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EDITED TRANSCRIPT

LII.N - Q2 2021 Lennox International Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 revenue of $1.24b, GAAP operating income of $216m and GAAP EPS from continuing operations of $4.51. Expects 2021 reported revenue growth to be 12-16%, constant-currency revenue growth to be 11-15%, GAAP EPS from continuing operations to be $11.97-12.57 and adjusted EPS from continuing operations to be $12.10-12.70.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Lennox International Second Quarter Conference Call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to turn the conference over to Steve Harrison, Vice President of Investor Relations. Please go ahead.

Steve L. Harrison - *Lennox International Inc. - VP of IR*

Good morning. Thank you for joining us for this review of Lennox International's financial performance for the second quarter of 2021. I'm here today with Chairman and CEO, Todd Bluedorn; and CFO, Joe Reitmeier. Todd will review key points for the quarter, and Joe will take you through the company's financial performance and outlook for 2021.

(Operator Instructions)

In the earnings release we issued this morning, we have included the necessary reconciliation of the non-GAAP financial measures that will be discussed to GAAP measures. All comparisons mentioned today are against the prior year period. You can find a direct link to the webcast of today's conference call on our website at www.lennoxinternational.com. The webcast will be archived on the site for replay.

I would like to remind everyone that in the course of this call, to give you a better understanding of our operations, we will be making certain forward-looking statements. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from such statements. For information concerning these risks and uncertainties, see Lennox International's publicly available filings with the SEC.

The company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Now let me turn the call over to Chairman and CEO, Todd Bluedorn.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Thanks, Steve. Good morning, everyone, and thank you for joining us. In the second quarter, we continue to see strong momentum in our Residential business, combined with continued rebound in Commercial and Refrigeration as the overall company set new record highs for revenue and profit.

Company revenue was up 32% to a new record of $1.24 billion. At constant currency, revenue was up 30%.

GAAP operating income was up 59% to a record $216 million. GAAP EPS from continuing operations is up 72% to a record $4.51.

Total segment profit rose 45% to a record $222 million. Total segment margin expanded 160 basis points to 17.9%, and adjusted EPS from continuing operations rose 54% to a record $4.57.

Looking at the business segment highlights for the second quarter. In residential, we set new highs for revenue, margin and profit. Residential revenue was up 30% as reported and up 29% at constant currency. Segment profit rose 49%, and segment margin expanded 290 basis points to 22.6%.

Residential had comparable revenue growth in both replacement and new construction of approximately 30%.

Lennox brand revenue was up 30% as well as our Allied and other brands combined. Broad strength across residential in the second quarter. Year-over-year comparisons become tougher in the second half, actually started in June. As we previously mentioned, the fourth quarter of 2021 will have a headwind of 6% for fewer days in the prior year quarter. But market demand remains high entering the second half, and our residential business continues to perform well -- perform as well or better than anyone in the market.

Looking beyond the second half of the year to 2022 and future years, we remain extremely bullish on the residential market as you see the residential replacement cycle spinning faster due to shorter equipment life. We analyze the actual run time data on air conditioners last year with many people at home due to the pandemic. Adjusted for weather, air conditioners ran 30% more during the summer season last year. This summer, we may not be getting a run time impact of 30%, but there's still a lot of people working from home, and many will continue to work from home full time or like here at Lennox, on a flexible schedule a couple of days a week. If the run time impact is 20%, that will reduce the medium life of an air conditioner from 15 years to around 12 years.

Another factor is weather and the impact of hotter summers. Our original analysis of air conditioner life span the years 2005 through 2015. Since then, for the years 2016 through 2020, weather, as measured by average cooling degree days has been 5% hotter in the United States. For 2021, we are still in the middle of summer, but the second quarter was even hotter than last year. Where run time impacts equipment life on a linear basis, hot summers impact equipment life on an exponential basis.

Another reason we are bullish on the residential replacement cycle for the coming years is that there will be more complete HVAC system sales taking place as old R-22 refrigerant systems come into the replacement window.

For those not familiar with the history, the EPA banned the sale and distribution of equipment using the R-22 refrigerant effective January 1, 2010, and banned the production or import of the R-22 refrigerant effective January 1, 2020. While R-22 refrigerant is still available in the market, it is significantly more expensive than 410A. In many cases, it is cheaper to replace with a new 410A system which is also more efficient and comes with the new warranty to repair the old R-22 system. This also accelerates the replacement cycle.

We expect all these dynamics to lead to a strong residential market condition for years ahead. On top of this, Lennox and Allied will be running their proven playbooks for market share gains.

Moving on to our commercial business. Second quarter revenue was up 34% as reported and 33% at constant currency. Segment profit rose 27%, Segment margin was 17.9%, down 100 basis points on the timing of expenses and factory inefficiencies. At constant currency, Commercial equipment revenue was up more than 30% in the quarter. Within this, replacement revenue was up more than 40%, with planned replacement up 50% and emergency replacement up more than 20%. New construction revenue was up high teens.

Breaking out another way, regional and local business revenue was up more than 20%. National account equipment revenue is up more than 50% as market continues to rebound and benefit from the pent-up demand created last year. The team won 6 new national account equipment customers in the second quarter to a total 9 in the first half.

On the service side, Lennox National Account Services revenue was up more than 30%. VRF revenue was up more than 25%. In Refrigeration for the second quarter, revenue was up 37% as reported and 32% at constant currency. North America revenue was up more than 30%. Europe Refrigeration revenue is up more than 30% at constant currency. In Europe, HVAC revenue was up more than 25% at constant currency.

Refrigeration segment margins expanded 90 basis points to 9.1%, and segment profit rose 52%.

