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# Lennox International, Inc. (LII)

Q1 2025 Earnings Call

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**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Lennox First Quarter Earnings Conference Call. All lines are currently in listen-only mode and there will be a question-and-answer session at the end of the presentation. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to turn the call over to Chelsey Pulcheon from Lennox Investor Relations. Chelsey, please go ahead.

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### Chelsey Pulcheon

*Director-Investor Relations, Lennox International, Inc.*

Thank you, Margot. Good morning everyone. Thank you for joining us as we share our 2025 first quarter results. Joining me today is CEO, Alok Maskara; and CFO, Michael Quenzer. Each will share their prepared remarks before we move to the Q&A session.

Turning to slide 2. A reminder that during today's call, we will be making certain forward-looking statements which are subject to numerous risks and uncertainties as outlined on this page. We may also refer to certain non-GAAP financial measures that management considers relevant indicators of underlying business performance. Please refer to our SEC filings available on our Investor Relations website for additional details, including a reconciliation of GAAP to non-GAAP measures. The earnings release, today's presentation, and the webcast archive link for today's call are available on our Investor Relations website at [investor.lennox.com](http://investor.lennox.com). Now, please turn to slide 3 as I turn the call over to our CEO, Alok Maskara.

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### Alok Maskara

*Chief Executive Officer & Director, Lennox International, Inc.*

Thank you, Chelsey. Good morning everyone. Before we get into the details of our quarterly performance, I want to start by recognizing the incredible effort and adaptability of our team and the loyalty of our customers. The current trade environment has introduced several new uncertainties and I am proud of how our organization continues to respond with focus, agility and a commitment to improve our customers' experience. The ability to navigate these changes while staying grounded in our core values is what enables us to deliver differentiated growth in even the most complex environments.

Let us turn to slide 3 for an overview of our first quarter financials. Revenue this quarter grew 2%. Our segment margin was 14.5%, a decrease of 140 basis points. Operating cash usage was \$36 million, which is typical given the seasonality of our business. Adjusted earnings per share in this quarter was \$3.37. We are seeing steady transitions to our new low GWP product across both Home Comfort and Building Climate segments. Current order rates in both the segments remain healthy as replacement demand continues to provide a solid foundation.

In HCS, we did not experience much destocking in Q1 but continued to expect some destocking in the second quarter. In BCS, we had a slow start to the year given the expected destocking and the timing of low GWP transitions. BCS margins were impacted due to short-term inefficiencies related to the manufacturing transition and new factory start-up. We now estimate that our full-year adjusted earnings per share will be within the narrowed range of \$22.25 to \$23.50. This updated guidance includes all known and anticipated impacts of tariffs, including incremental price actions, inflation and potential volume softness.

Now please turn to slide 4 to review the tariff landscape and how it is influencing economic outlook in each of our segments. As we navigate the current global trade landscape, I want to highlight why we feel that Lennox is competitively positioned to deliver differentiated growth even during this period. Approximately 90% of our cost structure is in North America, which includes the USMCA compliance spend in Mexico. This spend is not directly impacted by tariffs but faces indirect tariff impacts, including price of commodities such as steel and aluminum. Approximately 10% of our spend faces direct impact of tariff and about half of that spend is from China. Our exposure to China manufactured products has been declining over the past few years and the JV with Samsung is another big step towards reducing our exposure to tariffs on imports from China.

We are actively pursuing longer-term tariff mitigation strategies, including production shift to better serve our US and Canadian customers. We are also working closely with our supply partners on tariff-sharing models and leveraging more US-based components to enhance flexibility within our North American network. Anything we cannot mitigate through these measures is being offset by pricing adjustments or surcharges. Majority of our manufacturing and distribution is in the United States, giving us the resilience and flexibility to win during these tariff and regulatory changes. We continue to invest in our supply chain with increased manufacturing capacity and by dual-sourcing key components. The competitiveness of our supply chain is significantly stronger than it was during prior disruptions, including severe weather events and the pandemic.

Through all of these, our focus remained on being a reliable and a transparent partner to our customers. As the trade landscape continues to evolve, we are confident in our ability to adapt while continuing to drive long-term value for all our stakeholders. In addition to the evolving tariff landscape, we are also closely monitoring key macroeconomic factors affecting both our Home Comfort and Building Climate Solutions segment. In HCS, consumer confidence and mortgage interest rates continued to influence homeowner decisions, particularly around new home construction and large renovation projects. Our replacement demand has remained relatively stable and to-date we have not observed any adverse trends in the repair versus replace trade-off.

In our BCS segment, monthly order rates improved sequentially as destocking ended during the quarter. Our full lifecycle value proposition for key account continues to gain traction, resulting in incremental share gains. We are driving positive momentum due to increased availability of our emergency replacement products, but at the same time, we are mindful of potential delays and projects slowdown related to both tariff impacts and the transition to new low GWP products.

I will now hand it over to Michael to walk you through our financial results and full-year guidance.

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## Michael Quenzer

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

Thank you, Alok. Good morning everyone. Please turn to slide 5. In the first quarter, we experienced complexities driven by the regulatory transition and rapidly changing tariff implications. Despite these challenges, we had solid execution and achieved a 2% revenue growth driven by favorable mix initiatives from our new R-454B products. These initiatives are progressing as expected and are poised to deliver more growth in the coming quarters. Segment profit was \$11 million lower than the prior year, primarily due to the timing of LIFO accounting for tariff-related costs, which were recognized ahead of benefits from pricing actions. Additionally, BCS faced cost headwinds due to expected inefficiencies from the new factory ramp-up and regulatory transition, coupled with increased investments to support our emergency replacement growth initiative.

