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Lennox International, Inc. (LII)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone. Welcome to the Lennox 2026 First Quarter Earnings Conference Call. All lines are currently in a 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 Ms. Chelsey Pulcheon from Lennox Investor Relations. Chelsey, please go ahead.

Chelsey Pulcheon

Director-Investor Relations, Lennox International, Inc.

Thank you, Val. Good morning, everyone, and thank you for joining us as we share our 2026 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.

Now please turn to slide 3 as I turn the call over to our CEO, Alok Maskara.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

Thank you, Chelsey. Good morning, everyone. Before turning to our quarterly performance, I want to recognize the exceptional adaptability and dedication of our team as well as the trust and loyalty of our customers. While the macro environment remains uncertain, our core values empower us to respond with discipline, innovation, and an unwavering commitment to enhancing the customer experience. Turning to slide 3, revenue was \$1.1 billion, up 6% year-over-year as growth initiatives gained traction and channel conditions stabilized. Our segment margin was 14.4% in the quarter, down 130 basis points primarily due to the impact of factory under-absorption. Operating cash flow was positive \$16 million and adjusted earnings per share for the quarter was \$3.35. In Home Comfort Solutions, industry conditions began to stabilize as expected.

One-step results continued to be impacted by weak new home construction, while sentiment in the two-step channel improved as distributors began to restock ahead of the summer season. In Building Climate Solutions, emergency replacement momentum and disciplined execution contributed to record quarterly performance. We are re-affirming our full year adjusted earnings per share guidance range of \$23.50 to \$25. With that context, let us turn to slide 4 to discuss the current economic outlook. The industry environment continues to gradually improve. Channel de-stocking has largely concluded as dealers regain confidence and replacement demand strengthens. Consumer sentiment remains cautious, contributing to continued softness in new home construction and remodel activity. At the same time, Lennox-specific growth initiatives are gaining momentum and beginning to offset these pressures.

On the cost side, we are experiencing inflationary and tariff-related increases across commodities, components, and finished goods. Fuel and transportation costs are also rising. In response, we are sharpening our focus on mitigation activities, including productivity and reductions in material cost. We're also further streamlining our supply chain, optimizing manufacturing operation, and implementing thoughtful pricing actions. In Home Comfort Solutions, sales volume year-over-year improved sequentially during the quarter, supported by better performance in the two-step channel. Repair versus replacement stabilized, providing greater visibility into underlying demand trends. New product introductions, including a successful water heater launch and growing traction with new heat pump products, contributed positively. In addition, the on-track integration of Supco parts and supplies strengthens our attachment rate growth vector.

In Building Climate Solutions, our superior execution continues with emergency replacement and national accounts both driving volume growth. Greater engagement across our full lifecycle offerings, along with the integration of Duro Dyne parts and supply, is expanding our commercial portfolio. Now let's turn to slide 5 to highlight recent product introductions. Innovation continues to be a critical differentiator for Lennox. Our recently launched products further elevate our competitive position to meet the evolving needs of our customers, particularly around efficiency, backwards compatibility, and ease of installation. In commercial, our new Strategos rooftop with heat pump technology expands replacement options for customers. This product offers greater flexibility in where and how systems can be installed, supporting a wide range of electrification as efficiency expectations continue to rise. In residential, we are broadening our heat pump portfolio to serve all climates and installation requirements.

Cold climate capabilities allow us to better address demand in northern regions, while our new compact air handlers make it easier to deploy high-efficiency systems in retrofit and space-constrained applications. We are also extending our presence within the home through high-efficiency Lennox heat pump water heaters via our Ariston joint venture. This new product integration supports the convergence of HVAC and water heating and strengthens the Lennox home control platform. Together, these innovations expand our addressable market, increase share of wallet and reinforce Lennox's long-term competitive position.

With that, I will turn it over to Michael to review our financials.

Michael Quenzer

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

Thank you, Alok. Good morning, everyone. Please turn to slide 6. After two consecutive quarters of year-over-year sales declines, we were pleased in the first quarter to return to year-over-year revenue growth of 6%. Growth from our Duro Dyne and Supco acquisitions completed in Q4 2025 contributed 6%, while growth in BCS was offset by continued sales declines in HCS. As expected, residential end markets remain down year-over-year, but the rate of decline improved sequentially versus the fourth quarter of last year. The inventory levels normalized, the segment profit was negatively impacted by approximately \$50 million of manufacturing cost under absorption. Against that backdrop, results progressed as expected. Let me turn to the details of our Home Comfort Solutions segment on slide 7. In our fourth quarter earnings call, we noted that the first quarter end markets would remain challenging, but should show signs of improvement.

Overall, HCS revenue declined 10%. M&A contributed a positive 2%, while organic revenue declined 12%, with one-step down approximately 10% and two-step down approximately 15%. Organic sales volumes declined 21%, but this represented a meaningful improvement from a 32% decline in the fourth quarter of 2025. Within the one-step channel, lower new construction activity continued to weight on results. In the two-step channel, distributor sentiment improved as customers began to restock ahead of the summer season. Mix and price realization contributed positively to results, driven primarily by the full conversion to new R-454B products. Product costs

were a \$23 million headwind, driven by materials inflation and under absorption due to lower production levels. Finally, acquisitions contributed approximately \$2 million of profit and SG&A cost actions taken last quarter mostly offset SG&A inflation.