With a strong performance for the company overall in the second quarter and outlook for the second half, we have raised 2021 guidance. We now expect revenue growth of 12% to 16% on a reported basis or 11% to 15% at constant currency. We raised guidance for adjusted EPS from continuing operations to $12.10 to $12.70 for the year. We are raising free cash flow guidance to $400 million for the year and stock repurchase guidance to a total of $600 million for the year.

So we'll talk about the specifics, but inflationary pressures continue to ratchet up this year. We're seeing headwinds from commodities, components, LIFO adjustments and labor. We're capturing a higher yield from our first 2 price increases this year and now expect $110 million of price benefit from those. In addition, we just announced a third price increase of up to 8% from most of our businesses that is effective September 1. This will yield even more price benefit than the $110 million of guidance provided today. So third price increase is not in our current guidance.

This is a special year. Demand is blistering, and supply chains are tight at this level of high demand, but the company continues to execute as well or better than anyone in the industry.

One thing to note in regard to our public guidance this year. We have been incrementally moving the earnings outlook up 1 quarter at a time and after the first quarter and again after the second quarter. So our guidance is our guidance. Given the unique uncertainty this year, we are remaining balanced on future guidance.

Lastly, as I'm sure most of you saw, the company announced on July 14 that after 15 years, I plan to step down as Chairman and CEO of Lennox International by mid-2022. There's never a perfect time for a transition like this, but with end markets strong and the company well positioned for the future with an exceptional management team, hard-working and dedicated employees and the benefit of all the strategic investments we've made in product technology and distribution, we think it's a good time.

The Board has commenced a search for LLI's next CEO, and I will be here over the next year to ensure a smooth transition. In the interim, managing day-to-day, be assured I'm in the ring punching until the final bell.

Now I'll turn it over to Joe.

Joseph William Reitmeier - *Lennox International Inc. - Executive VP & CFO*

Thank you, Todd, and good morning, everyone. I'll provide some additional comments and financial details on the business segments for the quarter, starting with Residential Heating & Cooling.

In the second quarter, revenue from Residential Heating & Cooling was a record $838 million, up 30%. Volume was up 27%. Price was up 3%, and mix was down 1%. Foreign exchange had a positive 1% impact on revenue.

Residential segment profit was a record $190 million, up 49%. Segment margin expanded 290 basis points to a record 22.6%. Residential profit was primarily impacted by higher volume, favorable price, higher factory productivity, sourcing and engineering-led cost reductions, freight savings and favorable foreign exchange. Partial offsets included unfavorable mix, higher commodities, tariffs and warranty costs, distribution investments and higher SG&A, including research and development and information technology investments.

Now turning to our Commercial Heating & Cooling business. In the second quarter, commercial revenue was $253 million, up 34%. Volume was up 29%. Price was flat, and mix was up 4%. Foreign exchange had a positive 1% impact to revenue.

Commercial segment profit was $45 million, which was up 27%. Segment margin was 17.9%, down 100 basis points. Segment profit was primarily impacted by higher volume and favorable mix. Partial offsets included higher material, distribution, freight, tariffs and other product costs, factoring efficiencies and higher SG&A, including research and development and information technology investments.

In Refrigeration, revenue was $148 million, up 37%. Volume was up 30%. Price was up 2%, and mix was flat. Foreign exchange had a positive 5% impact to revenue. Refrigeration segment profit was $14 million, up 52%. And segment margin was 9.1%, which was up 90 basis points.

Segment profit was primarily impacted by higher volume, favorable price and sourcing and engineering-led cost reductions, and partial offsets included higher commodity freight and other product costs and higher SG&A, including research and development and information technology investments.

Regarding special items in the second quarter, the company had net after-tax charges of $2 million that included a charge of $1 million for restructuring activities, a net charge of $3.4 million for various other items in total and a benefit of $2.4 million for excess tax benefits from share-based compensation and other tax items. Corporate expenses were $27 million in the second quarter compared to $19 million in the prior year quarter, primarily on higher incentive compensation. Overall, SG&A was $168 million compared to $130 million in the prior year quarter. SG&A was down as a percent of revenue to 13.5% from 13.8% in the prior year quarter.

In the second quarter, cash from operations was $192 million, up from $105 million in the prior year quarter. Capital expenditures were $21 million in the second quarter compared to approximately $19 million in the prior year quarter.

We generated $170 million -- $171 million of free cash flow in the second quarter, up from approximately $87 million in the prior year quarter. The company paid $29 million in dividends in the quarter and repurchased $200 million of stock.

The total debt was $1.24 billion at the end of the second quarter, and we ended the quarter with a debt-to-EBITDA ratio of 1.7.

Cash, cash equivalents and short-term investments were $47 million at the end of the second quarter.

Now before I turn it over to Q&A, I'll review our current market assumptions and our updated guidance points for 2021. We now expect the industry to see low double-digit shipment growth in residential, commercial unitary and refrigeration markets in North America for the full year, up from our prior assumptions of high single-digit growth. This is an industry comment, including competitors who ship primarily to independent distributors, unlike our model.

As previously announced on July 14, we raised guidance for 2021 revenue growth from 7% to 11% to a new range of 11% to 15% at constant currency. We now expect a 1 point benefit from foreign exchange for revenue growth of 12% to 16% for the year at actual currency.

We raised guidance for 2021 GAAP EPS from continuing operations from $11.33 to $11.93 to a new range of $11.97 to $12.57. And we raised guidance for 2021 adjusted EPS from continuing operations from $11.40 to $12 to a new range of $12.10 to $12.70.

As we previously mentioned, the first quarter of 2021 had a 6% benefit for more days than in the prior year quarter. In the fourth quarter of 2021, we'll have a headwind of 6% from fewer days than the prior year quarter, as Todd mentioned. For 2022, there are no days differences like this to highlight.