Let's now turn to slide 6 to review the Home Comfort Solutions segment performance. Home Comfort Solutions delivered another solid quarter, successfully managing challenging end markets as the industry transitions to the new low GWP equipment. This transition is progressing as expected and our R-410A inventory levels are nearly

depleted. Sales increased by 7%, driven by positive mix as approximately 50% of our equipment sales in the quarter were the new R-454B product. Price yields for this product were in-line with our 10% expectation. Sales volumes were flat to prior year as the destocking headwinds from the fourth quarter of 2024 pre-buy were offset by stocking of the new R-454B products. Operating margins declined due to tariff and commodity-related cost inflation as well as investments in distribution designed to enhance product availability.

Moving on to slide 7. The Building Climate Solutions segment experienced a 6% decline in revenue with sales volumes down 9% due to expected destocking and delays in customer orders caused by the transition to the new R-454B product. Our emergency replacement initiative is showing steady progress driving growth in this specific revenue segment. Additionally, our emergency replacement inventory is well-positioned for the upcoming summer season. Although, we encountered some customer order delays with the new R-454B product, the mix yield achieved on this new product met our expectations. Segment profit decreased by \$25 million due to tariff-related cost headwinds, anticipated factory inefficiencies and increased SG&A investments to support our emergency replacement growth initiative.

Turning to slide 8, let's review cash flow and capital deployment. In the first quarter, operating cash outflow was \$36 million, compared to \$23 million in the prior year. This increase was primarily due to inventory investments aimed at enhancing customer experience through better fulfillment rates. After several years of significant capital expenditures to expand factory capacity, capital expenditures have now moderated in-line with depreciation. We continue to prioritize our capital expenditure investments in front-end digital systems and initiatives to improve the efficiency of our distribution network. We maintained a strong balance sheet with net debt-to-adjusted EBITDA at 0.8 times, an improvement from 1.4 times in the prior-year quarter. Amid ongoing global macroeconomic uncertainties, we remain committed to preserving a disciplined leverage profile while supporting strategic bolt-on M&A opportunities and efficiently returning excess capital through share repurchase programs.

If you will now turn to slide 9, I will review our 2025 full-year guidance. Based on the first quarter results and the latest end-market outlook, we are confirming our revenue growth of 2% and raising the lower end of our adjusted EPS guidance to \$22.25 from \$22. Consequently, our adjusted EPS guidance range is now \$22.25 to \$23.50. Since our last guidance, we have three key assumption changes. First, due to the tariff-related costs, we now expect our total cost inflation to be 9% compared to our previous guidance of 3%. This includes the estimates for both direct tariffs and the secondary effects of tariffs on our suppliers. Second, to mitigate tariffs, we have implemented two new price increases effective early in the second quarter, which will boost our price gains to 7%, up from the previous guidance of 1%. Finally, due to the possible macroeconomic weakness and BCS order delays in the first quarter, we now anticipate sales volumes, excluding the impact of the 2024 pre-buy destocking to decrease by 4% compared to the previous guidance of a 2% increase.

With that, please turn to slide 10 and I'll turn it back over to Alok.

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## Alok Maskara

*Chief Executive Officer & Director, Lennox International, Inc.*

Thanks, Michael. Nice job. To close, I would like to highlight why Lennox remain a compelling opportunity for all our stakeholders even amid today's uncertainties. The attractive growth of our industry, supported by steady replacement demand provides a strong foundation for our growth initiatives. These initiatives drive growth through enhanced customer digital experiences, expansion in the ductless market via our Samsung joint venture, new capacity for commercial replacement product and the continued growth of our parts and services portfolio. We continue to expand our resilient profit margins to fully capture the benefit of being a manufacturer and a distributor through pricing, productivity, and mix optimization.

Our recent investment in upgrading our distribution network will further increase customer satisfaction while expanding our profit margins. Our commitment to consistent execution has been evident in how we have managed recent regulatory transitions while gaining share and expanding margins. Over the past few years, we have also delivered higher fill rates and Net Promoter Score, strengthened by customer experience and reduced customer churn. These wins are supported by the continued rollout of our Lennox Unified Management System, which provides a structured operating framework that drives accountability, process excellence and continuous improvement across the entire organization.

We are making meaningful strides in advanced digital technology to upgrade both our product offerings and how customers interact with us. Upgrades to our e-commerce platform have simplified the customer journey, increased loyalty and AI capabilities have improved attachment rates. We are also strengthening our competitive differentiation by leveraging our proprietary data assets. These proprietary data assets are best-in-class within the HVAC industry given that we have been both a manufacturer and distributor for over 130 years. At the same time, we are broadening our ducted and ductless heat pump line-up to meet rising demand and are continuing to embed intelligent diagnostics and controls into our systems, helping our customers operate more efficiently and with greater confidence. Underpinning all of these investments is our talent and culture. Our high-performing team is grounded in our core values and guiding behaviors. Our pay for performance structure reinforces alignment, empowering our teams to focus on the levers that drive profitable growth.

As I look forward, I remain confident that our best days are ahead. Thank you. We will be happy to take your questions now. Margot, let's go to Q&A.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you so much. [Operator Instructions] And we'll take our first question from Ryan Merkel with William Blair. Please go ahead.

**Ryan Merkel**

*Analyst, William Blair & Co. LLC*

Q

Hey. Good morning everyone and good job with the script given all the moving pieces. Wanted to...

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Thanks, Ryan.