Please turn to slide 8 for an overview of the Building Climate Solutions segment. BCS delivered another exceptionally strong quarter with organic sales up 26%, M&A growth up 12%, and profit margins expanded 300 basis points. Sales volumes increased 17% as national count demand normalized, alongside continued growth in emergency replacement and new customer wins across both equipment and service offerings. Price and mix delivered 9% revenue growth, driven by the full transition of light commercial products to the new R-454B refrigerant. Similar to HCS, BCS experienced absorption pressure as we optimize inventory levels, but manufacturing cost efficiencies offset this impact. M&A contributed \$7 million of profit growth, offsetting SG&A inflation and distribution investments. Please turn to slide 9 for cash flow and capital deployment. Free cash flow in Q1 2026 was a \$39 million use of cash, an improvement versus \$61 million use of cash in the prior year quarter.

Underlying operating performance improved materially. Adjusting for approximately \$30 million of higher capital expenditures year-over-year, operating cash flow was \$16 million, an improvement of \$52 million, driven primarily by inventory growth of \$60 million this quarter, compared to \$210 million in the prior-year period, inventory build in the quarter focused on parts and specific SKUs to support customer fulfillment during the upcoming peak season. Given normal seasonality, we expect inventories to moderate from current levels in the second half of the year. We continue to maintain a strong balance sheet with healthy leverage, while supporting the \$550 million acquisition completed in Q4 2025 and continued share repurchases. We also see a healthy pipeline of bolt-on M&A opportunities and remain disciplined, prioritizing deals that enhance our portfolio and meet our return thresholds. For 2026, we continue to expect approximately \$250 million of capital expenditures, focused on innovation and training centers, digital capabilities, distribution network optimization, ERP modernization, and targeted AI capabilities.

With that, let me move to slide 10 to review our updated 2026 financial guidance. Our updated full year 2026 guidance reflects Q1 results and trends including higher cost inflation and tariffs. The tariff environment continues to evolve with little notice. Earlier this month, new Section 232 tariffs were announced. As Alok noted earlier, we have a proven track record of using multiple levers, including price and productivity to offset tariff-related cost pressure. As a result of our move to FIFO accounting, we do not expect any income statement impact from these new tariff rules until the third quarter. With that context, I will walk through the specific guidance items that have changed since we introduced our initial 2026 outlook in January. All other guidance items remain unchanged. Revenue is now expected to grow approximately 8% compared to prior guidance of 6% to 7%. The increase is driven by modestly higher mix and price, reflecting the Lennox price actions announced earlier this week.

The annual price increase implemented earlier this year, and the carryover benefit of the 2025 regulatory mix. Looking at the segment revenue guidance, HCS is now expected to grow 4% compared to the previous guidance of 2%, and BCS is now expected to grow approximately 16%. Organic volumes are still expected to decline low single digits, net of approximately 1 point of growth from parts and accessories, commercial emergency replacement, ducted heat pumps and Samsung ductless products. Cost inflation is now expected to be up approximately 5% from up 2% driven by recent increases in tariffs and input costs for aluminum, steel, copper and fuel. Based on these updated assumptions, adjusted EPS is still expected to be in the \$23.50 to \$25 range. Free cash flow remains expected to be \$750 million to \$850 million, driven by inventory normalization and higher profitability.

Overall, we feel good about the underlying momentum in the business while recognizing that the external environment remains dynamic and will require continuous focus and execution. With that, please turn to slide 11 and I'll hand it back to Alok.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

Thanks, Michael. As we close, I want to take the opportunity to share why four years in, I'm still genuinely excited about Lennox. We operate in an attractive growth industry with an enduring place in the market. However, what really sets Lennox apart is how we deliver differentiated growth through our execution on enhancing the customer experience, discipline capital allocation and effective acquisition integration, all of which reinforce our resilient margin profile. What excites me most is that innovation is always at the forefront. Our product and advanced technology portfolios continues to expand, enabling us to capture a greater share of wallet. Of course, none of this would be possible without the strong foundation that is our culture. Guided by core values and guiding behaviors, the Lennox team shows up every day committed to creating long-term value for our customers, employees, and shareholders. For all of these reasons and many more, I truly believe that our best days are still ahead.

Thank you. We'll be happy to answer your questions now. Val, let's go to Q&A.

QUESTION AND ANSWER SECTION

Operator: Certainly, Mr. Maskara. Thank you. [Operator Instructions] We'll go first this morning to Noah Kaye with Oppenheimer.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Thanks for taking the questions. Michael, the FIFO conversion continues to give us talking points. And I want to ask, following up on your comments, just how to think now about the timing difference in cost increases versus price realization. You mentioned the incremental costs, many of them won't really layer until 3Q. How do we think about pricing, and should we still think about kind of the previous guidance for a first half, second half, EPS splits as still applying, or is anything shifting, given these moving pieces in the outlook?

Michael Quenzer

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

A

Yeah. First, we'll write down the guidance. Most of the cost impact and the price impact will fall within the second half. We've announced a price increase earlier this week. It'll take some time before we start to see the full impact, maybe start to see a little bit later in the second quarter. But predominantly, both of these should come into the end of second half of the year. When you look at the revenue splits, they'll put a little bit more revenue, obviously, now in the second half than the first half, but overall profitability should still be about the same as we reflected last year by the quarters.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Q

Okay. And as a follow up, you called out the \$15 million under absorption, impacting this quarter. Any lingering under absorption headwinds to think about here for 2Q or are we kind of mostly caught up now that restocking is underway and you haven't increased your inventories too much?

