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Masco Corporation's (MAS) CEO Keith Allman on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

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EPS of \$0.68 beats by \$0.02 | Revenue of \$1.95B (-7.33% Y/Y) beats by \$19M

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Masco Corporation (NYSE:MAS) Q3 2019 Results Earnings Conference Call October 30, 2019 8:00 AM ET

Company Participants

David Chaika - Treasurer and Vice President, Investor Relations

Keith Allman - President and Chief Executive Officer

John Sznewajs - Vice President and Chief Financial Officer

Conference Call Participants

Stephen Kim - Everscore ISI

John Lovallo - Bank of America Merrill Lynch

Michael Wood - Nomura Instinet

Michael Dahl - RBC Capital Markets

Philip Ng - Jefferies

Justin Speer - Zelman & Associates

Michael Rehaut - JP Morgan

Kenneth Zener - KeyBanc

Truman Patterson - Wells Fargo

Megan McGrath - Buckingham Research

Eric Bosshard - Cleveland Research

Matthew Bouley - Barclays

Keith Hughes - SunTrust

Operator

Good morning ladies and gentlemen, and welcome to Masco Corporation's 2019 Third Quarter Conference Call. My name is Twanda and I will be your operator for today's call. As a reminder, today's conference call is being recorded for replay purposes only.

[Operator Instructions]

I will now turn the call over to David Chaika, Vice President, Treasurer and Investor Relations. You may begin.

David Chaika

Thank you, Twanda Amy, and good morning. Welcome to Masco Corporation's 2019 third quarter conference call. With me today are Keith Allman, President and CEO of Masco; and John Sznewajs, Masco's Vice President and Chief Financial Officer. Our third quarter earnings release and the presentation slides that we will refer to today are available on our website under Investor Relations. Following our remarks, we will open the call for analyst questions. Please limit yourself to one question with one followup. If we can't take your question now, please call me directly at 313-792-5500.

Statements today will include our views about our future performance, which constitute forward-looking statements. These statements are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. We've described these risks and uncertainties in our risk factors and other disclosures in our Form 10-K and our Form 10-Q that we filed with the Securities and Exchange Commission.

Our statements will also include non-GAAP financial metrics. Our references to operating profit and earnings per share will be as adjusted, unless otherwise noted. We reconcile these adjusted metrics to GAAP in our earnings release and presentation slides, which are available on our website under Investor Relations.

Finally, please note that we have accounted for our Windows businesses as discontinued operations for all periods presented.

With that, I'll now turn the call over to Keith.

Keith Allman

Thank you, Dave. Good morning, everyone and thank you for joining us today. Please turn to Slide 4. In the third quarter our topline increased 3% excluding the impact of currency, driven by growth in Plumbing, and strong performance in our Paint business. Operating profit grew 8% and operating margins expanded 80 basis points to 16.7% in the quarter due to higher volume, pricing actions, and disciplined cost control. Our EPS grew 11% to \$0.68 per share.

Turning to our segment performance, our Plumbing segment grew 1% or 3% in local currency. Delta had a record sales quarter led by growth in paving and sanitary ware products, Brizo, our showroom brand and pricing actions. Additionally, I am proud that for the fifth time Delta Faucet Company achieved the WaterSense Sustained Excellence Award. This is the highest partner recognition from the U.S. EPA awarded for Delta's continued outstanding efforts to advance the WaterSense program and promote water efficiency.

Watkins also had another record sales quarter, as it continued to gain share in the spa market with its broad assortment of price points, programs and innovative products. International Plumbing grew 5% in local currency due to strong growth in Germany, China, and France, as Hansgrohe launched new products into the market as we discussed last quarter.

In our Decorative Architectural segment, sales grew 5%. This growth was led by low double-digit growth in our paint business, including high single-digit growth in DIY Paint and double-digit growth in Pro Paint.

We capitalized on pent-up demand and gained share in the paint market with our industry leading brands, quality and service, along with great execution by our Behr team and our partner the Home Depot. During the fourth quarter, we will continue to work with the Home Depot to enhance the shopping experience with new color centers, new color selection tools, and new products.

Moving onto Cabinetry, our cabinets sales declined 3% in the quarter. This decline was largely due to mix as our lower price point Merillat, Quality and Cardell brands performed very well in the quarter. Despite the lower sales, we expanded margins in this segment by 210 basis points in the quarter, and achieved operating margins of 11.7% due to pricing actions and cost control.

Turning to capital allocation, we continued our share repurchase activity in the quarter by repurchasing 3.8 million shares for approximately \$151 million, bringing our year-to-date share repurchase total to \$440 million. As it relates to our divestitures, we completed the divestiture of our UK Window business in early September and are very pleased to have signed an agreement to divest Milgard for \$725 million. We anticipate closing this transaction in the fourth quarter and expect net proceeds after tax and expenses to be approximately \$560 million.