**Ryan Merkel**

*Analyst, William Blair & Co. LLC*

Q

...start with the commercial. Yeah, of course. Wanted to start with the commercial, which was the surprise for the quarter. Just talk about the order delays that you saw, why was that? And then more importantly are we past that issue? It sounds like orders have improved. Is that the right read?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. I think Ryan that's the right read. We had a very slow start and we talked about destocking in commercial but it happened sooner than we had anticipated. And essentially for the first few weeks of the quarter, everybody

was waiting for the new products to get established, get their tools upgraded and people were just finishing up their jobs with R-410A. But order rates improved sequentially. Our productivity also took a hit changing these lines from R-410A to R-454B, while moving some lines from Stuttgart to Saltillo. All of that we were able to do because of the slowdown or pause in some of the sales. But, yeah, it's largely behind us. I would expect some inefficiencies to continue in Q2 but then we start lapping the start-up cost that we were having last year. So I would think of it as more of a one-time event with some inefficiencies carrying into Q2.

**Ryan Merkel**

*Analyst, William Blair & Co. LLC*

Q

Got it. Okay. Helpful. And then my second question is just on the outlook. And I realized there's a lot of uncertainty but can you talk about the decision to lower the resi volume to now down mid-single digits versus flat prior. And then commercial, same thing down low single-digits versus up mid-single digit prior? Just curious what the drivers are and are you seeing any of that slowdown in April or are you just trying to get ahead of expected slowdown?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

We are trying to get ahead of the expected slowdown, if there is any. We have not seen any slowdowns. In fact, Michael and I were checking out orders and everything right before the call. No. I mean we have not seen any slowdown. We just read the same news you guys read. And if like tariffs slowdown the US economy with inflation, we are just prepared for that. I mean it's highly uncertain as you said. I think the core assumption which we stand behind is that if inflation and pricing causes any macro slowdown, like our results are still going to be managed as we offset tariffs with pricing and volume declines will again get offset because we have additional pricing that will take effect. But our visibility is no more than anybody else's. And just to go back, we have not seen any slowdown in either of the segments right now.

**Ryan Merkel**

*Analyst, William Blair & Co. LLC*

Q

Got it. Thanks a lot.

**Operator:** Thank you. We'll take our next question from Tommy Moll with Stephens. Please go ahead.

**Thomas Allen Moll**

*Analyst, Stephens, Inc.*

Q

Good morning and thank you for taking my questions.

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Good morning, Tommy.

**Thomas Allen Moll**

*Analyst, Stephens, Inc.*

Q

A couple follow-ups for me on some of the same themes. First on pricing. Although you or perhaps it was Michael in the prepared remarks mentioned there were two increases effective early in the second quarter. What additional detail can you give us there? And did I correctly hear you say a local one is more meant to offset tariff and one is more meant to offset volume declines or maybe I misunderstood there?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. Let me just clarify. So, yes, we have done two price increase. I think the first one, which is already in effect was done to offset changes in pricing for aluminum, copper and I would call it that was to offset indirect impact of tariffs because tariffs was still a moving bogey at that stage. So that's in effect. And we have seen a good stick rate. Think of mid-single digits across both the segments.

Second one, which we announced last week is to offset the direct impact of tariffs and that's another mid-single digit price increase. It changes a little bit based on the product types but again mid-single digit overall impact. None of them of course is for volume softness because our customers are – they continue to buy and we have to look at this purely to offset the cost impact of that. So two price increase, both mid-single digits. And so far pleased with the strike rate and it's consistent with what we have seen other industries and the competition do as well. So from our perspective this is all about just staying neutral and maintaining our margin profile.

**Thomas Allen Moll**

*Analyst, Stephens, Inc.*

Q

Thank you, Alok. And then on the new volume assumptions for Home Comfort Solutions for the year, moving from flat previously to down mid-singles. What can you tell us in terms of sell-in versus sell-through. Are you assuming balance there? New home versus replace market share assumptions. Any other key inputs into that new outlook would be appreciated. Thank you.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Sure. Let's start with the new home construction there, Tommy. We are assuming new home construction is going to be worse compared to what we had predicted when we gave the guidance in earlier this year. So I think that's something. And we can see that from the starts and other pieces. So think of that as a little bit more data-driven versus like driven by future news and future expectations. We maintain the fact that there's going to be some destocking in Q2. So, yes, we do expect there's delta between sell-in and sell-through. And we think that's going to largely happen in Q2 as R-410A inventory depletes. Beyond that, there's just conservatism built into it based on like everything that we are seeing, whether it's about reduction in forecasted growth rate. But there are just so many swings, Tommy. If we want to go be wrong, we want to be wrong on the conservative side especially given some of our pricing actions.

**Thomas Allen Moll**

*Analyst, Stephens, Inc.*

Q

Thank you, Alok. I'll turn it back.

**Operator:** Thank you. And our next question comes from Jeff Hammond with KeyBanc. Please go ahead.

**Jeffrey D. Hammond**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hey. Good morning, guys.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Hi, Jeff.

**Jeffrey D. Hammond**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hey. So I guess on the destock being more 2Q than 1Q, just any reason why that is? And I think you had said early on the pre-buy was pretty substantial and maybe you backed off of that and it was more share and I didn't know if any of that change is reflected in the outlook?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. I think, us, especially we had a lot of R-410A inventory remaining. So Q1, a lot of the sales were R-410A. That's the reason we didn't see a significant impact of pre buy. Our view, we haven't changed the numbers because remember we talked about \$125 million or so of pre-buy. We talked about 2025 or so was probably commercial \$100 million or so residential, all with lots of like ranges and approximation, error bars. I think the commercial is behind us and I think that's what we saw in Q1. Resi, we didn't experience it. So either it was mostly share gain and there was no pre-buy impact, which is highly unlikely. I still think there was pre-buy and we're going to experience that in Q2 as others start depleting their R-410A inventory.

