is spent. We have a ton of discipline in this area and a management team that knows that we need to continue being really disciplined with our SG&A spend, being really thoughtful about it and being really thoughtful and knowing that we need to be generating margin expansion on that line. So I don't want that to get past us because it's a really important topic that we talk about regularly as a team.

Laurel M. Hurd
President, CEO & Director

And I'll jump in on that, too, Reuben. The -- as we've said a couple of times, like we're focused on really disciplined, and Bruce is an amazing partner in helping make sure that we stay really disciplined in our SG&A on the front end of the business, so sales commissions, our selling organization, innovation, we're spending in that area and really tightening up everything that doesn't touch the customer or innovation.

Operator

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

David Sutherland MacGregor
Longbow Research LLC

I thought I'd circle back with a couple of sort of bigger picture questions. And you had mentioned that you're ahead of plan on the gross margin journey, if we can call it that. I guess what I'm trying to get at is how much of this is maybe how you're thinking about the destination or the terminal rate? Or as you think through the implementation of everything you're working on here, I'm sure in the back of your mind, you've got some sense of this is ultimately where I think maybe 2, 3, 4 years down the road, we can get gross margins. Is that number changing? Is that number migrating higher and higher as we go? Or is this really just kind of we're just pulling things forward faster and the terminal rate probably hasn't changed much?

Laurel M. Hurd
President, CEO & Director

So I appreciate the question. And if you remember back a ways, we had about -- we have 38.5% as our destination. And we said that's where we want to get to by 2030. And we're there ahead of where we thought we'd be and we're higher than we thought we'd be because all these things are really coming together with price and mix and all the efficiencies are really working well together.

So -- and that said, I'd say it's a really -- it's a dynamic world out there with a lot of input cost challenges and the tariffs back and forth and all of that. So we've been -- we haven't stated a new destination, but our goal is to continue to improve our margins and navigate the uncertainty while driving growth and making sure that we're focused on driving innovation and mix and everything else so we can continue to expand our margins.

David Sutherland MacGregor
Longbow Research LLC

Got it. I guess second question. And you talked about just kind of back to the office, and I asked you about that earlier. And I guess what I'm trying to get a sense of is, as you talk to architects and designers and you talk to corporate sponsors on a lot of these projects, to what extent do you think people have sort of moved on from thinking about workplace furnishings and the finishing of the environment of the office is just we need to spend this money, so our people have a place to work and thinking about it more in terms of a recruiting strategy.

And if I'm going to get the very best in human capital, I have to really invest in the workplace and all the new amenities to attract the best and the brightest. And so all this money that's being spent on the workplace environment is really more integrated within to how people are thinking about human capital costs rather than just outfitting a workspace.

Laurel M. Hurd
President, CEO & Director

Yes, absolutely. You're absolutely right there. And I think initially, we felt it was a -- everybody come back to work. And I think what companies found is that when they mandated, their employees came back and they came back to maybe the same office space that they had left. It wasn't what they needed anymore. And so there was a lot of employee dissatisfaction with man, I came back to the office. I don't have a place for collaboration. I don't have a quiet room for a Teams or a Zoom call.

And so just as you said, the customers have really found that they need to invest in their office space to get the best and brightest talent. And we're seeing more and more of that. I mean the discussions that we have with our customers aren't about what color carpet they want. It's really about what environment are they trying to create for their employees? How can they denote one space as, "This is the space to collaborate." And in another part, to denote that it's a really quiet space for concentrated work.

Those are things that our customers are trying to solve and we help them do every day. But you're absolutely right, it's much more about human capital management and having a workplace that they can be really proud of to encourage recruitment and retention.

Bruce A. Hausmann
VP & CFO

And another dynamic that we're seeing, Dave, is that this is becoming more and more of a data-driven decision. Employee engagement surveys are -- have been around for a long time. But more and more companies are doing them, paying attention to them. And so many of the employee engagement surveys ask employees about their work environment and how they feel about it.

And as companies are trying to improve those scores and trying to have stronger employee engagement and trying to have stronger employee engagement scores, they're trying -- this is a very tangible way that they can address, by improving their space, improve those scores and we were so pleased at our scores and the certifications that we were able to get.

And, full disclosure, we had one remote location where we get some feedback that we need to upgrade the space, and we're going to do that because we know that that's important. And so, it's just pulling out the mirror, it's a tangible way that we're going to help improve our scores internally, and we see our customers doing the same thing.

David Sutherland MacGregor
Longbow Research LLC

Great. And then let me ask one more last one here, just looks like we've got a couple of minutes. AI, I mean, are you seeing people bringing up AI as a reason to sort of pause on spending? Or I'm not quite sure what our headcount is going to look like a year or 2 years from now? I think we're going to hold off on these projects? Or is this just a nonissue in your world?

Laurel M. Hurd
President, CEO & Director

Yes. I wouldn't say we're not hearing that. We certainly hear -- we get the question a lot of like how is this going to impact the workplace environment. And yet whether I'm out in the Bay Area meeting with tech customers or anywhere else around the world, it's not something that we're feeling slowing anything down. I think if anything, people want to encourage their workers to come back, as you said, we're not seeing people pause to say, I need to see what happens with AI before I make any transition. I think it's the opposite. They're getting ahead of it to really encourage and have the best and brightest talent.

Operator

There are no further questions at this time. I will now turn the call back to Laurel Hurd, President and Chief Executive Officer, for closing remarks.

Laurel M. Hurd
President, CEO & Director

Well, thank you all for joining us today. Thanks again to the Interface team for everything you do, and we look forward to speaking to you again next quarter.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.