Michael Quenzer

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

A

I think if you saw within our results in the first quarter, we continue to not grow inventory as much as we did previous year. So, we had some absorption headwinds. We reduced our productions about 30% in the first quarter. So, there'll be a little bit of absorption that will go into the second quarter. But by the end of the second quarter, the inventory normalization will have occurred.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Q

Perfect. I'll turn it over.

Operator: Thank you. We'll go next now to Ryan Merkel with William Blair.

Ryan Merkel

Analyst, William Blair & Co. LLC

Q

Hey, everyone. Good morning. Thanks for the question. I wanted to ask first on HCS, the revenue outlook for 2Q. I think previously you saw it down low single digits year-over-year, but it sounds like you're seeing a bit of stabilization and I'm just curious if April's been a little bit better?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Hey, Ryan. Good morning. It's pretty hard to call quarter, especially given some of the impact of weather that is still very unknown. So, I don't think at this point we would give you any further clarification compared to what we said in the past, I would go with the same assumptions. The change we made in the guidance, simply reflects a stronger Q1 overall, and more importantly, the impact of additional price increases that we announced earlier this week that are going to mostly fall in the second half.

Ryan Merkel

Analyst, William Blair & Co. LLC

Q

Okay. Got it. Thanks. And then as my follow up, BCS was really strong, you mentioned good execution. Anything else you'd call out there and why not raise the guidance a little bit more there?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

You should have as conservative a CFO as I have, Ryan [indiscernible] (00:18:54). Listen, on the guidance piece, it's such a seasonal business, weather makes an impact and I think, based on everything we know, Q1 is not a quarter to raise guidance anyway. I mean, there's just so much more to go given there's just a shorter season. So, I won't read too much into Q1. On BCS, first of all is congratulation to the team. I mean, the execution out there is just super. The new factory is paying strong dividends. We are getting the right amount of productivity that we expected, maybe a little more than we expected. The emergency replacement initiative, now that we have inventory position all over US, is paying off meaningfully. And more importantly, the fact that now Stuttgart is more stabilized, is also helping us win back national account and gain additional volume from that.

And don't forget the other two businesses. The service business is benefiting from the full lifecycle value proposition, and the refrigeration business also continues to set records both in growth and profitability. So, just a good success story and something that we think we are going to start seeing in HCS as well as our market stabilize and the end markets are not such a big drag on us. So, congratulations to the BCS team. Nothing unusual, just strong execution on a very well-defined strategy.

Ryan Merkel

Analyst, William Blair & Co. LLC

Q

All right. That's great. I'll pass it on. Thanks.

Operator: Thank you. We'll go next now to Julian Mitchell with Barclays.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Maybe just wanted to start on the overall operating margin guide for the company. Is it fair to say that you sort of got a flattish operating margin dialed-in total company for the year? And then within that, you've got HCS down, BCS up? I'm just trying to understand sort of HCS margins. Understand we had a tough time in Q1 for many reasons. How quickly do those margins kind of climb up out of that hole?

Michael Quenzer

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

A

Yeah. So I'll speak to the overall margin guide. When we talked in January, we expected a slight increase in the enterprise margin expansion. Now with the increase to revenue and costs, we expect a slight decline in the margin. I mean, you're correct. Within BCS, organically we expect margins to be up there. Within HCS, organically we expect them to be down. M&A will have a slight drag overall in the enterprise, but we should expect to see as volumes are covered in the second half of the year the incrementals within HCS improve. We just need to go through the first half of the year for HCS to see that challenge behind us.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah, and I think one thing. As we dug into the results in Q1, it became abundantly clear to us that the decline in margin, which we don't love at all, is 100% driven by the factory under-absorption. And so, we were able to offset inflation with volume, with pricing and efficiency, but it is the under-absorption. So as that under absorption kind of continues to become less of an issue as we go into Q2 and second half, we are very confident in the margin going back to normal.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Thanks very much. And then my follow up, I suppose, was around so the cost inflation numbers moved 2.5% to 5%. So is that right that that's roughly kind of \$100 million or so extra gross cost headwind? And then, I suppose do you see any competitive implications from that cost base movement? And sort of tied to that, how is the price elasticity of volume playing out in HCS at present, please?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah. So I guess on the first piece, your numbers are roughly right as usual, Julian, so no surprises. I don't see any competitive dynamic or drawback to us. [indiscernible] (00:23:06) inflation in oil, commodities, components, I mean, that's hitting all of us. The Section 232 derivative tariff impact, that hits people differently but it does hit every manufacturer. Some will bring metal components from overseas, some bring finished products from overseas, so that one there may be some slight variation depending on which company, but we don't think it puts us at a competitive disadvantage overall. But we remain very sensitive to those competitive dynamics, and we'll continue adjusting those as we go along. Sorry, Michael?

Michael Quenzer

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

A

I'll just add. I mean, if you looked in the spot market since our last guidance, aluminum is up 25%, steel is up 20% to 25%, diesel is up 50%, copper is up 10% to 15%. We have hedging programs that delay some of that. We have fixed contracts but overall, these input costs are up significantly since our last guidance.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you.

Operator: We'll go next now to Chris Snyder of Morgan Stanley.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I also wanted to follow up on the price/cost drivers into the back half. I guess there might be some rounding involved, but you guys are still calling for mid-single-digit price. But it does sound like more is coming, so just maybe if you could kind of provide a little bit more nuance around that. And then also, why is the incremental on the price action getting better? I think now it's expected to be 90% versus prior 75%. Thank you.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

I'll take the first part of the question. So yes, there is a bit of rounding. I mean, mid-single-digit is still a broad range. And overall, as you know, we are very transparent with what we do, but it's within the mid-single-digit range. Michael can address the realization point. But essentially, given all the inflation that we just talked about and the additional pricing actions we have taken this week, that just gives us better drop-through because it's just going to stick better going back to each of the inflation pieces that Michael just talked about. Michael?