On the positive side, a vast majority of our sales are now all R-454B and even the quarter in Q1 was 50-50. So it's been a smooth transition. It's been a good transition but we are prepared for any pre-buy impact in Q2. If it turns out all to be share gain, then good for us.

**Jeffrey D. Hammond**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. And then the tariff impact in 1Q seemed to be a little bit more than kind of what other companies are saying. And just given that people have inventory, I didn't know how much of that is the initial Mexico-Canada tariffs that were higher. But now we have USMCA compliance kind of exclusion. So I'm just wondering there are obviously a lot of moving pieces but is there a chance that maybe – that US-Mexico impact gets better or not versus 1Q?

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Hey, Jeff. What we saw in the first quarter was a little bit higher than others because we do LIFO-based accounting. So we expense that almost as incurred. But we saw that mostly from Mexico on copper – or on aluminum and steel tariffs coming through Mexico is where we saw that.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

I think that – I hope we never have to use the word LIFO in an earnings call again, Jeff, but that's basically what it was. We do expect the impact of tariff, assuming the rates don't change, to keep going down as our mitigation actions start again yielding results. Right now, these are sort of unmitigated numbers that we got impacted by in Q1.

**Jeffrey D. Hammond**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Thanks for the help, guys.

**Operator:** Thank you. And we'll take our next question from Joe O'Dea with Wells Fargo. Please go ahead.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. Just on the inflation guide and going from 3% to 9%, can you unpack that a little bit from a dollars perspective and just sizing the dollar impact tied to metals, the dollar impact tied to China and anything else? And as we think about really trying to tie that to the pricing response to it and then if you see any changes to tariffs, kind of what that could mean for price?

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Sure. And so, overall, it was a 6% increase in inflation guidance predominantly on our total cost, so think of cost of goods sold plus SG&A. So about \$4 billion of spend there annualized, so balance of the year it's something less than that. So if you apply that 6% to \$4 billion for the full-year, it's about \$240 million of additional cost and a good portion of it would be China where you can see our exposure is 5%. That cost is obviously doubled with the tariff. The balance is mostly related then in Mexico around steel and aluminum and then we do see some secondary inputs into the United States. So even though we supply from a US supplier, they have tariff implications that we've made some estimates in there as well. But a good, nearly 50% is almost related to China, which we continue to monitor and we'll see how that progresses and do pricing adjustments if necessary.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

And – I'm sorry. Just the pricing that's been put in place in response to that? Is that in any way tied to tariffs such that if there is a change in the China tariff rate, that pricing changes or those are kind of list prices and you'll decide what to do based on how tariffs change?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

No. No. There will be some correlation, right? I mean we are trying to be fair to all our stakeholders. So the second tariff that went into effect, some of that is through surcharges that could get withdrawn if the China tariffs go away or changes. So I think there's going to be some impact of that. And then we think, from that perspective, our volume assumption will turn out to be more conservative if the China tariff goes away and some of the economic impact of that is overestimated in our guide.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

And then last one. Just what is it that you source from China and how does your China sourcing compare to competitors in the US, overexposed, underexposed? Are you seeing kind of similar type of exposure that requires similar type of pricing?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. It depends on the competition. Maybe much longer discussion. I mean I'll tell you what we source are typically, like a lot of electronics for our control boards. We do buy some motors from China. We do buy some of the smaller components like parts and accessories from China. We don't source things like mini-splits that we used to source from China. That's all moved to Samsung who makes it in Korea. Given that and given what we know, we think we are underexposed to China versus other competition just because we have historically been a more US manufacturer. And over the past three years, the China spend has come down substantially. I mean a

few years earlier that number would have been 3 to 4 times as much. But we were focused on dual-sourcing and near-sourcing pretty aggressively over the past three years.

So I can't say for sure. It depends on the competition. But we also feel very confident that many of these products have alternate suppliers and we have mitigation strategies in place to continue reducing that number.

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**Joseph O' Dea**

*Analyst, Wells Fargo Securities LLC*

Got it. Thank you.

Q

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**Operator:** And next we'll go to Joe Ritchie with Goldman Sachs. Please go ahead.

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**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Hey, guys. Good morning.

Q

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**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

Hi, Joe.

A

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**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

So I think I'd like to start just on the Building Climate Solutions margins. I'm trying to think about how these margins will progress sequentially as the year goes on? So if you take a look at slide 7, you clearly – you talked about the LIFO impact, product costs and other was roughly a \$22 million impact. How does that look sequentially as we head into 2Q and then if there's any other color you can give me on the rest of the year, that would be helpful.

Q

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**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

Sure. I'll start and then Michael will give you exact numbers. I would look at primarily these things as short-term inefficiencies related to manufacturing moves. Remember, we did a lot of moves in Q1 from R-410A to R-454B, moving some of our standard products to Saltillo, focusing Stuttgart on retooled machines so we can do configured products and create capacity for that. So I would say there is short-term inefficiencies that continue winding down. Now as you do it sequentially and Michael will get into this with you in a minute, is remember last year our factory start-up happened mostly in the second half starting in Q2. So we started lapping some of those inefficiencies. By the end of the year, we should close at zero inefficiency. I mean that's our goal.

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Michael, anything to add to that?

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**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

So, Alok mentioned factory inefficiencies that will start to go. The other thing is we'll start to experience a full run rate on our mix. We'll be able to start to transition more in the second quarter. We'll lap some of our year-over-year investments that we started to do mid last year within SG&A, then also expect to have some volume benefit

A

in the second half of this year from the emergency replacement initiative. All of those should sequentially help margins.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. That's helpful. Maybe just a follow-up on that. And as you're kind of thinking about second quarter specifically and the margins like it sounds like there's still going to be a little bit of inefficiency there. But like the margins should get materially better sequentially versus the first quarter. Is that a fair statement?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. I think that's a fair statement. Like I hate to give quarterly guide. And with factories you can't predict exactly which week things start getting back to normal. But we have seen improvements and they are sequentially getting better.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Great. All right. Thanks, guys.