We will likely deploy \$200 million of these proceeds towards retiring our March 2020 notes and the remainder towards share repurchases during the fourth quarter. In addition, we're making good progress on the sale of Cabinetry and we remain on track with that process. Lastly, due to the treatment of our Windows businesses as discontinued operations and

our continued performance as expected we are narrowing and updating our anticipated earnings per share for 2019 to be in the range of \$2.52 to \$2.56 from our previous range of \$2.62 to \$2.72.

Now, I'd like to turn the call over to John, who will go over our operational and financial performance in detail. John?

John Sznewajs

Thank you, Keith and good morning everyone. As Dave mentioned, most of my comments will focus on adjusted performance from continuing operations excluding the impact of rationalization and other one-time items.

Turning to Slide 6, sales increased 2% and grew 3% in local currency. Foreign currency translation unfavorably impacted our third quarter revenue by approximately \$15 million. In local currency, North American sales increased 3% in the quarter. This performance was driven by volume growth in our Paint business and disciplined pricing actions across all segments. This was partially offset by lower volumes in our Lighting and Hardware businesses and mix impact in our Cabinetry business. In local currency International sales increased 5% in the quarter with strong growth in Central Europe and China. Gross margins were 34.4%, up 80 basis points.

Our SG&A as a percent of sales matched prior year at 17.7% as we remained focused on cost control. We delivered solid bottom line performance as operating income increased 8% to \$326 million with operating margins expanding 80 [ph] basis points to 16.7%. Our EPS was \$0.68 in the quarter, an increase of 11% compared to the third quarter of 2018.

We are narrowing and updating our annual EPS estimate range to \$2.52 to \$2.56 per share to reflect discontinued operations accounting for our Windows set. This compared to a full-year 2018 adjusted EPS of \$2.39 per share with Windows in discontinued operations. Refer to Slide 18 in the appendix of our earnings call deck, for historical quarterly information restated for the Windows segment in discontinued operations.

This EPS estimate range also assumed the last three tariffs remain at 25% and the four tariffs remain at 15%, a portion of which was effective on September 1. Any changes to announce tariffs at this point in the year will have minimal effects on our fourth quarter results.

Turning to Slide 7, Plumbing segment sales increased 1%. Excluding the impact of currency, sales increased to 3%. Foreign currency translation unfavorably impacted this segment's sales by approximately \$15 million in the quarter. North American sales increased to 2% in local currency in the third quarter against a tough 9% comp in the third quarter of 2018. Growth was helped by our Spa business which delivered another record sales quarter. Delta also achieved another record sales quarter due to pricing actions and growth in our showroom oriented Brizo products and the Delta branded bathing and sanitary ware products.

International Plumbing sales increased 5% in local currency. This performance was driven by Hansgrohe's growth in Central Europe and China as it experienced strong demand for two recently introduced products. The segment's operating profit growth of 5% was driven by higher volume and pricing actions.

For full-year 2019 we continue to expect plumbing sales growth to be the 1% to 3% range and margins similar to 2018, as we feel more of the cost impact of tariffs in the fourth quarter. As a reminder, our 2018 fourth quarter results benefited from approximately \$10 million on sales pulled forward.

Turning to Slide 8, Decorative Architectural Products grew 5%. This performance was driven by low double-digit growth in our Paint business with high single-digit growth in DIY and double-digit growth in Pro. Exterior paints and deck stains experienced strong growth in the quarter due to pent up demand from earlier in the year and solid execution by our Behr team and our channel partner.

Paint sales were partially offset by lower sales in our lighting and builder hardware businesses as disciplined pricing actions impacted volumes in the quarter. Operating income in the third quarter grew compared to prior year due to increased volume, selling price increases, and continued focus on cost control and productivity initiatives, partially offset by higher year-over-year commodity costs in Paint, Lighting and builders hardware.

For full-year 2019 we continue to expect Decorative Architectural Products sales growth will be in the 1% to 3% range including the benefit of the Kichler acquisition and operating margins will be in the higher end of the 17% to 18% range driven by our strong performance and cost control year-to-date.

For the fourth quarter, recall that we faced a difficult 8% sales comp as we experienced approximately \$20 million in sales pulled forward in Q4 2018, and we will feel more of the impact of tariffs on material costs in the fourth quarter of this year.

Turning to Slide 9, in the Cabinetry segment, sales decreased 3% in the quarter. This performance was driven by a software market, mix, and a difficult 11% sales comp against the third quarter of 2018 when excluding the Moores divestiture. This decline was partially offset by pricing actions and growth in our lower price point offerings.

Segment profitability increased in the quarter by \$4 million with margins of 11.7%, an increase of 210 basis points driven by pricing actions and cost control partially offset by mix. We continue to expect full-year 2019 sales growth between zero and 3%. However, based on our year-to-date performance and continued cost control, we now expect full-year margins to be approximately 10.5% and an improvement of approximately 150 basis points from our prior guidance.