Let me now run through the key points in our guidance assumptions and the puts and takes for 2021. First, for the items that are changing. We now expect a benefit of $110 million from price for the year, up from our prior guidance of a $90 million benefit. The new $110 million price guidance reflects the additional yield we are capturing from our first 2 price increases this year. In addition, we announced a third price increase for up to 8% that is effective September 1 for most of our businesses. This will yield a price benefit on top of the $110 million we are currently guiding for full year price this year. Foreign exchange is now expected to be a $10 million benefit, up from neutral of our [previous] assumption. And we now expect an effective tax rate of approximately 20% on an adjusted basis for the full year compared to the previous guidance of approximately 21%.

Free cash flow is now targeted to be approximately $400 million for the full year, up from prior guidance of approximately $375 million on strong earnings performance in the first half and our current outlook.

We are raising stock repurchase guidance for the year from $400 million, which we completed in the first half, to $600 million.

For the headwinds from prior guidance. Commodities are now expected to be a headwind of $80 million, up from our prior guidance of $55 million. With inflation and components, we are reducing our net savings from sourcing and engineering-led cost reductions to a $5 million benefit, down from prior guidance, to be a $15 million benefit. The higher material costs from inflationary pressures in 2021 are leading to a LIFO accounting adjustment of approximately $15 million this year. Factory productivity is now expected to be a $10 million benefit, down from a $20 million benefit in our prior guidance, and we are now planning for corporate expenses to be $100 million, up from $95 million in our prior guidance, primarily due to higher incentive compensation.

Now for the guidance items that remain the same. We still expect Residential mix to be a $10 million benefit. With 30 new Lennox Stores planned for this year, our distribution investments are up from last year to a more traditional run rate level. Freight is still expected to be a $5 million headwind, and tariffs are expected to be a $5 million headwind.

We are planning on SG&A to be up approximately 7% for the year or a headwind of approximately $45 million. And within SG&A, we are making investments in R&D and IT for continued innovation and leadership in products, controls, e-commerce and factory automation and productivity.

Now for a few other final guidance points. We still expect net interest and pension expense to be approximately $35 million. We still expect capital expenditures to be approximately $135 million this year, about $30 million of which is for the third plant at our campus in Mexico. We expect construction to be completed by the end of 2021 and to have the plant fully operational by mid-2022, and we expect nearly $10 million in annual savings from the third plant.

And finally, we still expect the weighted average diluted share count for the full year to be between 37 million to 38 million shares.

And with that, let's now go to Q&A.

QUESTIONS AND ANSWERS

Operator

Our first question comes from the line of Jeff Hammond with KeyBanc.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Todd, first of all, congrats. It's been a good 15 years together.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I agree.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Just on price. It seems like the numbers you gave for 2Q are kind of low, just given the higher yields. And I just wanted to understand how price you expect price to flow in into the second half, particularly on commercial.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. I mean I think you're pulling on the right thread. It steps up. One, the second price increase in residential has a bigger bite in the second half of the year than the first half of the year, just sort of the timing of things. But for commercial and refrigeration, we got some price in second quarter, but we'll get significantly more second half of the year.

And then as we've talked about in the script, there's a third price increase that's announced September 1 that won't have much impact on commercial and refrigeration, just given the lead times, but it will have a material impact for residential. And that's not currently in the guide. We're still sort of framing exactly what that will look like, and we'll update it on after the third quarter call.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. And then just your inventory levels look a little bit low for the season and the demand. Just talk about your ability to kind of keep up with demand and where you kind of frame inventory levels here as you go into this second half.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

We've been transparent about this from the beginning. I think the entire industry is facing challenges. I think all corporate America is facing challenges with integrated circuits, with steel, with lots of things that we're buying. But when we talk to our customers and our suppliers, the one thing that we're confident on, and we see our own share position, so we know we're gaining share. We're doing as well or better than anyone in the industry.

Look, we'd like to have more inventory right now. So you see that in the numbers, and that's clear. We'd like to have more product. And if we did, we could probably sell more.

Operator

Our next question comes from the line of Ryan Merkel with William Blair.

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

So first off, Todd, you mentioned the resi replacement cycle spinning faster, and you gave us some nice data points. Can you just speak to how much this will increase HVAC demand annually? And what I'm trying to do is just trying to judge how impactful these changes are.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Well, I think the most important metric that I gave is if you think the unit life goes from an average 15 to 12, so in other words, the curve I always show shift to the left by 3 years, what that does is it all doesn't come into the market in 1 year. But in essence, what you're doing is creating all this demand that spreads out, I think, over a multiyear period.

And I haven't specifically called it out, because what I was trying to introduce is a very explicit point that the traditional way you guys and us, not you personally, Ryan, but the analysts have viewed it and the industry has viewed it, as a very traditional boom echo analysis, when were the units put in place during the housing boom, how old are they and how long do they last. And we're introducing some new variables that are real, and we've measured them.

And so when it spins and you take 3 years off the life or 30% off the life or 20% off the life, then all of a sudden, you're creating much more demand over a 5- or 6-year period is sort of our best guess of how it will play out. So that's why we're real confident of while we've been publicly saying that this is a mid-single-digit growth market for years and that we're not afraid of a cliff.

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

Got it. Okay. Makes sense. And then second question, you raised revenues all year, but EBIT margins for the second half have come down. Just what explains it if you were to rank order them? I think price cost may be first, but just clarify that, if you would.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think it's inflationary pressures from components and commodities. I think it is a tightness of the supply chain that leads itself to productivity issues in the factories. We're running over time and sort of mixing up shifts to be able to juggle things.

And then I think the third thing is it doesn't incorporate the third price increase yet. And so I don't think we get all the way back to 30% incrementals. But I think it's the price increase spikes and timing of some SG&A, I think it will look better than what's out there now.