Michael Quenzer

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

A

Yeah. Specific to the 90%, within that there's really two guide points. First, we have price that has a incremental of 100% because we have costs on the other side of our guidance. And then mix, normally what happens there is there's an incremental somewhere in the 50-ish percent range that we have within that. So when you blend the two together, you start to get a higher drop-through because there's now more price than mix because the mix is generally behind us now from the carryover of the regulatory change last year.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I appreciate that. And then if I could just follow up on the HCS revenue trajectory from here. It seems like on my math to kind of get to that full year guide, the build into Q2 and Q3 off the Q1 level seems steeper than typical on my math. Correct me if you guys disagree with that. And I guess is that a function of the channels restocking, demand getting better, you guys are taking share, more price? Any color there would be helpful. Thank you.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

So let me start with the second half. I mean, the comps get much easier in the second half. I mean, that's where we saw massive declines last year. Michael did talk earlier about pricing will have more of an impact in the second half. I think in Q2, remember, mix will still benefit us because we haven't completed the R-454B conversion all the way by the time we hit Q2. So I think you put it all together, Q1 last year the mix was very tough because a lot of people were stocking up in preparation for the transition and buying a lot of R-410A inventory. So a large part of the answer is just costs, what happened last year and then the pricing impact. Michael, what would you add to that?

Michael Quenzer

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

A

Remember, Q2 had the canister issue last year that was significantly within that quarter with the canister shortage issue.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I appreciate that.

Operator: Thank you. We'll go next now to Jeff Sprague with Vertical Research.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Hey, thanks. Good morning. Just back to the inflation. Yeah. Michael, you with that litany you went through aluminum, steel, copper, et cetera. We've been watching that ourselves, obviously. How would you parse kind of the inflation headwind between the tariff changes and just kind of the general inflation going on? And then, obviously, there's an annualized impact on what you laid out here, given sort of the half year dynamics. The price that you're putting in place would fully cover you for sort of those carryover headwind impacts into 2027?

Michael Quenzer

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

A

So, I'll speak to the input costs. We do have hedging programs in fixed contracts for a lot of that, as I mentioned. So, we're about on average 70-ish percent hedged on that. But there is a piece of our overall inflation guide for the remaining 30%. And then the balance is mostly tariffs. And then on the annualized impact, and we're going to continue to look to find ways to mitigate as we talked about this is still not fully mitigated, we still have a lot of levers that take time on the supply chain and the manufacturing processes to be able to continue to mitigate that cost. That's our goal, is keep focusing on cost mitigation, just some of these efforts take a little longer.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah. And I'm pretty optimistic on our ability, just like we have done before, is to reduce the mitigated impact of tariffs. But as Michael says, supply chain moves, manufacturing moves, product SKU moves. Buying US steel in Mexico moves. They just take a lot of time. So, we are working through all of that to continue mitigating the impact.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Thanks for that. And then, just on the channel behavior, right. It's kind of always interesting how we can quickly move from de-stock to re-stock. Do you sense in the channel that there was sort of pre-buy in front of inflation or there's been some early heat in some places, maybe a realization that things got a little bit too lean, just kind of that behavior, animal spirits in the channel right now, a little more color on what you're seeing.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

No, we have no indication of any pre-buy ahead of price increase or inflation. I mean, the April tariff announcements took most of us by surprise. So, there's just absolutely no opportunity or knowledge within the channel to do any prep-buy around it. We think the restock is pretty normal. I mean, we do like the word re versus de when it comes to a stock. So, restock is good and folks are just looking at the upcoming summer season and nobody wants to be shocked. So, we think inventory levels are pretty normal. I'm not concerned. But remember, we haven't had a normal year in years, and this would be the first time that we don't have to deal with a refrigerant transition, canister shortage, sear transition, and all of those things. So, we think that inventory levels are reaching normal for the channel and for us.

Michael Quenzer

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

A

I'll just add, we continue to look at our warranty registration data that suggests that inventory in the channel continues to be normal, especially on the one-step side.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Great. Thank you.

Operator: Thank you. We'll go next now to Amit Mehrotra at UBS.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Thanks a lot. Good morning everybody. I guess, I just wanted to come back on the Section 232 changes. From my feet, it's a little bit like the blind leading the blind in terms of what the actual impact is. And I'd love to get – you've done a good job giving us kind of a very high level view, but there's a lot of moving parts in terms of how much you have in Mexico, how much that's crossing borders. It's actually in the scope of the new Section 232, what the net effect is, in terms of the steel content versus the total value. You buy compressors, you move them down to the south, and bring them back up north. There's just a lot of moving parts. Maybe you can just kind of pull back the curtain a little bit and just explain to us kind of how what the scope is, and just so we get a little bit of a flavor of what's going on?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Sure. The scope is pretty wide. I'm not a tariff expert, but I can tell you we have a lot of tariff experts in our company. I think there's a 7 a.m. war crisis type call every day. I wish I could invite you to that because then you will get answers to all of your questions there. I mean...