Turning to Slide 10, our balance sheet remains strong with net debt to EBITDA at 1.8 times and we ended the quarter with approximately \$1.5 billion dollars of balance sheet and liquidity. Working capital as a percent of sales improved 20 basis points versus the prior year to 16%. As a result of moving our Windows business to discontinued operations, we now expect full-year working capital as a percent of sales will be approximately 15.5%.

During the third quarter we continued our focus on shareholder value creation by repurchasing 3.8 million shares for approximately \$151 million. Lastly, as Keith mentioned, we were pleased to enter into an agreement to sell Milgard Windows in September which will likely close in the fourth quarter. We expect proceeds after tax and expenses to be approximately \$560 million from this transaction. At this time, we anticipate using the proceeds to paydown our \$200 million debt maturity and for proximally \$400 million of share repurchases.

With that, I'll now turn the call back over to Keith.

Keith Allman

Thank you, John. I'm pleased with our performance so far in 2019 and the second half of the year is progressing as expected. Our teams have done a tremendous job to position us to offset the impact of tariffs, while delivering on our commitments. Our markets are largely performing as planned with modest improvement expected in the second half of 2019.

Furthermore, the fundamentals of our markets remained solid and supportive of long-term growth. Existing home sales have improved to nearly 5.4 million units for the past three months, up about 3% from last quarter. Home prices, which are highly correlated with repair and remodel spending, continue to appreciate and the consumer remains healthy, with wages continuing to grow and unemployment at a 50-year low.

As many of you know, we recently held an Investor Day where we outlined our strategy and the initiatives that will drive growth over the next two to three years. In addition, we further detailed the next chapter of Masco as a focused and more resilient plumbing and decorative products company.

We have already begun to execute on these strategies with the completed the divestiture of our UK Window business, a signed agreement to divest Milgard for \$725 million and very good progress with the Cabinetry sale process. Against solid fundamentals and focused execution on our strategies, strong cash flow and balanced capital allocation, we will continue to create value for our shareholders.

With that, we will now open up the call for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Stephen Kim with Everscore. Your line is open.

Stephen Kim

Thanks very much guys. Congratulations on a good quarter. I wanted to ask if I could about your Plumbing business, in particular the International business which it seemed like it performed well. You attributed that to Germany, China, and France. Last quarter I think you called out some weakness in LatAm, Italy, and Turkey, but what I'm trying to understand is, you attributed a lot of the strength to introducing new products into the market, and I was wondering if you could help us understand how much of the strength we saw there in the Plumbing International was due to like a load-in kind of a process, how much of it do you see as underlying growth which can continue, and whether the market you called out last quarter which were soft have improved or if Germany, China and France has simply offset that through the new products?

Keith Allman

I'll take that one Stephen, good morning. The overall growth was more from the good sell-through of those products and it was load-in and there was always a little bit of load-in in the channel, but fundamentally those products were taking off well and they are well received. In Italy and Turkey, haven't seen anything that's remarkable with regards to how those are performing. In other words, really not much of a change there from how they have performed.

It has really been a case of solid performance and good traction with our new products as we look across Central Europe and China. Our brands, the Hansgrohe and the high end actual brand is very well regarded in that space when you look at both through distribution and particularly when you look at the international projects, hotels, cruise ships, and the like. So we have strong brands and the new products are doing well, more from the sales of those products. And in some of the challenged markets, they kind of remained stable, where they were when we talked last quarter.

John Sznewajs

Yes and Stephen, the only the one thing I would probably add to Keith's comments, would be that if you look at our performance in the third quarter of 2018, I think we're up against relatively easy comp here in the third quarter of 2019, so I think that also aided in the top line growth that you saw.

Stephen Kim

Okay, got it. That's helpful, thank you guys. Second question relates to cabinet business which put up a very strong margin in this quarter, stronger than we were expecting and I know you took your guide for the year. I was curious as to, as we think about the fourth quarter though, it seems based on our numbers that we're looking for a pretty noticed, or you're looking for a noticeable decline in momentum in the margin there.

And so, I was just curious if you could comment on if there was any change in the margin trajectory in cabinets that is tied to actions that are worth calling out? And has there been any shifting of overhead out of cabinets that are also worth calling out?

Keith Allman

No real change in the margins trajectory. There hasn't been a shift of overhead if you will out of the business Stephen. With regards to the top line, we are lapping a pretty soft Q4 from 2018. If you recall the activity and this part of our business really slowed down late last year and we don't anticipate that happening.

And we are also launching some significant new products in the quarter, few new doors, more of the focus is on finishes and paint and the like, and we've you may recall put in some new technology in Paint and we think that has us in a very competitive position where we can do color changeovers almost in a batch of one type scenario with very minimal loss of productivity.