**Operator:** Thank you. And next we'll take our next question from Nigel Coe with Wolfe Research. Please go ahead.

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Oh! Thanks. Good morning. Alok, I apologize, and you just said you don't like to give quarter guidance. So just given the kind of the second half, first-half dynamics and the kind of the beat through from 1Q to 2Q, I was just curious if you were to like try and ring fence the 2Q EPS versus the full year? And if you just eyeball the past ten years, like low-30 percentage would be about the right number, is that sort of the ballpark?

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

I think maybe what we'll do is we'll speak toward the first half, second-half revenue guidance. I think in the last earnings call, I said about 45% first half of the year for a revenue seasonality, 55% second half. It still feels that that's appropriate. I think that implies about a kind of a flat revenue in the second quarter. As much as we can see right now, that seems like a good guide.

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Okay. That's helpful. Thanks, Michael. And then just thinking about the A2L, there's a lot of chatter out there about shortages, more on the refrigerant side than the [ph] coolant size (00:33:11). Just wondering kind of what – how that's factoring into your sort of second quarter perspective?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. We have – I mean, first of all, at the industry, all the equipment manufacturers have done a good job, so there's no shortage in equipment as you said. Where there is shortage is in the retail service canister for R-454B.

I think that's a transitional migratory issues like we are taking countermeasures, so are other manufacturers. There's enough refrigerant available in bulk situation. It's just not available in smaller packages. I don't think it fundamentally changes the demand profile nor does it change anything else in the long-term. In the short-term, there's just a skirmish to get those equipment for servicing.

Now in practical perspective, our units are pre-charged. So if the installation is done right and under normal circumstances you do not need this. It's mostly for service and repair. But it's more about dealer getting confident and not wanting to do a rerun. I expect the industry to be normal by the time we are talking again at the end of Q2 and beginning of Q3.

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**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Okay. That's great. Thanks a lot.

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**Operator:** Next, we'll go to Julian Mitchell with Barclays. Please go ahead.

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**Julian Mitchell**

*Analyst, Barclays Investment Bank*

Q

Hi. Good morning. Maybe just a first question on the operating margin outlook, just total company. So I think before you had said the core assumption was flattish for the year as a whole. It seems like that's still I think the framework but just wanted to check on that. And when we're thinking about the sort of rate of change year-on-year, if you're flat for the year and down 140 bps or so in the first quarter, I think you mentioned a steady improvement. So is the way to think about that sort of flattish margin, second quarter year-on-year and then you get that growth in the back half? Is that the right dynamic on operating margins, just kind of thinking about tariffs and the Mexican plant ramp-up and so forth?

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**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Yeah. I think that's pretty much implied in the guide. Right now, we're assuming about flat margins full-year for the enterprise. That would assume about a 50-basis point improvement in the balance of the year mostly around BCS. I mentioned a few of those initiatives of why margins will expand their mix kind of year-over-year investments, tripling those as well as some volume gains as well as factoring efficiencies. That's really where the margin gain is going to happen in the balance of the year is on the BCS side.

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**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. And Julian if I could add to that. The bad news here is that this is all internally caused pain, right? I mean it was our manufacturing moves. We knew this was going to happen and it's all internal factors that we can fix. It's not related to external factors. We have – no, we are actually pleased with the pricing stick rate. We are pleased with how we're able to pass on tariffs. This is simply like our ongoing – we talked about it last year as well, starting a new factory, moving production. We're just doing it cautiously to make sure there's no supply chain disruption. So, overall, I'm not concerned about any long-term challenges here.

---

**Julian Mitchell**

*Analyst, Barclays Investment Bank*

Q

That's helpful. Thank you. And then just my second one, just trying to circle back to the slide 9, which is very helpful and the pieces there on the price assumption going up 6 points from previously and the volume assumption coming down I think 6 points from previously, so just thinking about those two moving pieces. I think part of it is an anticipated deceleration in broader sort of macro and so on. But just trying to understand are you just assuming a sort of one-for-one offset or elasticity there of higher price equals the volume reduction, or is there some other items in there that we need to think about? And just what's the historical experience around price elasticity of volume demand if you could give us any color there?

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**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Sure. Julian, it turns out that they turned to be nearly equal, as you said, roughly 6%, right? But if you take the volume piece and we get deeper into that, we have taken a significant slowdown in new construction, both in HCS and BCS, and we see some of those signs already in industry data. Rest all, it was based on consumer confidence softness, mortgage interest rates, and all the other things we see around decline in consumer confidence. Our products are mostly replacement and they are like a necessary must do/have. So the impact to us is going to be lower than some of the other discretionary spend since it's non-discretionary. But we sort of took all of that and given limited visibility we just wanted to draw a line in the sand and have that dialogue that we are having right now. I mean this could all change if the China tariff gets withdrawn tomorrow and the impact is less. And then we would simply look at lower pricing and higher volume in that case. We just wanted to give you guys a framework to analyze and get our thoughts together.

---

**Julian Mitchell**

*Analyst, Barclays Investment Bank*

Q

Great. Thank you.

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**Operator:** Thank you. And next we'll go to Jeff Sprague with Vertical Research. Please go ahead.