Amit Mehrotra

Analyst, UBS Securities LLC

Q

I'm happy to join. Happy to join.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

The scope is pretty wide. And also as time progresses, the secondary impacts are coming out, to be also quite challenging or new, because the primary impact is often well understood, once you understand all the different products, and the classification codes, but from our perspective, this is not new. Listen, the tariff thing took us by a little surprise last year when we had tariffs by the country. This year, we're getting some refunds. We are paying some more. What we have done is, get ourselves and our team used to working through these uncertainties, remaining very adaptable, very flexible, moving products, raw material out of needed, and working with our vendors to share the pain. So, I think we are working through all of that. Net-net, when it comes down to is, I think every manufacturer who deals with metal is impacted. So, clearly, we are not the only one. And I think, overall, we seem to be dealing it with appropriate resiliency, and appropriate determination.

We also have to continue wait and see, right. Things change dramatically, too. There could be another tweet sometime in the next week or two that could just flip this on its head. So, if I'm going to tell the details on that, Amit, happy to have offline conversation. The teams are very qualified, very capable, and we're working through it.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Okay. I appreciate that, Alok. And then maybe just to follow up on your comment about replace versus repair sort of stabilizing. And I'm just curious if you're seeing actual evidence of consumers moving back into replacement, or is it just kind of repair activity that simply is not getting worse? And the context of the question is really, it's natural for inventory to restock at this particular point in the year. I'm just wondering if maybe it's a leading indicator or a potential destock, unless you're actually seeing real consumer activity moving back towards the replacement paradigm?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah. So, remember, first of all, in our one-step channel, we are very close to thousands of dealers, right, maybe 10,000 direct customers and we have multiple conversations with them every hour, every day. The sentiment, what we get back from them is that it is not getting worse, and if anything a lot of the deferred replacement that happened last year or so is now coming back up for replacement. So, I don't think this is an exact science, but last year we were hearing a lot more hesitancy, even within our contractors, to recommend replacement versus repair. They were short on canister. They were not fully trained on R-454B. And now the contractors are more confident, and consumers are going back to making the economic decision, which is that, let's not repair 10, 12 system versus look for replacement, which gives you better efficiency, better warranty, better financing.

So, definitely not getting worse, definitely [ph] stable (00:34:50), and some green shoots in terms of confidence among dealers and consumers returning back to more economic decisions.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

That makes good sense. Thank you very much, Alok. Appreciate it.

Operator: We'll go next now to Tommy Moll with Stephens.

Thomas Allen Moll

Analyst, Stephens, Inc.

Q

Good morning. And thank you for taking my questions.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Good morning, Tommy.

Thomas Allen Moll

Analyst, Stephens, Inc.

Q

Alok, to continue with that same theme there where you said for the one-step channel, there are at least some green shoots. Can you give us any sense of how the volumes have progressed year-to-date, just observing other data points across the industry, it seems like...

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Sure – sorry, go ahead...

Thomas Allen Moll

Analyst, Stephens, Inc.

Q

...yeah. It seems like the year started really slow, but then March and April, things have started to pick up. Some of that may just be a comparison issue. I don't know, but any context you can share would be helpful? Thanks.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah. I think so things have improved sequentially month-over-month since the beginning of the year. So, yes, both the statements that you made are accurate. Some of it is driven by comparison, as last year people were holding R-410A at this point, and this is now turning out to be more normal. But some of it's also just confidence back in the channel, where folks are taking more advantage of our stock up promotions. We are seeing two-step getting lot more eager to make sure they're not left behind in case we have a really hot start to the summer. So, yes, sequentially things have improved.

Thomas Allen Moll

Analyst, Stephens, Inc.

Q

And then, on the BCS side, Alok, specifically emergency replacement, I think you use the word momentum earlier. What additional details can you share there and what inning are we in? I know you're starting from a pretty low base of revenue, so you have to be strategic about how you attack that market going forward?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

I'm still in the second inning or something out of a nine inning game. Last year, we were not even fully covered in US. We are still not fully covered in US, but we're now covered most of the metro areas. Each region gets launched one at a time. What we are positively surprised by, and pleased with is the ability of our own Lennox dealers to get back in the game, support us, and themselves, and start using and getting back into the rooftop business with us, so that's been positive. Honestly, I'll tell you what the other good news lurking in there is the fact that we took most of the emergency replacement volume away from Stuttgart make Stuttgart more of a configure-to-order factory dedicated to national account. That's paying probably better dividends than we had expected in terms of restoring confidence in national accounts with shorter lead times, more custom products.

Basically going back to basics in there, what we used to be very good at, and lost our way. So, early innings in emergency replacement, but also pleased with the momentum in national account. The two words we were trying to use, I'm really pleased you said that is, momentum in BCS and stabilization in HCS. Those are our buzzwords for the quarter as we were practicing.

Michael Quenzer

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

A

And I'll just add that the bundling of the service offering with the national accounts continues to perform very well.

Thomas Allen Moll

Analyst, Stephens, Inc.

Q

Thank you both. I'll turn it back.