So we're able now to launch more frequently new colors and do it in an efficient way. And I think you see that when you look at the very competitive margin that we have against some of the broader industries and at relatively low volume when you look at where we stand. So we're working hard to leverage those investments. We're up against a little bit of a soft comp, but no real change in terms of any kind of overhead.

Stephen Kim

Great, thanks Keith.

Operator

Thank you. Our next question comes from the line of John Lovallo with Bank of America. Your line is open.

John Lovallo

Hey guys, thank you for taking my questions. The first one is, you gave us the EPS guide which is helpful, I'm just curious if there's any other moving pieces for comparable EBITDA forecast for the full-year? It looks like D&A is and interest, it looks like it is unchanged, but are there any other pieces or maybe could you just provide us with a 2019 EBITDA guide?

John Sznewajs

Yes, and John maybe, maybe I'll approach it in a different way with the discontinued ops and maybe give everyone a little bit better color as to how this impacted, is in pulling the Windows business out of continuing ops and into discontinued ops affected more of the bottom line. And maybe had an EBITDA that helped maybe obviously get you there and I don't get your question just by me now.

So if you think about, well as we exited the second quarter, but when – because right now consensus estimate [indiscernible] because people, some people have already pulled Windows out, but if you think about it, at the end of the second quarter before anyone started pulling it out, our consensus for Q3 at that time was \$0.71 per share. Consensus at the time for the Windows segment was about \$21 million. Now the one thing you have to add to that, when you pull Windows from continuing ops into discontinued ops, you have to add back about \$1 million in corporate expense against, that was allocated to the Windows segment. So call it \$22 million.

That \$22 million is roughly \$0.06 a share. So that \$0.71 consensus for Q3 should have been about \$0.65 once for Q3 once you pull the Windows business out. And then if you take a look at that, that same kind of math for the full-year John, full-year guide at the time was \$2.62 to \$2.72 again as we exited the second quarter. So the midpoint of that range was \$2.66. Now when you remove the Windows from continuing ops and put it into discontinued ops, you pull about \$40 million of operating profit, add to that I should say,

about \$5 million of corporate cost will come back to Masco, so about \$45 million in aggregate, \$45 million in aggregate with \$45 million in aggregate adds up to about \$0.12 in EPS.

So if you think about \$2.66 midpoint less that \$0.12 is about \$2.54 a share, which is right in the heart of our current revised range of \$2.52, right in the spot where we thought we would be as we exited the second quarter. So I'm hopeful that's helpful and hopefully that answers your question. If it didn't, let me know.

John Lovallo

Yes. No, that's very helpful. Thank you. And then as a follow-up, the debt paydown that you guys are talking about, now that seems like maybe a slight change of plan for the sale proceeds. Am I thinking about that right or was this kind of contemplated all along?

John Snewajs

Contemplated all along, John. Recall that at March 2020 maturity is only \$200 million of [indiscernible] index eligible. So to refinance that we had always contemplated paying that down, and we did also get that out and mentioned that at the Investor Day. So I don't think there is anything, -- no, there is no new news there on that one.

John Lovallo

Okay. Thank you, guys.

Operator

Thank you. Our next question comes from the line of Michael Wood with Nomura Instinet. Your line is open.

Michael Wood

Hi. Good morning. Just a follow-up on the guidance, that reiteration at the midpoint excluding the discontinued ops, I see the Cabinetry and Decorative look like they were increased in terms of the profitability from the prior guidance. So can you just talk about what the offsets to that were?

John Snewajs

So, I think John or Mike, sorry, the offset to that would be perhaps a little bit lower volume that we experienced here in a little bit in Q3 in the Plumbing segment and a little bit in the Cabinetry segment, as well as some of the -- that particularly might continue as we go into the fourth quarter. As we've been putting in pricing some of that may add to a little bit with pricing elasticity there.

Michael Wood

Okay. And did the exterior paint and stain boost that you talk about, have more of an impact in either PRO or DIY. So could you just talk about what you saw I guess in growth for those two sub segments in Interior?

Keith Allman

If you look, Mike, paint volume was probably the largest contributor in this segment in terms of growth. We did have some price, but we're pleased with the low double-digit growth that we saw in the segment. It feels like we gained a bit of share, both in PRO and DIY. Our investments continued to pay off in the PRO and we continue to expand our capabilities. Pleased with the rollout of the new color center along with the Home Depot that's going well, that really enhances the shop -- shopping experience and leverages our leading quality position, the great value.

So we think we outperformed the market a little bit. Understandably, it is hard to pin the exact size of the market and quarter, from quarter-to-quarter, but with our low double-digit growth, we think we had a good quarter.