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**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

Hey. Thank you. Good morning everyone. I just want to come back just thinking about the destock happening or continuing into Q2. On a kind of a gross dollar basis, I mean your sequential inventories to me don't look too different than what's normal. So just kind of want to understand the view on the Q2 destock, right? You're out of R-410A. You're selling R-454B now, so your view is just in the channel. There's still excessive inventory that kind of backs up to you on the demand side in Q2? If you could elaborate on that at all I'd appreciate it.

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**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Sure. So, Jeff, I think your last statement is what we are trying to reflect is that in the channel which, remember, 30% of our sales are through indirect/goes through distributor and that we believe there is R-410A that everybody will try and get out of in Q2. And they may pause ordering R-454B produce especially given the Q2 was heavy and that's where sort of the cooling season typical seasonality works. A lot of the distributors are going to try and run their entire cooling season with R-410A if they have enough inventory because remember it's still lower cost to them. So that's out of the assumption.

We don't have any further visibility compared to when we spoke last year where we said, hey, overall, \$125 million; BCS roughly \$25 million, that we are confident is behind us. HCS is \$100 million, it's going to be less than \$100 million because some of it was share gain. And when we – [indiscernible] (00:40:22) by the end of Q2, we'll

have greater visibility. But we do think there's some impact or air pocket in Q2 as distributors run out of R-410A and only then they start ordering R-454B.

**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

Yeah. It doesn't sound like there's any reason to believe though they'd make it through the whole season on R-410A, right? There's just not enough out there. So I guess a lot of this hinges on just does it get hot and all those sorts of things in terms of when they pivot back to kind of refilling on R-454B. Is that the way you're thinking about it?

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Yeah. There's also a rule within the transition that they have to sell by the end of the year. So I think that also helps make sure that this is all going to sell-through and we expect it to sell-through in the second quarter into the third quarter.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

And you're generally right. There is not enough R-410A to last the entire cooling season unless we have a really, really cold summer.

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Yes.

**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

Okay. Great. Thank you, guys. Appreciate it.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Okay.

**Operator:** Thank you. And next we'll go to Noah Kaye with Oppenheimer. Please go ahead.

**Noah Kaye**

*Analyst, Oppenheimer & Co., Inc.*

Q

Yeah. Thanks. I was just going to follow up on Jeff's question. So can you talk about the behavior of the direct versus the two-step in 1Q, what the kind of the volumes behavior was like in those two different parts of the Home Comfort Solutions?

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Yeah. So in the Home Comfort Solutions in the first quarter, we saw total revenue up 11% in the two-step, about 5% in the one-step, so we continue to see some of that sell-through in the R-410A and the two-step in the first quarter.

**Noah Kaye**

*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. And you're thinking that that kind of reverses here in 2Q just to unpack your prior comment?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. That's the underlying assumption right now.

**Noah Kaye**

*Analyst, Oppenheimer & Co., Inc.*

Q

Great. And there's a ton of moving pieces here. You guys, as others, have done a nice job of detailing your assumptions kind of assuming the status quo, right? Can you help us understand what a scenario might look like if USMCA exemptions were no longer to be in effect, at least the kinds of the discussions that you've had with customers around that and what we might expect to see from the company?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Yeah. I mean that's a very hard thing to speculate on. But I would tell you because there was certain days when we woke up and we thought that's exactly what's going to happen, right? I mean our discussions with customers have that, in that scenario, there's going to be some mix impact because the product is made in US, which remember, we have majority of our manufacturing still in US would probably accelerate, and products from Mexico we will still offset it through productivity. Peso will probably decline. That will help us offset some of those bigger pieces there as well and then we'll have to offset that price. So actually that will make our mix go more towards premium products, which are more likely to be made in US. And those are higher margin for us versus lower tier products in Mexico.

But there's going to be series of short-term and long-term actions that we have already outlined and we kind of have it in our back pocket if that happens and too early to kind of speculate through that. I mean it's almost like we were hoping that's not the announcement that comes in while we are on a conference call. I mean that was Michael's and I [indiscernible] (00:43:40) nightmare that there'll be a tweet that we missed while we are sitting on the call.

But we have multiple scenarios planned. We have key action item plan. The team is very disciplined. The dealers have tons of confidence in us right now that we are doing the right thing by protecting their business, protecting the supply chain and being fair in passing on those costs as appropriate.

**Noah Kaye**

*Analyst, Oppenheimer & Co., Inc.*

Q

Yeah. If anything, the news we're getting this morning suggests we may be going the other way, which is a positive. So – but appreciate the thoughts and thanks again.

**Operator:** And next we're going to go to Chris Snyder with Morgan Stanley. Please go ahead.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*



Thank you for the question. I guess just maybe on the topic of consumer elasticity and the repair versus replace. Of all the price that's coming through, whether it be the refrigerant changeover or the tariff, commodity-related price. I'm just wondering how much is the homeowner feeling of that today? Because it seems like that is still a bit on the horizon for them. And as that cost or that higher price comes through, what do you think of the risk on a – maybe a more significant volume response just as that price hits them or maybe it already has. Thank you.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*



Sure. Chris, I would say that the risk of homeowner price elasticity on replacement remains very low. A few things to keep in mind, right? The price that the homeowner sees is our equipment price plus the installation, plus the accessories, plus the dealer profits, plus the distributor profit [indiscernible] (00:45:18). So if you put all of that together, a 5% or 10% increase in equipment does not translate to 5% to 10% increase for the homeowners. In the past sometime, it was higher than equipment price increase. There was significant labor shortage and there's a lot of consolidation on the dealer base. In today's tariff environment, I think it's going to be lower to the homeowner because there's no reason to mark up labor and installation because those won't get impacted by tariff. So, net-net, I don't think there's going to be a significant impact on the homeowner. This will remain a non-discretionary spend. The impact that we are baking in is mostly around the new home construction and general slowdown in home sales because some of the sales do happen post a home sale even if it's a used one.