Operator: Thank you. We'll go next now to Jeff Hammond with KeyBanc Capital Markets.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, guys.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Good morning, Jeff.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Just going – I mean, it seems like the lean is more of your inflation impact is Section 232. And you mentioned a couple of times like, you think everyone has the same issues. But I'm just wondering, it seems like there's one OEM that does not make product in Mexico. And just what do you think happens if most people move on price, but not everybody moves on price?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah. I mean, there are a bunch of game theory scenarios, Jeff, which is hard to get into this, right. But remember Section 232 derivative tariffs are not about products made in Mexico. They are about products made anywhere coming from outside, as long as the steel content or the metal content is over X percent, depending on weight. That does impact a broader group of folks, beyond just those who are making in Mexico. At the same time, remember the secondary impact of this is, a lot of the cost of steel and aluminum, like Michael mentioned, has gone up, so nobody is immune to it. I think like you would see where everybody lands up on this, we are very confident and we have done price increases quite thoughtfully to make sure that we are not disadvantageous on share, so we'll work through the dynamics. But at this stage, based on what I'm looking at, I look at us doing the appropriate action and sharing the pain with our vendors and our customers.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, great. And then just another one of on BCS. I mean, it sounds – I mean, the 1Q numbers were pretty eye-popping; I understand, easy comp. And just all the comments you made in the previous question were pretty positive. So – but it seems like the raise is pretty small, so maybe were there any aberrations in 1Q or is there any reason to temper maybe the enthusiasm on emergency replacement, national account momentum?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

No. Besides what you already said, like last year we got beat down because they were bad. So we get easier comps in Q1, the comps get tougher as we go along. But there's nothing beyond that that is going to temper the performance going forward. Just the comps get tougher as you move along the year.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks, Alok.

Operator: We'll go next now to Nicole DeBlase with Deutsche Bank.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, thanks. Good morning, guys.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Good morning, Nicole.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Maybe just on the BCS business. You guys obviously have a lot going on with respect to various drivers of market share gain. It's hard to see what's happening with the underlying commercial unitary market. So, Alok, I'd be curious how you'd frame the performance of the overall market. And is it still down overall and Lennox is just outperforming that much? Or have you seen any improvement at the same time?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

The overall market remains challenged. The last data that we saw in AHRI, the declines have become less. So, I mean, the second order derivative is kind of turning favorable, but the overall market remains challenging and did decline. So, yeah, we are clearly outperforming the market in there. But it's not just on unitary equipment. I mean, our services offering, our ability to do a full lifecycle, so I think that's all put together doing that. Yet, our market remains challenging, but our market share remains very small, Nicole. I mean, from our perspective we continue to have significant opportunity to regain national account and enter emergency replacement in a meaningful way. But, yeah, at this stage, based on all the data we look at, we are pleased with the fact that we are outperforming the market.

A

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Okay. Got it. Thanks, Alok. And then just a quick follow up maybe for Michael. I think you mentioned, Michael, that you expect under-absorption to continue but maybe at a lesser rate in the second quarter. Can we just put a finer point on that relative to the \$15 million I think you spoke to in 1Q? What are you expecting for 2Q?

Q

Michael Quenzer

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

Yeah. \$15 million in Q1 is not going to be zero, somewhere between that, but there will be a little bit of headwind in the second quarter. But by the end of the second quarter that should all be behind us, and we should start to see actually some year-over-year absorption benefit as we get to the second half.

A

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

Yeah. And, Nicole, and also \$15 million makes a big difference when you make only \$160 million, right? I mean, Q1 is one of our softest quarter. In Q2, which is one of our more profitable quarters, it doesn't move the needle at all. So...

A

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Got it. Thank you so much. I'll pass it on.

Q

Operator: Thank you. We'll go next now to Steven Volkmann with Jefferies.

Stephen Volkmann

Analyst, Jefferies LLC

Great. Thank you and good morning. Just a couple sort of bigger-picture follow ups. I think, Michael, you mentioned some spending on ERP and AI targeted. Just any details of sound like interesting potential projects.

Q

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

Yeah. So ERP, first, let me take away any fear. We are not doing any massive, big ERP changes. We love [indiscernible] (00:43:36). As we go into integrating new acquisitions that we have done, we're just moving them to our own platform, and that work is underway. So, we are very good at this, we do it diligently, we do it one at a

A

time. So I just want to make sure we take away any risk concerns about that because it's none and it's limited to the acquisitions we have done recently. On AI pieces, yes, we continue to make investments. We're getting really good results when it comes to two or three specific areas within AI. As we look at where we are making a difference, it's clearly pricing. We are seeing some good benefits on using AI which increases our win ratio and also increases overall profitability, which is typically hard to do but AI enables us to do that. Second piece which we are seeing good traction is truly around looking at demand planning, sales inventory, ops planning.

I know right now the headline news on inventory is not great, but we are getting better. As that initiative move forward, we are very optimistic on what AI can do there. Third big bucket is just general productivity with agentic AI and how we have looked at everything from staffing our call centers to our own HR helpdesk, to really looking at robotic process automation. I mean, all of those things are helping productivity on the SG&A side, and you saw what we did really good on the cost control on SG&A. All of that requires investment, and we are making investments in data lakes, we are making investments in partnerships with LLMs. But we are also very focused on reducing some of that cost by cutting down on useless subscriptions, subscriptions that are no longer needed, sun-setting old IT systems. But as we upgrade our tech stack and we sunset legacy ones, there's just a little bit of bump along the curve, right, because at one point we are paying for both.

But in the long-term, I think it's going to be productivity and pricing will outweigh the benefits – outweigh the cost of all the investments we are making. So very pleased with the progress there.

Stephen Volkmann

Analyst, Jefferies LLC

Q

Great. Okay. Thank you for that. And then, Alok, I'm interested. Both Samsung and Ariston, kind of your growth programs I suppose around distribution, I'm guessing those started before all this tariff noise kind of came to bear. And I'm just curious if you've changed the way you're thinking about those opportunities given the realities of sort of the world today.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

So strategically, we remain very committed to both of those. Ductless and water heaters remains a core part of our portfolio, and we are gaining momentum in both. I mean, we had really solid momentum in Q1, and water heaters we just launched in March but in Q1 and March on both those products. The fact that these are joint ventures versus buy-and-supply agreements, that makes us very comfortable sitting where we are because we can have very intelligent discussions about supply chain moves, direct cost sharing, and other futuristic changes that we can make to mitigate any long-term impact of tariffs. So we appreciate the partnership spirit with both those companies. But no, no change in current dynamics. Almost all ductless today are imported from outside, especially when it comes to interior indoor components and some of the core outdoor components. So, now we are moving with the industry and have no concerns around the structure.