John Snewajs

Yes, Mike, and maybe to be more specific to the question, we don't think we saw real distinction between performance in exterior and deck stains in PRO versus DIY, we think it was pretty consistent with across both of those end customers.

Michael Wood

Okay, I appreciate it. Thank you.

Operator

Thank you. Our next question comes from the line of Mike Dahl with RBC Capital Markets. Your line is open.

Michael Dahl

Good morning. Thanks for taking my questions. And John thanks for the clarity on the moving pieces around the guide. Follow-up to your response to one of Mike's questions on Plumbing and the elasticity comment, I think that was an area that you focused on that at the Investor Day as well. So just hoping if you could give us a little more color on how the environment has evolved over the past couple of months as you've looked to implement additional pricing to cover tariffs and just how you're thinking about the price volume trade off right now in Plumbing specifically?

Keith Allman

Mike this is Keith. We really haven't seen a change in terms of the elasticity or the dynamic of volume as it relates to pricing. We continued to see that the lower price point products tend to be more sensitive to price movement. Understandably there still is a lot of pricing activity occurring in the market. So it remains a challenge frankly to understand the specific SKU level elasticity competition around that particular price point in the assortment is so dynamic. So we've -- we feel we have a good handle on the elasticity and we have factored that in as it relates to how we go out with subsequent price increases to try to hit that sweet spot and lessen the volume impact.

With regards specifically to where we stand in the tariffs, we've largely implemented price and other measures to offset the 25% list three tariffs. And we continue to work -- you know it's a very dynamic and we'll see what happens ultimately, with the second part of list four, and whether or not there is any changes to list three.

So it's a dynamic environment, but fundamentally, not a lot has changed with regards to what we're driving. We're going to continue to work with our customers and with our supply chains. We're driving internal productivity teams to mitigate existing and any potential future tariffs.

Michael Dahl

That's helpful. Thanks Keith. A follow-up question, just shifting gears to Paint and the environment there, obviously is strong volumes and margins in the quarter. One of the areas that I think has been point of concern for some of the investment community is really just the promotional environment and what we're seeing more at a retail level between the big box customers, can you talk about just how the promotional environment has evolved in Paint and whether you expect and include any change in that dynamic within your fourth quarter commentary?

Keith Allman

Yes. Mike, the promotional environment has picked up a little bit so far this year, I'd say. I would add that our partner has been disciplined with their promotional activity, and we think that makes a lot of sense. We have selectively promoted certain products and have held certain events and we'll do that if we think it will drive profitable sales, but ultimately we're choosing to compete on the quality of our products, the selection, the service, the store environment, rather than just simply price and I think our Q3 results reflect that.

John Snewajs

And Mike, I'd like to -- one thing I'd like to reinforce that Keith said, is really the promotional cadence and amount is really determined by the retailers. It's not determined by the manufacturers. So it's really in their hands to determine those actions.

Michael Dahl

Okay. Thank you both.

Operator

Thank you. Our next question comes from the line of Phil Ng with Jefferies. Your line is open.

Philip Ng

Hey guys. A competitor of yours mentioned a slower start to 3Q in general, but activity picked up in September and October. So curious if you've seen any directional change in the activity intra-quarter and if that's leading into fourth quarter, given your comment on the macro front on a pretty positive?

Keith Allman

Phil, we really don't like to talk about short-term trends in a -- very short-term trends in our business. So, we posted a good Q3 and there is always month-to-month changes in our business. So, I don't want to take too much away from any short-term performance in the company.

Philip Ng

Got it. And can you give us an update on where you are with the Cabinetry divestiture and given what you were able to get from a proceed standpoint on Windows, it seems like there could be some upside to what you guided at the Investor Day?

Keith Allman

If the process is going well it's a competitive process that speaks well to the quality of the business. We will talk more in detail as we get a signed agreement. For now, we'll just say that the process is going as planned.

Philip Ng

Okay. All right. Thanks for the color.

Operator

Thank you. Our next question comes from the line of Justin Speer with Zelman & Associates. Your line is open.

Justin Speer

Hi, good morning. Thank you, guys. I was curious on your comment of raw material headwinds in the fourth quarter in Decorative. I would have expected tailwind, so I just wanted to get some context there?

Keith Allman

Justin, I would - I think it's important to note that raw materials and our cost basket are still up year-over-year. We are seeing some moderation for resins and TIO2. Long term, I'd remind you that when we look at our relationship between price and commodities, we tend to be flush over time. So we're not expecting significant material benefits to our margins and there is other costs at play here as well including labor and freight to name a couple. But fundamentally, we are seeing some moderation, but our basket is still up year-over-year.

Justin Speer

And does that cost basket you mentioned, does that also include - I think last quarter you mentioned in-store display spend increasing year-over-year in the second half, and particularly in the fourth quarter. Is that still the case? Maybe if you can give some context on how much that headwind is to profitability incrementally this year versus last year?