Operator

Our next question comes from the line of Gautam Khani (sic) [Gautam Khanna] with Cowen.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Yes. And congrats, Todd. I know you're here for another year, but has always been a pleasure to work with you. We're going to miss you.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I feel like I'm Tom Sawyer at his funeral. I said I feel like I'm Tom Sawyer on his funeral if you've ever read Tom Sawyer. But go ahead.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Yes. No, I totally get it. I was just going to ask on the National Account business was up quite a bit. I was wondering if you had any updates to your thoughts on how quickly commercial deferred replacement picks up, catches up.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes, I stand by our current view, it's 1.5 years to 2 years. That's what I saw after 9/11 when I was at Carrier, so I saw through the financial crisis that commercial companies or commercial buyers National Accounts better stated deferred planned replacement. And for a year, 15 months, and they've now turned it back on and they don't do it all immediately, and I don't even do it all in a year. It's 18 months to 2 years. And so I think we have a nice tailwind in commercial.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Okay. And then just another one on resi. Last quarter, we asked about competitors and their ability to supply and if that's benefiting Lennox in terms of share pickup. Do you have an update on that and an updated view on whether some of your -- you're hearing in the channel that some of the competitors are just not able to get product and that's conferring an outsized benefit to LII?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think the answer is all the major competitors have one issue or another because we're all the same supply chain. Trane had an issue with their Tyler factory. Goodman had issues in Houston. So I think it's all the challenge.

What unfortunately happens in this type of environment is some of the sort of lower-end brands, people like Nordyne, maybe people like Rheem have a little bit of advantage because they're able to pick up share they hadn't before.

We're gaining share. We're quite frankly, not getting as much share as we could if we had more product, but we're gaining share. And I don't think it's one competitor. I think it depends on the marketplace. And I think what competitors are doing are protecting certain marketplaces and certain distributors. So I assume Carrier's protecting Watsco as best as they can where some of their other distributors aren't being protected as much.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Great. And Todd, one last one. Just -- what are your current views on consolidation in the HVAC industry, the likelihood of it and the -- what might actually drive it if there's a catalyst? Because we've been talking about it for a long time, but not a whole lot has happened. Just curious, do you have any view of that?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I'll answer the question more broadly, but I'll directly narrow the question. I think there was -- well, I read all the things you guys write, and some of the notes were talking about whether my announcement had any impact on consolidation or somebody suggested it might. I don't think it matters one way or another what I'm doing on industry consolidation.

In terms of the precondition for industry consolidation, I think it's either someone's willing to pay the Lennox premium to buy us, which I don't think they will or need to or whatever.

I think the other way would be if someone who's in the business decides to get out, and it's hard to imagine that happens when resi is going as well as it is.

So I've been very adamant over the years that someone like JCI as a commercial player isn't getting the full value out of the residential business. But they feel differently and they -- and so it's up to them to make a decision or anyone else.

Operator

Our next question comes from the line of Julian Mitchell with Barclays.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

Maybe one question around the margin outlook. So I just wanted to double check. Are you sort of dialing in a sort of mid-20s incremental margin for the year as a whole? And so if margins are down sort of 100 bps plus year-on-year in the back half. Is that roughly the right way to think about it?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I was trying to be a little cuter than that. I think if you take our guide, it's a hair lower than that. And then I was signaling that we had some additional upside versus the guide because of the price increase that it was south of 30 but north of low 20s. So I think you're probably in the right ZIP code.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

Perfect. And then just on the commercial business, specifically, you had the margin headwind year-on-year in the second quarter. Just wondered maybe some more background on what's behind that and what do you think happens to those commercial margins in the back half?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

There was a couple of things that -- well, 3 things that impacted commercial. Two of them impacted all the businesses. One was sort of unique. One was just the timing of expenses, incentive comp and some SG&A expenses of when they happen this year versus the prior year. And in a business that size, you have a couple of those happen that can sort of hurt the margins.

But the other sort of maybe more important points are the things I've spoken about, which is inflationary pressures and their inability to get price during the quarter because the -- they had a larger backlog where it's already priced down, they'll start to get price second half of the year in a better way. And then the inefficiencies due to -- in their factories due to shortage of supply and labor shortages at our Stuttgart facility. So those are sort of all the things that led to lower margins. I expect that they'll have a better performance for the -- or we expect to have a better performance for the balance of the year.

Operator

Our next question comes from Tommy Moll with Stephens.

Thomas Allen Moll - *Stephens Inc., Research Division - MD & Analyst*

Todd, I wanted to start by following up on your commentary on the replacement cycle potentially bringing the asset life in 3 years, give or take. You referenced some run time data that you come through, but I just was curious if there's any more detail you could offer there in terms of the method or any surprises you came across, it seems pretty straightforward. But anything else you could offer there would be helpful.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think we did it the way, Tommy, you might have thought we did, but I'll say it for others. I mean, we have high comfort on a lot of our units and tens of thousands of units, and we have access to the run times. So we were able to go in region by region, not quite ZIP code by ZIP code, but region by region, adjust for the weather, make sort of other adjustments we thought were appropriate. And then we're able to come up with the average run time of the units on a year-over-year basis. And that was sort of around it, say, 30% -- is plus or minus 30% but right around 30%.

And then I did some Kentucky windage by just saying it's probably not going to be that on an ongoing basis because we won't have as many people working from home as we did last year. So that I just said, say it's 20% instead of 30%. And that sort of felt right, at least from the world that I'm living in because we still have a lot of people working at home, and we will continue to have people working at home even when we get to the other side of this. And that's where the 20% came from and then 20% times 15 gets you 3. 3 -- 15 minus 3 get to 12.