The repair versus replace, we called it out in the script. That is a possibility if consumer confidence goes much lower and people are going to be looking to save cost and we monitor for that very closely. And, so far, year-to-date, we have not seen any signs of that.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*



Thank you. I appreciate that. And then I guess just kind of following up. If you guys started shipping the R-454B, it sounds like in maybe the back-half of Q1 and then you put through the tariff-related price increases at the start of Q2 I believe you said in the script. Like does that kind of flows through the channel and ultimately finds its way to the consumer. Does that start hitting in Q2 or do you think those prices start hitting in Q3? Because I know there is just some lag between when you guys sell it and it finds its way to the homeowner. Thank you.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*



It'll start happening in Q2. It's already happening. Our first price increase is already making it to the homeowners and we have seen no change in the demand pattern.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*



Thank you. I appreciate that.

**Operator:** Thank you. And next we're going to go to Brett Linzey with Mizuho. Please go ahead.

**Brett Linzey**

*Analyst, Mizuho Securities USA LLC*



Hey. Good morning all. Hey. Wanted to come back to the commercial business and the R-454B transition delays. Was this solely product availability or are you seeing some price sensitivity on the new products and the price uptake there?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

No. It was not product availability, at least not for us. And I think that's generally true for the industry as well, Brett. It was mostly driven by people finishing the R-410A jobs and then getting their people/employees trained in the new R-454B and some hesitancy when nobody wanted to be the first one to install a R-454B on a rooftop and people trying to make sure that the jobs when you do rooftop replacement that they have all 18 of the rooftop in R-454B. They didn't want to have mixed rooftops in there. So I think a lot of this was around key accounts planfully finishing up R-410A. So I'll put some of that in the destocking bucket and some of that in just people wanting to make sure that there was availability of inventory and more importantly trained technicians and sensors and tools and all together. So we think of it as a short-term air pocket. A little worse than we had hoped for but not completely unexpected.

**Brett Linzey**

*Analyst, Mizuho Securities USA LLC*

Q

Got it. So more of a learning curve. And then maybe just on commercial volumes in the first quarter, they're down 9%. How did that track relative to expectations and then maybe any color by vertical? I know the full-year outlook for commercial it does contemplate some accelerating in the two-year stack. Is that just the emergency replacement capture that you see ramping there?

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Yeah. Within the first quarter, about half of the 9% volume decline was the destocking so that happened as expected. The rest was the order delays, which Alok just mentioned, kind of broad across most of our large national accounts. Then, going forward, yes, we do expect to see as you get into the season, Q2 and Q3, we'll start to see that emergency replacement initiative start to pay off.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

And if I could just piggyback on that. We are very optimistic based on the emergency replacement rollout, the pilots and the early signs that we have there. So that's one reason. We are looking forward to more optimism, especially on our piece even if the industry has slowed down. Because for the first time in multiple years, we have the products in stock, we have our folks trained, we have it delivered within a day and coursed back within two hours. So we are pretty optimistic on that right now.

**Brett Linzey**

*Analyst, Mizuho Securities USA LLC*

Q

I appreciate the detail.

**Operator:** Next, we'll go to Deane Dray with RBC Capital Markets. Please go ahead.

**Deane Dray**

*Analyst, RBC Capital Markets*

Q

Thank you. Good morning, everyone.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

Good morning, Deane.

A

**Deane Dray**

*Analyst, RBC Capital Markets*

Hey. I would like to circle back on the surcharges. It came up a couple different times. And can you just clarify when you talk about the two price increases, are those full pricing increases because the assumption is the surcharge gets rolled back at some point. So some clarification there and when and how do you use surcharges?

Q

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

Yeah. It really depends a lot on the business. But to be overly simplistic with the answer, think of the first price increase as a price increase, a traditional one; and the second one more as a surcharge and I think the numbers will come back. So the second one, because it was mostly around the 10% global import duty and the China tariffs, we did that as a surcharge. Again, not all of it was surcharge because some customer systems can deal with surcharges but we would think of the first one as more permanent; and second is transitional/open to adoption and changes as the tariff environment adapts and changes.

A

**Deane Dray**

*Analyst, RBC Capital Markets*

Okay. That's really helpful and thanks for that clarification. And then just to circle back on the emergency replacement. Michael said you're expecting – the inventory is now in place. You got people trained. What is the timing of the lift that you're expecting? Like how much of your mix should it be on a run rate basis by year-end?

Q

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

Yeah. Right now, it's still a very small piece of our business but we're going to continue to see it grow and again it's a seasonal product. So as we get into the second and third quarter with the inventory we have, that's where we should really start to see some of that growth come in for the season.

A

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

Michael is right. Overall, it remains a small portion, right? I mean our long-term growth aspiration, start delivering results this year but this should be a tailwind for multiple years.

A

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

Yes.

A

**Deane Dray**

*Analyst, RBC Capital Markets*

Was it a cash flow drag in terms of positioning the inventory?

Q

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A little bit. But the HCS and the other's inventory kind of made up for it in terms of again we were building up R-410A in the past, so it wasn't significant, Deane.

A

**Deane Dray**

*Analyst, RBC Capital Markets*

Thank you.

Q

**Operator:** Next, we'll go to Nicole DeBlase with Deutsche Bank. Please go ahead.

**Nicole DeBlase**

*Analyst, Deutsche Bank Securities, Inc.*

Yeah. Thanks. Good morning, guys.

Q

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

Good morning, Nicole.