John Snewajs

Yes. Justin, that would be relatively small and not worth really calling out. The other thing that will have an impact on the fourth quarter is the fact that we'll feel more of the fuller effect of the tariffs in the fourth quarter, in that - particularly in that segment, because recall both Liberty Hardware and Kichler faced more of an import - are more of an import model, I should say. So that rolls into the cost basket as well.

Justin Speer

Okay. And then, just following up on that one last question, just if you can give us a sense for how you're preparing for the step-up in tariffs as you look to next year, maybe elaborate on how you feel about pricing and productivity, I know you touched it on a bit, those efforts, whether or not you can - you think you could fully offset as you see it today tariffs as you look to next year?

Keith Allman

Really no change from what we commented at the Investor Day. We think we've done a good job through a combination of levers, both productivity, working with our supply base to drive cost down. Some value engineering work that we've been really has been ongoing and then of course some pricing actions to cover list three. We have a go get out there for list four and we are working on doing that with regards to what might happen if list three goes up or the second phase of list four goes in, we'll have to see when that - if and when that comes.

In terms of how we're approaching it, again really no change. We're working hard on cost out. We're working hard on value engineering and we're going to continue to drive price factoring in what we're learning and this has been a learning process as it relates to the dynamics of the various assortments and all the moving parts and the price elasticity. So we're going to continue to be strategic in all aspects particularly in how we apply price.

Justin Speer

Thank you for the color. I appreciate it guys.

Operator

Thank you. Our next question comes from the line of Michael Rehaut with JP Morgan. Your line is open.

Michael Rehaut

Hi, good morning. Thanks for taking my questions. First, just wanted to hit on and go back to the Windows proceeds and apologies if I didn't hear this right in the prepared remarks, but just wanted to get a sense number one, relative to your proceeds guidance back at the Analyst Day, roughly, what was the delta given the proceeds did appear to be a bit more than we were expecting?

I was just curious, based on your original proceeds guidance if there were some delta that you'd like to share with us? And as a result of that, does that change at all the timing and split of proceeds as it relates to share repurchase? I know that initially you guys have

talked about maybe half upfront and half over the next nine months, given the change in what appears to be the higher than expected proceeds for Windows, does that change any of your thoughts in terms of the capital allocation?

John Snewajs

Yes, Mike. So a couple of questions have been in there and the first one with respect to our total anticipated proceeds from the transactions and we said at Investor Day that we would expect at least \$1 billion after-tax from these transactions. And I think we're definitely on pace to achieve that though as Keith mentioned we are working hard on the Cabinetry business and while we like the progress, it's not - there's not much to talk about at this point on that one.

With respect to our thoughts on allocating the capital or the proceeds that we receive from the Windows sale and if you think about that and how our cadence of cash flow comes in with the business. So we expect about \$560 million of after-tax proceeds from that transaction and you consider that we've been roughly putting out about - in line with our \$600 million initial guidance of share repurchases a year, and we're about \$450 million year-to-date, so that would imply we've got \$150 million to go plus the \$560 million, so we'll call it roughly \$700 million of capital allocate based on the proceeds from the Milgard transaction.

Well, if you think about the \$200 million of debt retirement plus approximately \$400 million to maybe a little bit more than that of share repurchase in the fourth quarter of this year, you get pretty close to that \$700 million that we look to allocate. So I think our capital allocation is very much in line with what we communicated at the Investor Day. So we feel confident, we like where we are at, we like how transactions have evolved and so we feel good and confident about how we're allocating the capital.

Michael Rehaut

Now, that's great, John, I appreciate the detailed answer there. That was helpful. I guess, secondly, just going back to an earlier question around cabinet margins, I know you don't like to get too bogged down on these calls on segment margins by quarter, but the implied guidance, unless I'm doing the math wrong and I'd love your thoughts here, but the

implied guidance were roughly 10.5% margins for cabinets for the full year, does imply a pretty steep fall off in the fourth quarter something around even 7% to 8%, if I'm doing the math right, which would be a nice year-over-year decline.

So I was just curious if there's anything that I'm doing wrong there, any items driving 4Q to have such a down year-over-year quarter after you've had such strong results for the first three quarters of the year?

John Snewajs

Yes, Mike, no, I don't think there's anything significant that's driving that down. I do - would remind you that seasonally the fourth quarter tends to be one of our slower quarters and so maybe it is more of the natural seasonal slowdown in that business that is driving the lower margin in the fourth quarter. Other than that, there is no one-off or unique items that we anticipate flowing through in Q4.

Michael Rehaut

All right, thank you.

Operator

Thank you. Our next question comes from the line of Ken Zener with KeyBanc. Your line is open.

Kenneth Zener

Good morning, gentlemen.

Keith Allman

Good morning, Ken.

John Snewajs

Good morning, Ken.