And then I just sort of rolled into it to say the weather is 5% warmer the last 3 or 4 years than it was when we originally came up with a 15-year data point, and that 5% weather has a higher impact than just saying you reduced the life cycle by 5%. And so I didn't even try and quantify it, but it's sort of exponential in nature. So it's sort of somewhere between 5% and 10%, maybe closer to 10% from having 5% warmer weather. And that's sort of in the mix also. So I wanted -- as I'm repeating myself, just introduced the concept of the very traditional way of saying, "Okay, how many units were installed in 2006? And we're 15 years forward. So that means it goes to 0." That's not the way to look at this.

And I think we all knew that there are other variables in play because it doesn't explain what's been happening in the market for the last couple of years. The [bears] have been predicting resi turning for a while now, and they've been wrong. And the reason they're wrong, we think, are these new variables.

Thomas Allen Moll - *Stephens Inc., Research Division - MD & Analyst*

That's helpful. Wanted to follow up on price. So you've pushed 2 increases through. You got another one announced for the fall. Just interested to hear you confirm, I think, that you've yet to see any kind of gamesmanship across the industry. It seems pretty consistent across the group. There's no one trying to steal share with a little bit of price in this environment. And then if you think downstream just in terms of customers, has there been any pushback at all? Or does it feel like at least for your Lennox brands that your customers can pretty easily pass it along through ultimately to the homeowner?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Well, I think short answer is they can absolutely pass it on right now. In fact, if we had more units, I think we could price it whatever we wanted, and many people would pay.

On the competitor side, Carrier announced up to 8% effective September 1; AAON, 5% effective September 1; Trane, 7% effective August 7; Daikin, 4% to 5% effective August 1; JCI, 6% to 13% effective July 19. So we're all in the pool together.

And then I think the other point I would make -- and we're not talking about 2022 yet or 2023 yet. But I'll remind everyone, and you know this, Tommy, but the way this industry works is you have this inflationary shock with commodities. And granted this is different than I think we've seen before. We have inflationary shock with commodities.

And then when the inflationary pressure abates, you never pass the price back. And so we're sort of roughly keeping up this year, although a little bit of lag in second quarter, but full year will be roughly in line. But then in the out years, if you think cold rolled steel, which was $600 a ton 18 months ago, and it's now over $1,800 a ton. You think it's going to pull back at some point. When that happens, we won't give the price back. Or if you think copper is closer to 3 than the 4 50, we don't give the price back. And so there's going to be an out year, whether it's '22 or '23, where all that's going to come back to us, and we'll still hang on to the price.

And so again, that's why I feel good about the trajectory of the business and the business model.

Operator

Our next question comes from the line of Stephen Volkmann with Jefferies.

Next, we'll go to the line of Nicole DeBlase with Deutsche Blank (sic) [Deutsche Bank].

Nicole Sheree DeBlase - *Deutsche Bank AG, Research Division - Director & Lead Analyst*

Congrats, Todd. So I think you guys -- you mentioned in the press release that there was some unfavorable mix dynamics in resi. Can you just talk about that a little bit and the expectation for mix over the next few quarters?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

The biggest mix issue on resi is just that we've been able to produce more product out of Saltillo factory, which is more entry-level product. And so as we've been production constrained, we've been able to get more out of Saltillo. And that's quite frankly, due to the supply base in Mexico being able to stay with us longer than the supply base in the U.S. has done. So that's the major reason. And then the other reason is sort of the mix of the customers and just some of the customers that we were selling to had a slightly lower mix. But overall, a good quarter for resi. And so I wouldn't be concerned about the mix goal.

Nicole Sheree DeBlase - *Deutsche Bank AG, Research Division - Director & Lead Analyst*

Got it. That's really helpful. And then I don't think you commented this in the prepared remarks, but you typically do like order activity in Commercial and Refrigeration. And I'd be curious, like how long the backlog goes out now? Like are you booking into 2022?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. We're not quite booking into 2022. I mean we -- because if we did, we'd be in big, big trouble. I mean, typically, what you do or typically what we see in this business in our Commercial businesses is entering in a quarter, we're about half the quarter in backlog and half we book and ship. And so if we were quoting into next year, we'd be like the integrated circuit guys. We'd have long lead times that no one would buy from. So we don't have that yet.

I think get into the order rates and the backlog just because they're sort of silly high numbers because of where we were last year at this time. But the answer is the momentum in Commercial and Refrigeration remains strong. And what I said about Commercial having another 1.5 years to 2 years of strength is absolutely true and to a lesser degree, but still the same directional point is true in refrigeration. So order rates and backlogs are extremely strong in both businesses.

Operator

(Operator Instructions) Our next question comes from the line of Joe Ritchie with Goldman Sachs.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Congratulations, Todd.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Thanks, Joe.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

So Todd, maybe I want to focus just maybe one question on the announcement. I know that from my vantage point, I was a little surprised, and a lot of folks that I spoke to were also surprised a little bit by the timing because there wasn't necessarily a successor in place. So I guess anything that you can kind of tell us around what influenced your decision, whatever you're comfortable disclosing. Just any thoughts around the timing would be helpful.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Well, in some ways, it's -- and I don't want to offend anyone who has elderly grandparents, but it's sort of like I had a 93-year-old grandfather who died, and I was shocked that he died. And what I mean by that is I've been at LII for 15 years. That's a long time. And I'm ready for a change. And I think the company -- in fact, I know the company, the Board wanted me to stay, but in some ways, I think there's a shelf life on a CEO in 15 years maybe yet. My hands are firmly on the wheel, and I'm going to keep running the business like I do every day until the day I leave.

As we mentioned in the press release, I'm stepping down to create a better balance between my personal and professional life, but I'm not done with my career. I like to think of myself as young-ish, if not young, and have lots of energy, and I plan to do something more entrepreneurial, maybe private equity, maybe venture capital but something.