Stephen Volkmann

Analyst, Jefferies LLC

Q

Great. Thank you, guys. I'll pass it on.

Operator: We'll go next now to Nigel Coe with Wolfe Research.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Oh, thanks. Good morning. By the way, I look – I'm down for the 7 a.m. crisis call, so I'll ask Chelsey to send me details of that. It could be an interesting call.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

Maybe, we'll start charging you guys and that could be part of our tariff mitigation effort, you know.

Nigel Coe

Analyst, Wolfe Research LLC

It could be, yeah. I'm sure people will pay for that. By the way, I'm not disappointed with the baseball analogy. I thought you're more of a cricket guy, Alok, but I'll let you get away with that.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

If you had asked me the question – but I don't know how you break down two innings. I would like to say that we are 0.2 in the first inning or something, you know?

Nigel Coe

Analyst, Wolfe Research LLC

Yeah. Like the first innings of the first day, something like that. So, I do want to go back to the tariffs, roughly where are we today in terms of US production of residential light commercial units? And are you planning to re-domesticate production? I'm not saying next week or next month, but over time, or does it still make sense to keep your production in situ and pay the tariff from a unit cost perspective? I'm just wondering what sort of non-price mitigations you're competing right now?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

So if you are playing a T20 cricket game, we are in the third over of the first party...

Nigel Coe

Analyst, Wolfe Research LLC

Okay.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

... [indiscernible] (00:48:47). So we are early in that thought process. First of all, we need things to stabilize before we make any big decisions or changes. I mean, things seem to be moving around quite a bit. Obviously, the USMCA agreement is coming up for renewal and we'll see where that moves. But currently, we are continuing to fine tune, change things, change the source of metal, change bunch of like a smaller decisions. But before we make any large decisions, we do want to see some stabilization in policy and more of a consistent approach versus seem like the approach is still evolving. So, no major changes in the pipeline in terms of massive reshoring. Now remember, we do have three residential factories today in the US, and we do pretty well going through that. That's in Grenada, Orangeburg and Marshalltown. And we have one large one for our residential in Mexico. So, we have plenty of flexibility in our network and we will continue making changes.

But for some big, massive transformation, we just need stability in our policies from the government before we look at it. Today, it still makes sense to continue doing what we're doing and just mitigate the impact one product at a time, one screw at a time, and one sheet metal part at a time.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. It doesn't sound like you want to give me the number on the percentages of production and domestic, but in case you do, I'll just remind you that. Going back to the sell through, the minus 10% on the single channel sales, you did mention that you were rationalizing your residential new construction exposure last quarter. I'm just wondering if that was an impact during the quarter and whether that process is now complete?

Michael Quenzer

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

A

Yeah. What we've said in the past, it's about 25% of the HCS segment, the residential new construction. We definitely saw the volumes down there more than others. It's down above 30% in volumes in the channel. Not necessarily, all just customers move into other competitors. It's a combination of just weak new construction and that. But we definitely saw that channel way on the overall one-step volume growth.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah. And that share loss, which is what we'll show in print, is going to negatively impact us all through the year. And that's built into Michael's overall guidance, as we said, two-step is going to do better than one-step. From a profitability perspective, that's going to work in our favor, because the margins were like negative to zero on those businesses that we have lost.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. Thanks, guys.

Operator: We'll go next now to Joe O'Dea with Wells Fargo.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. In terms of the pricing announcements over the course of the past week, can you just give any color on that? We see the HCS guide go from 2% to 4%, but presumably where your pricing is on a narrower scope of products and so, just looking for any quantification of the recent price increases? And in addition to that like, perspective on the dollar effect. And so, when we think about this, if consumers today are paying \$10,000 for a unit, presumably the dollar effect of what you're flowing through is a pretty small number, as long as the channel doesn't try to price on top of that?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah. So, the first one, the price increases for us just went into our customers' announcements on Monday. So, I think we need to work through that over the next multiple weeks. And you probably know some competitors have announced that the week before. From our perspective, we need to work through that. I think I would take Michael's guide as the changes in our overall revenues, what we're expecting in price. So, there's going to be

announcement number. There's going to be a stick rate number, as there is normal. But what we are confident is, we'll offset the increased cost inflation through those actions is the way I would look at it.

Michael Quenzer

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

A

Then on the impact to the homeowner, we still think the equipment is maybe 40% of the total installation costs, but we'll have to see how that cost evolves. But we don't see this as a big driver of that input cost. It's mostly the contractor labor and margin. So...

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah. I think 40% includes equipment, parts, supplies, and in some cases it's less than 30% as well, depending on the install at that time. So, I don't think it changes the consumer price elasticity in any meaningful way. I mean, we are sensitive to the market demand/supply agreement, but remain convinced that equipment pricing is the least of the variable in that equation.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Right. No, that's what I was getting at, thank you. And then, just in terms of seasonality in HCS and margins, I think the past couple of years, we've seen margins step up from 16% to 17% in Q1, up to kind of 23% to 25% in Q2. Obviously, absorption headwinds that make it a little bit lower starting point in Q1 of this year. But just looking for whether you think the past couple of years are a reasonable benchmark for what you think you can achieve as you get that seasonal step-up in Q2 this year?