Kenneth Zener

I want to make sure I have you guys. What if I could ask a question a little differently about Plumbing trends? The strength that you guys have seen and stability, is there given how last year in the second half of '18 demand kind of deteriorated in some housing dynamics. Can you comment regionally to the extent you feel comfortable about any insights you might have, I mean, because for example the west which had contracted slowdown has improved. I mean can you discuss maybe a little bit how regional cadences flow through your business just to give us any insight?

Keith Allman

There is - there hasn't been a significant material difference as we look at the different regions, from what we typically expect. There is different things that happen from weather, we tend that to talk about that very much, but certainly there is some regional impact as storms and weather roll through. We have some ebbs and flows in different regions as it relates to new construction activity, but remember that we're about 90% repair and remodeling. So that tends to have a less of an effect on us.

We have different inventory and volume flows through channels that can affect us. So if you step back and really look at it, we haven't experienced a significant variability in terms of regional trends other than what we all talk about is as I said in terms of some weather patterns, really not a lot of difference.

Kenneth Zener

Okay. I appreciate that. I just thought I might ask you. Now Keith, I heard your comments on - earlier on price elasticity. Let me ask it this way, is the lower price point impacted by tariffs more, simply because tariffs are greater percent of the actual price versus the higher ended smaller percentage? Is that part of the dynamic that we would expect to see there is the lower price point impact from tariff price increases for increased...

Keith Allman

Sorry of that Ken, I stepped on it a little bit. Not really as it relates to the percentages per se, because the tariffs are basically a percent applied to the purchase cost, so that tends to be relatively the same. Where it tends to effect really is more of the sensitivity at that

low price point and the fact that not always, but by and large when you look at goods that are procured from China, they tend to be more on that lower price point, part of the assortment.

So it's not so much percentage that, when you look at make versus buy, the buy tends to be a little bit heavier, skewed on the opening price points. And then you combine that with the more sensitivity to that price point that's where the elasticity comes to play.

Kenneth Zener

Thank you very much.

Operator

Thank you. Our next question comes from the line of Truman Patterson with Wells Fargo. Your line is open.

Truman Patterson

Hi. Good morning guys. Nice results. First I wanted to circle back on cabinets a little bit in the sale. The cabinets is having a very solid year, I think third quarter our profit was up almost 20%, so a nice results. At the same time when you look at the outlook, it appears more favorable. We've got some antidumping duties on the Chinese importers, et cetera. Is there a possibility that the sale maybe gets pushed back a little bit and doesn't close in the first quarter as you adjust your sales proceeds target and is that sales proceeds target higher today than maybe it was two or three quarters ago?

Keith Allman

We haven't changed our target. We talked at Investor Day about being more than a \$1 billion and we're not moving off of that target. We feel good obviously about the transaction that came through with Windows. You mentioned antidumping, that really is not an impact on our sales process. On the cost side, we've been working through mitigating actions for quite some time now, we saw this coming and have moved the

majority, far way the majority of our sourcing China for cabinets. So that's already been factored into it. It's been a competitive process. The process is going well and we have not changed our expectations in terms of timing.

Truman Patterson

Okay. And then on the PRO paint business, I believe at your Investor Day, you said that it was maybe 7% or so of market share nationwide around those levels. I know that there is kind of a multi-year run rate - runway to really grow this business, but is there a certain share or could you just discuss some of the share gains that you're targeting over the next several years?

Keith Allman

Our PRO sales now are approximately 25% of our coatings revenue. So we have seen good growth and good market share over the past, call it five years, that we've been strategically driving this initiative and this program. Very pleased with the double-digit growth that we saw, and understanding that the bigger this business gets, the more challenge it is to grow off that big base, that is a factor. But fundamentally, we believe in what we're doing and we think we have a very strong value proposition for the type of PRO that we're targeting.

And with the Behr paint, our product assortment, the brand, the service proposition that our partner, the Home Depot has worked so hard to develop, I think we have a strong value proposition for those PRO painters that we're going after. So our intent is to continue outgrow the market and we have every reason to believe that we're going to be able to continue to do that.

Truman Patterson

All right. Thank you all.

Operator

Thank you. Our next question comes from the line of Megan McGrath with Buckingham Research. Your line is open.

Megan McGrath

Good morning. I just wanted to think a little bit longer term and put the third quarter results in the context of some of your commentary around the Analyst Day. If I take out cabinets your revenue growth in the third quarter is above your expectations for the next couple of years in terms of the top line.

And I know some of your forecasts were based off industry forecasts about repair and remodel maybe slowing, but you did talk about seeing modest improvement. So putting that altogether, are you feeling - I realized we are only quarter in and not so far off your Analyst Day, but are you feeling any more constructive about those end markets in that longer term context?