Now there's never a perfect time to make this kind of transition, I get that. But this is a good time to begin the transition with the strong market conditions and the company well positioned for growth and higher profitability. And now that I've announced that the Board can conduct an open search for the right person. And the year of transition that I've committed to ensures that the process is not rushed and that there will be a smooth transition.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Got it. No, that's super helpful. And I guess, maybe my follow-on question and just focused on how you guys have now characterized what the resi replacement cycle looks like. The commentary around R-22 was interesting, I'm curious, when you guys did your in-depth analysis, how much is left from an installed base perspective on R-22? I'm just trying to understand that opportunity as the potential upgrade cycle over the next few years?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

That's a very good question, Joe. I don't have it at my fingertips. We'll get it out publicly. I think it's in the AHRI data, but we'll pull it out. And again, those who've sort of been ingrained in the story for years may remember in 2011, there was a huge dry run -- excuse me, dry charge phenomenon that had a huge impact on the year. Those are all R-22 condensing units that were put in place.

And so even past 2010, there were units being placed into the market that were R-22. And again, the bell-shaped curve of those units that were being put in place were 15 -- ignoring the heat comments and the run time comments, I gave at the old 15 midpoint, the right side of that bell shape curve is going to get cut off because we're not even be able to do sort of traditional repairs because if you lose the charge, it's prohibitively expensive. But I understand the question, Joe, we'll get that data and put it out to you guys.

Operator

Next, we go to the line of Stephen Volkmann with Jefferies.

Stephen Edward Volkmann - *Jefferies LLC, Research Division - Equity Analyst*

Great. We'll try this again. Can you hear me?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. Sure can.

Stephen Edward Volkmann - *Jefferies LLC, Research Division - Equity Analyst*

Sorry. I don't know what happened last time. Just a couple of quick follow-ups, if you will. You talked about that replacement sort of spinning faster, Todd. Any similar thoughts or analysis you've done on the commercial side?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No, we haven't, in part because the emergency replacement in commercial is 30%, 40% of the market as important is the planned replacement, which really isn't broadly impacted by that and then the new construction. And again, sort of the major driver of resi is people being at home. I don't think there's a negative -- if I maybe understand your question better. I don't think there's a negative reciprocal of that, if that's the right way of phrasing it for commercial, at least unitary commercial. Maybe for high-rise office space, but we don't play there. But retail has been running. Restaurants have been running. And whether you have 1 person shopping or 1,000 people shopping, you're still running a unit. So I don't think there's a negative implication to commercial.

Stephen Edward Volkmann - *Jefferies LLC, Research Division - Equity Analyst*

Okay. Great. And then on -- I'm curious about your commentary around heat and more degree days, et cetera. It seems like a lot of that has been focused on the northern part of the U.S. recently, where there may actually be still some penetration opportunity. Do you have any view on that?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think that's true. I mean that's not worked into our point of view, but that's quite frankly, throw another log on the fire, right, that I didn't know this number, so I'll quote it from an article I read that said in the Northwest, it's about 40% penetration of installed HVAC. If they have many more 100-degree summer days, I think that's going to head higher than 40%. So that's clearly an opportunity for us moving forward also.

Operator

Next, we go to the line of John Walsh with Credit Suisse.

John Fred Walsh - *Crédit Suisse AG, Research Division - Director*

Maybe just a quick one on the unitary, right? I mean if you look at PK through 12, unitary makes up a good amount of that installed base. We talked a lot about kind of the corporate accounts, but what are you seeing there on the education verticals? And is this stimulus we've all been reading about, is that actually flowing through? And are you seeing it?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No, we're seeing some flow through, but it's a long -- in a normal case, it's a long gestation period for schools. I mean, the decision-making is slower, and it's obviously more of a Board decision than an individual decision.

And then lay on top of that the overlay of this money coming and what's the money going to be spent on, who has decision rights on the money, it's a little slower than we would like it to be. But I remain real confident that slightly less than 10% of our unitary business is K-12, and that's going to be a growth market going forward.

John Fred Walsh - *Crédit Suisse AG, Research Division - Director*

Great. And then a lot of discussion around the margins, and I appreciate you guys obviously don't give quarterly guidance. But Q4 on the residential business, the margin the last couple of years, you haven't kind of seen that normal step down sequentially from Q3 to Q4. I mean, 1 year, you had the insurance recoveries. Last year was really strong.

I mean I'm just curious, what are you -- how are you thinking about it in your guidance that you gave us today? I mean, are you expecting a normal step down or how do we think about that, the seasonality in the back half, just what's in your guide?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Well, I don't know if I'll directly answer the question. But I think the one thing to sort of weigh into any thinking is going to be we have 6% fewer days in the quarter. And so that creates a headwind not only on revenue, but you can't absorb all the costs. You have more factory fixed costs fall to the bottom line. And so having 6% less days in the fourth quarter. Everything else being equal, will have a negative impact on margins.

Operator

Next, we go to the line of Jeff Sprague with Vertical Research.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

Todd, just a couple for me. First on price. I understand with things so fluid, you don't really want to dial this into your guide. But maybe just give us a little bit more color on how the market responded to the first 2 price increases. Obviously, we've got the number for the year now you gave us. But are you worried about it being accepted? There's some mix down that might result? I just want to understand why you actually don't want to include it in the guide because I assume you're including the inflationary pressures on the guidance.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Well, I think in part, we didn't -- I'll be very transparent as we made -- we came out early with the earnings because of my announcement, and we came out with a guide. And then between that time -- and we were finalizing the price increase, the third price increase, but we haven't made a decision yet. We made a decision shortly after the announcement. We announced it, and we're going to implement at September 1.

And then I just thought it was a little cute to have a guide 2 weeks ago and then change it today. And so I just thought we'll just leave it where it's at, being very transparent that it's out there and that we'll touch it up at the end of the third quarter.