A

**Nicole DeBlase**

*Analyst, Deutsche Bank Securities, Inc.*

I guess I also wanted to ask a follow-up on emergency replacement. You guys have been making the investment in the salesforce. I think it was an \$8 million drag in the first quarter. Are we kind of coming to the end of that salesforce investment, or is that something that's going to continue throughout the rest of 2025?

Q

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

No. It's ended. We made all those investments last year. I mean right now it's more that the – we did not have this investment last year. So – but a year-over-year basis, by the time to get to the second-half, we'll be lapping itself on the investment. But there's no more incremental investment required at this stage.

A

**Nicole DeBlase**

*Analyst, Deutsche Bank Securities, Inc.*

Okay. Got it. That's clear. Thanks. And then just on buybacks. I saw you guys did like \$85 million in the first quarter. Market has obviously been weak. I guess how are you guys thinking about the rest of the year in terms of repurchase activity? Thank you.

Q

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

Yes. Sure. So we have programs to buyback for dilution. So that kind of continues on and then thereafter we're going to be opportunistic. We're going to continue to look at bolt-on acquisitions and obviously we're going to be very disciplined on it. But opportunistic share repurchases will be a portion of our deployment strategy.

A

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

You can expect a lot more buyback than we did last year, especially at these prices, right? So...

**Nicole DeBlase**

*Analyst, Deutsche Bank Securities, Inc.*

Makes sense. Thanks, guys. I'll pass it on.

Q

**Operator:** Thank you. We'll next go to Steve Tusa with JPMorgan. Please go ahead.

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Hi. Good morning.

Q

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

Hi, Steve.

A

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Just trying to get a little bit more color on what's going on with this R-454B refrigerant issue. Honeywell is out with obviously a pretty dramatic price increase. Maybe that's what you're referring to on the retail side. But maybe just to describe what you're seeing in the channel and I guess you're saying that you do not expect this to impact industry volumes at all given it's a kind of a I guess an aftermarket thing?

Q

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

Yeah. It is an aftermarket thing. I mean dealers – it impact dealers' confidence because they want to carry. So everybody might be experiencing different things, right? So let me just talk about Lennox. So we have no shortage of R-454B for our production. And we're obviously working with our suppliers, the two suppliers we have to make sure that we get appropriate fair pricing because some of them are impacted on tariffs. And any indirect impact of tariffs through that is already captured in our overall inflation number.

A

What we have heard from our dealers and contractor is there is shortage of retail canisters. So these are the Worthington-made tanks that they carry in their truck for service and repairs. There are not enough of R-454B of those. I think that's where the shortage is. It's kind of unrelated to the Honeywell announcement, which also impacts the retail. And there's just a shortage of that, purely driven by filling capacity and purely driven by availability of tanks. And we think both of those should be behind us and the industry by the end of Q2.

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

So then what is the Honeywell price increase of the 40% increase they put through, like what is that related to?

Q

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

It doesn't relate to us. So that's probably something different. You'll have to ask them, Steve. But it's not related to us. I mean we have contractual price that we entered in last year. So maybe it applies to people who did not enter into contractual price or retail canisters.

A

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Q

Yeah. Yeah. That makes some sense. And then just lastly on commercial. I guess you guys are saying this is temporary and not really a macro thing out there. Were there any particular verticals where you saw more of a pre-buy than others or more of a kind of a destock than others?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

We saw it pretty uniform across the different verticals. I mean clearly the retailers have more control over these projects on doing a full-floor sweep emergency replacement. You can't really plan just by the nature of that. So, yes, it was on the key account and they get a full-roof replacement. Our volume assumption and what we saw, we did built in slowdown in commercial new construction, which is only a small portion of our sales. Most of our sales are replacement. So that's why we sort of built in. And obviously since we didn't have Q1, so we built in the Q1 impact into the full-year guide as well.

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Great. Thanks for the color as always.

**Operator:** Thank you. And our last question comes from Damian Karas with UBS. Please go ahead.

**Damian Karas**

*Analyst, UBS Securities LLC*

Q

Hey. Good morning everyone. Thanks for squeezing me in.

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

Good morning, Damian.

**Michael Quenzer**

*Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Good morning.

**Damian Karas**

*Analyst, UBS Securities LLC*

Q

So – good morning, Alok. So it sounds like you've taken a few rounds of pricing actions so far, the latter in response to tariffs. Could you just maybe talk a little bit about how your pricing actions have been aligning with what you're seeing from your peers? I mean would you say it's been a pretty tight range out there? Are you seeing any notable deviations in pricing behaviors?

**Alok Maskara**

*Chief Executive Officer & Director, Lennox International, Inc.*

A

I think just like we've seen in the past, there's been a fairly tight range. Sometimes the announcements language that is public could lead to a different conclusion. But when we get market intelligence back, I think everybody is in a very tight range here. And it's – particularly in some cases, we are at a competitive advantage since we buy our

mini-splits from Korea. I think that puts us in a better position than others but that's just more supply chain-related impact on pricing. But if we bought stuff from China, we would do the same price increase as others are doing. So fairly tight range.

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**Damian Karas***Analyst, UBS Securities LLC*

Q

Okay. Got it. That makes sense. And then just a model clean-up question here. So you saw a pretty nice step-down in the corporate expense in the first quarter. Just wondering if there's anything to that and what's a good way to think about that line item going forward? Thanks.

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**Michael Quenzer***Executive Vice President & Chief Financial Officer, Lennox International, Inc.*

A

Yeah. That's just related to some timing of the expenses and the allocation. So for the full-year, we still expect it about flat to slightly down to 2024.

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**Operator:** Thank you for joining us today. Since there are no further questions, this will conclude Lennox 2025 Quarter Conference Call. You may disconnect your lines at this time.

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