Michael Quenzer

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

A

Yeah. I think the main driver is going to be the volume recovery within HCS. Obviously, we have some weird comps last year, but what we're building within the guides that we expect sequential year-over-year improvement Q2 versus Q1, Q3 versus Q2, and Q4 versus Q3. So, as you look at the year-over-year declines, sequentially, that should continue to improve. That will obviously help our margins. And then, when you get on the second half of the year, you'll start to have even better absorption within those margins. That's what we're expecting right now. But we'll watch the summer play out. Q2 is a big quarter for us that we need to get through. And once we see that play out, I think we'll have a really good line of sight for the year.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Got it. Okay. Thank you.

Operator: We'll go next now to Deane Dray with RBC Capital Markets.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Good morning, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, appreciate the update on the new products on slide 5, can you just remind us, do you track a new product vitality index or the contribution from the new products? And then just kind of related, I believe you gave an indirect update in Steve's question on ductless. But, yeah, anything on the Samsung JV would be helpful too.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Sure. So, yes, we track vitality pretty closely and we track vitality where we do not consider refrigerant changes as a new product. So, excluding that, our vitality remains in the 45% to 50% range. If it didn't exclude that clearly 80% to 90% vitality, but excluding the refrigerant change and SEER changes, we do remain quite pleased with our vitality number. And I think the exact number is like 48% or something right now, but it's always in the 45% to 50% range. And we see we're very pleased with heat pump introductions, indoor air quality introductions and all the control changes. You probably saw a lot more of that during Prakash's presentation at the Investor Day, so we remain quite pleased on where we're coming down.

On the Samsung joint venture, we talked last year that the meaningful impact is going to be this year, because it takes almost a year for us to kind of get it through the channel, get dealer conversion, work through phase-in, phase-out of the inventory, and we are pleased with the current momentum and feel like there's a lot more upside as we take this forward, especially as we look at, everybody's impacting the same different time. The feedback from the channel and the consumer has been very good. I mean, these are high quality products with much better controls, much quieter than some of the competitive products and the contractors like the fact that the same truck that's going to deliver in the unitary product also delivers this. The same rebate program can be added. So, we are pleased with the direction it's going and feel there's continue to be a lot of upside as we go through the rest of the year.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's real helpful. And then, just a second question, and I'm really not sure of the extent whether you can comment, if at all. But regarding the recent litigation against the resi HVAC manufacturers and if it helps, we had an expert call and published on this where the expert declared the case very weak as it stands today. But just are you able to comment on it? Thanks.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Well, thanks to you and others who had experts call and their own analysis. I really want to say a lot about this, Deane, and maybe we'll have to wait for some other occasion, because at this point I'll have to read a prepared statement given to me by my lawyers. But I'm glad you asked. Our response is, the matter is pending legal complaint. The lawsuit contains only plaintiff's allegation and there has been no finding of wrongdoing. We dispute the accuracy of the allegation and will actively and vigorously defend our position through proper legal channels. Again, there's a lot more I want to say, but I'm currently constrained, because of the lawsuit saying only the prepared legal portion of this.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's great. I'm glad I asked. I'm glad you were able to read that statement. And we certainly agree so we'll leave it there.

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

You made my General Counsel's day that I read this statement. So...

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Appreciate it.

Operator: Thank you. We'll go next now to Patrick Baumann with JPMorgan.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

Oh. Hi, good morning. A lot's been covered. Maybe just wanted to tie the inventory being normal comment with, like the growth that we're seeing on the balance sheet year-over-year. I know some of that acquisitions. Just wondering if you give any color on, like, the residential units within that bucket either looking year-over-year or kind of versus current sales levels relative to any context around where you are on that front?

Alok Maskara

Chief Executive Officer & Director, Lennox International, Inc.

A

Yeah, sure. Patrick. Patrick, so, typically when we go from Q4 to Q1, like this last year, we built about \$210 million worth of inventory. This year we built \$60 million. So, think of that as \$150 million reduction compared to what we normally build, because we have to build a lot of inventory as we get into the peak summer selling season. When we ended the year last year, we talked about we had \$100 million to \$150 million more inventory than we needed. So, think of it as we are essentially back to a normal seasonal thing. Now, I feel like we still have opportunities and Michael referenced through that as we get better in demand planning, better in SLOP, to work some of this down, and we'll continue to invest in inventory when appropriate, especially when it comes to parts and supplies, which Michael referenced. Emergency replacement, which we have been talking about in the past, to make sure that our fulfillment rate remains at a very high level.

But we are pleased with the progress on our inventory drawdown and feel like we are on track to meet our commitments to get to a stage where we are back to normal inventory.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

Thanks. And then maybe just a cleanup on price/mix. Can you give any context on the 9% in the first quarter? How much came from price versus mix? And then, for the year, the mid-single digit, it sounds like you added a little bit of price to that. How much is coming from price and mix within the full year guide?

Michael Quenzer

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

A

Within the first quarter, the majority of it was mix. And as Alok mentioned, that mix should really taper off here in the second quarter, then for the balance of the year, it's all price.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC



Okay. Thank you.

Operator: Thank you. And ladies and gentlemen, thank you for joining us today. Since there are no further questions, this will conclude Lennox's 2026 first quarter earnings conference call. You may disconnect your lines at this time and have a great day.

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