The first part of your question is just on the first 2 price increases, we had been guiding that we're going to get 90. Now we're guiding we're going to get 110. So I think that answers the question of how it's being accepted. It's being accepted, and we're able to pass it on, and it's sticking.

And again, the fact that our competitors have announced third price increases across the board and quite frankly -- I actually struggled in econ, which I shouldn't admit as a CEO. But the one thing I remembered in econ is if demand is high and supply is down, I think price should go up, and that's what the industry is doing.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

Absolutely. On the replacement thing, yes, we all know we can make this seem much more realistic in an Excel spreadsheet than it is in real life, for sure. But just wondering how much of this pull forward you think might have already happened, right? Because again, if we do go back to the Excel spreadsheet, one complication we have, right, is 12 years ago was actually the '09, '10, '11 trough when there weren't many units being shipped. So just wonder if you could tell from that data, has this pull forward already happened? Is it in progress? Or do you think it's still in front of us?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Well, I think it's -- I don't think it's already happened. I think it's probably already started because last summer already started, and the units running more has already started. But I think it's a large part in front of us.

And again, I'm not validating all these numbers. I'm just -- I'm validating the 30%, and I'm validating 5% warmer. But sort of guessing a 20% reduction on an ongoing basis, that's just a swag, use your own number.

But if it goes from 15 to 12, a 20% reduction means a 20% of a full year's production sort of gets moved. And that's not happening in 1 year. I mean, that's not what this year is about. This year is about scarcity of demand and distributors buying a lot of units to protect themselves. I think that's what this year is about. And so I'm a broken record on this, Jeff, as you know, but now I'm putting some math around my opinion that I think we got multiple years of mid-single-digit growth in resi.

Operator

Our next question comes from the line of Josh Pokrzywinski with Morgan Stanley.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Josh, that wasn't even the same ZIP code as your name. Are you there, Josh? Operator, he was so offended on how you pronounced his name, he hung up. So can you bring someone else in, please?

Operator

He's here.

Joshua Charles Pokrzywinski - *Morgan Stanley, Research Division - Equity Analyst*

Can you hear me?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Hey there, Josh? I can, Josh. Go ahead.

Joshua Charles Pokrzywinski - *Morgan Stanley, Research Division - Equity Analyst*

Excellent. Yes, I think we have a few Eastern block countries off on the pronunciation there, but that's probably [hard] work.

So Todd, I guess, on this whole kind of replacement cycle stuff, as much Excel time in that as any one you (inaudible) with opinions on that over the years. But the -- I just want to make sure I'm understanding this right. This is assuming like 20% kind of higher home usage for (inaudible) is the die already cast?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No. I think it will be to sort of get the full benefit of going from 15 to 12 forever, then it's 20%. There was a year where they ramped 30% more. I know that as a fact. So that die is already cast.

There have been 4 years that the weather is 5% hotter than what we built in the model. That's already cast. And then other than Morgan Stanley and JPMorgan, I think those companies are letting people stay at home as we get to the pandemic. And so decide whether people are going to work 50% flex time at home or 60% flex time at home. Atlantic is going to be 40% flextime at home for most of our employees. So it's somewhere south of 30 greater than 0 that the units are going to run more, and I think that's here to stay.

Joshua Charles Pokrzywinski - *Morgan Stanley, Research Division - Equity Analyst*

Got it. Yes. And I need you to write me a doctor's note on that work-from-home policy.

And then on the parts side of the equation, I'm sure you saw Watsco had pretty healthy growth on the equipment side as well as parts. You guys clearly have a window into that as well with PartsPlus stores. Did you see kind of proportionate growth, any observations on repair versus replace. I would imagine that's probably a bit more replaced than usual, but I don't want to make it sound like it's overloaded to one side.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No. I mean equipment grew faster than parts did for us in the quarter, but we had strong growth rates in both.

Joshua Charles Pokrzywinski - *Morgan Stanley, Research Division - Equity Analyst*

Got it. And then just last one, if you won't mind. On the price/cost equation, I mean, we can all sort of look at steel cost in copper and aluminum and sort of play the hedging gain, which never really ever works, so I gave up on that. But there's a lot of inflation out there that kind of falls outside the commodities, whether it's labor or logistics. How does that visibility look like? Is that getting worse or better? And then how do you think your ability to kind of price that into the marketplace versus other kind of material inflation trend over time?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. I mean, I would think about it this way. We typically get $25 million, $30 million of engineering sourcing-led cost reductions a year. And that's always a net number. That's after all the price increases we get. And this year, we're calling it out of $5 million. So what you should take from that is that we're having $20 million or so more price increases on components that we buy from others, along with the $80 million of steel, along with the $15 million of LIFO. And all that's being offset by the $110 million of price we've already gotten plus the third price increase that we're going to have in fourth quarter.

So I think we're offsetting it this year. We're not offsetting it and still getting the margin percentage. But then as I said earlier, those things will turn, and when they turn we won't get the price back but all of a sudden we'll have our engineering-led cost reduction instead of maybe normal $25 million, $30 million because all the commodity price increases that we took for motors and compressors, and everything else we have will get those reduced. And so we'll have a year where we'll have blow up cost-reduction year plus commodities will decline, plus we'll hang on the price. And so we're sort of having lower margins than normal this year, but then there'll be 1 year or 2 where margin percentage will be higher than the 30% because of the things I just said.

Operator

And our next question comes from the line of Steve Tusa with JPMorgan.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

Congrats on like really an epic run. Great grassroots turnaround. Fantastic market outgrowth, and there's all the credit in the world to enjoy whatever you do next. So congrats.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Appreciate it.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

And you're a good guy. I think you're a really good guy.

But I think I kind of disagree on a lot of the numbers. And I just kind of want to dig in a little bit. I was a poli sci major, so Mark Twain and fancy macro econ stuff wasn't my suit. But how did you validate the 30% again? You said on a few thousand Lennox units that you have visibility into?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes, exactly. We can track the units. So we have -- in our dealer portal when the homeowner signs up for it, we can track the run hours on units. And so we're able to go in on our installed base and do it region by region so then we can adjust for weather. So it wasn't just sort of, "Okay, we have 20,000 units, how much did they run?" We go region by region, not quite ZIP code by ZIP code and understand how long the units were running. I got detailed analysis, detailed spreadsheets, we went through it and looked at it. And then we're able to say what we expected, which is people are at home working, they're running the units more.

And then we calibrated it and it came out a lower number, but we looked at how much energy usage went up at homes, and that's just a high-level macro number. And for the full year, it was up about 10%, 15%. And so that sort of said, "Okay, we're in the right ZIP code." And we would expect air conditioners in the summer to run longer because people are at home. The furnaces, you're going to still sort of have it. It's roughly the set point in the wintertime because you don't want it to go down.

So again, my commentary is about air conditioners running 30% more, and we feel pretty good about it.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

What was the sample size of that again?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I don't know off the top of my head.

Steve L. Harrison - *Lennox International Inc. - VP of IR*

It was about 150,000, Todd.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. So small number, only 150,000.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

And are those -- what do you think the installed base is for the industry?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think you could figure that out on your own, right? So look at an annual number, multiply times 15, that's probably the installed base.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

And then you had -- I thought you guys had said it was 16 years, but obviously, there was a kind of a curve around that. But I feel like in the last couple of years of the housing echo boom discussion that you guys -- was more of a 16 year number you threw out there.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think I was rounding because there's a mean -- sometimes we talk means. Sometimes, we talk mode, but say it's 16, so it goes from 16 to 13.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

Okay. Got it. And just on -- I think the last thing you talked about was this has been -- you tried to figure out what's been happening in the last couple of years.

I mean when I look at your data, you guys were down kind of coming into COVID. You guys really weren't growing very much. I know there was the '18 year that was kind of like messed up. But the industry was -- I mean, I think, down kind of heading into COVID, but it was at least weak, kind of in the low single-digit range.

So I mean isn't the strength just really the last 12 months. Like how are you so confident that like what happened during COVID is really something that we kind of like need to dig into and figure out like how this has changed kind of a decade-plus long type of discussion we've been having for the last few years?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I'm not a poli sci major. I'm an electrical engineer. I look at the data. And everything I know about the data tells me 2 things: how long you run the unit impacts how long it lasts. And how hot the weather is because in a spike up in temperature, it's an exponential impact on how long the unit lasts.

And so the question that we have been asking ourselves is there has to be an impact of people staying at home. We've been talking about that for 1.5 years. And I think it's -- I think you have to take the new facts into consideration. We all are, and as things are changing. And so we looked at the data. And the data said 150,000 units are being run longer. And that fits with all my anecdotal evidence.

We talked to dealers. We talked to my family members, my own freaking home. So it makes sense, they're running longer. And if they're running longer, they're going to break sooner. And then I step back. I know JPMorgan's coming back to work, but [we're on extended] 100%. And neither is Apple and neither is Dell and neither's a lot of other companies. And so it's pretty clear to me it's a phenomenon that's going to change. Now it may change back in 5 years. But it's there, and it's going to have an impact.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

But I guess my point is, sorry, last point on this because I think it's a really interesting discussion, obviously. It's really been only the last 12 months. So like I just struggle to kind of read into something that's happened in a pretty abnormal time period over the last 12 months.

And you said, "Look, it's 20% or whatever it is." I mean, your average sales have been up 20% for the last 12 months. So like why haven't we just kind of experienced that? And why are we making this out to be something that's been a trend for 2 or 3 years that we have to figure out? I mean, again, I haven't really been as bearish on the market in the last 3 to 4 years, but the math.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think you're misstating what I'm saying. I'm saying 2 things. I think the weather has been warmer over the last 3 or 4 years. I think the units over the last 18 months because the pandemic started in March of 2021 -- excuse me, 2020, units for the last 18 months have been running, pick your number, 20%, 30% longer. And that's going to have an impact on the life cycle of the product.

And then you ask yourself, is that going to continue? And the answer is yes. So I mean I sort of extrapolated if we were talking about Buicks, and we said the entire country moved 20% further from their workplace, we're going to put 20% more miles on the Buick, would the units break faster? We'd say, of course, they would. And that's what we're seeing in HVAC.

I mean -- and again, we can -- It's been 18 months. I'm trying to give answers to what's going on. The world is changing quickly, Steve. And so we can wait another 3 years to come out with the numbers, but I'm telling you what's happening now.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

Right. Right. Right. Very, very helpful. Just 1 last one. Any color on -- you gave us kind of the days impact in 4Q. Any color on just high level, what you expect the industry to grow in 3Q? Maybe what you're seeing so far in the first few days of July.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

We continue to do well. Demand is strong. I'm not calling -- the industry call -- we call this full year, which is up low double digits, and let's see how it plays out.

Again, I think the variable that's unaccounted for, in my mind, is those who are selling exclusively to independent distribution is upset are going to hit a cliff before we do. And so I don't know what they see that will impact the industry more than what we do because we're a little less than 20% of it. Question is what's the other 80% or so in independent distribution to because they're going to hit a cliff before we do.

Operator

There are no further questions in the queue. I'll turn it back to the speaker for closing comments.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Thanks, operator. To wrap up, we raised guidance for revenue, profit, free cash flow and stock repurchases for this year. Demand remains extremely strong, and the company is doing as well or better than anyone in the market. We look forward to the second half and continued strong market conditions in 2022 and beyond.

Thanks, everyone, for joining us.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. We thank you for your participation and for using AT&T conferencing service. You may now disconnect.