John Sznewajs

Megan, it's John. I would say we were not going to adjust our thinking about the long-term based on one quarter's results. Yes, and again we did have a very good quarter. We have - in some instances, we are up against a tough comp, which makes us feel good, but, long-term the fundamentals of the markets are what they are, and we do think that low single-digit growth in the overall markets is going to be what we experience in the next - in the coming several years and so really no change to our long-term view on the markets relative to our performance during in Q3.

Megan McGrath

Okay, thanks. And then just quickly on - in the quarter on Kichler, you did say that it was down again in the quarter, but was there any kind of incremental movement there, was it down less than last quarter, same as it has been, any detail there?

Keith Allman

As we've talked in the past, this category is going to be challenged throughout the year for us with increased costs. And as you know the tariffs hit this in our hardware business particularly hard. And we made the strategic choice to be very disciplined in terms of our pricing actions and that has effect on the top line.

We are performing well and the team is performing well, as it relates to realizing savings and improving our business processes and integrating the company, cost savings like ocean freight and continuous improvement projects to reduce labor in a variety of other sourcing, savings that we're driving. So, there is going to be some challenge in the top line for this business in 2019, as I've talked about in the past, but long-term, we like the prospects of the business and are confident that we're going to achieve our long-term return expectations on this acquisition.

Megan McGrath

Great, thank you.

Operator

Thank you. Our next question comes from the line of Eric Bosshard with Cleveland Research. Your line is open.

Eric Bosshard

Thank you. The Paint segment, Keith, I appreciate your comments that the color center and the product quality is dragging this more than the promotions. I'm curious around the sustainability of the double-digit growth this quarter, how we should thinking about that performing moving forward?

Keith Allman

When - in terms of the total Paint market?

Eric Bosshard

No, you're Paint business, specifically.

Keith Allman

We've got a good proposition as I've talked about in detail in the past and I believe in it and we're continuing to invest in it, both in terms of the customer experience in the isle for DIY as well as the PROs experience and our channel partners investing and continue to

drive that. Our commitment is to continue to outperform the market. And we think that this market is a good market for us going forward and we intend to continue to take share both in DIY and in the PRO.

John Sznewajs

And Eric, we're not moving off of our Investor Day from five weeks ago, when we said that DIY should grow low single-digit over the next several years and PRO should grow in the mid-single digit range over the course of the next several years. So I look back to that discussion that we had to think about our long-term view on the growth of our Paint business.

Eric Bosshard

Okay, and then within this quarter's performance is the upside relative to those targets, faster markets. I'm just trying to understand what drove the magnitude of growth in the business this quarter, the upside?

Keith Allman

It's, it's always a combination of volume and price this quarter. Volume was the larger contributor and we're pleased with that result. So we think we gained a little bit of share. So to answer your question directly, it was more volume driven than anything in the quarter.

Our investments in the PRO are paying off. As I mentioned, we're rolling out the new Color Solution Center along with the Home Depot. That really helps the shopping experience. And I think we're well positioned to continue to outperform.

Eric Bosshard

And then the follow-up on Kichler, can you frame at all for us just what the year-over-year numbers look like in the business at this point?

John Sznewajs

No, Eric, we don't break out the performance of individual businesses. Once they lap the acquisition period, no, we just don't break those out.

Eric Bosshard

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Matthew Bouley with Barclays. Your line is open.

Matthew Bouley

Good morning. Thank you for taking my questions. Just to clarify on the share repurchase post the divestitures, at the Analyst Day, you guys talked about deploying half of the proceeds immediately to buyback, give or take. So should we expect that \$400 million from Windows sort of as an ASR maybe in Q4 and then perhaps there would be a second accelerated repurchase after the sale of cabinets, is that how we should model that?

John Sznewajs

Yes, Matthew. We'll take a look at the market conditions and decide on the form of transaction. It could be an ASR. It could be open market or repurchase or a combination thereof and so it all depends on how we see the market and we'll make a decision based on that.

Matthew Bouley

Okay, got it. And then just back to the elasticity question in Plumbing. Obviously you guys talk about the volume impact there, but as you raise prices across kind of the spectrum of price points, I mean to what extent do you guys think you actually see volumes go away versus perhaps customers simply trading down to lower price points? So are you suspecting that there's possibly more of a mix impact rather than a volume impact?

Keith Allman

It varies Matthew by category and if you think about the repair component of it as well. So in some cases, let's say, particularly in Plumbing where there is a repair component there, there really is a much of a delay. So if there was a price sensitive consumer in that realm, then that would represent a down trading. In other areas there is more of an ability to postpone. I think we're seeing some of that in lighting and hardware where they can postpone a purchase.

So it's - I think it's a combination, and it varies. And in some cases, there is less price sensitivity. We mentioned having a record quarter in our spa business, that's a discretionary very expensive purchase, well worth the money, but cost a few dollars to get that, and we had a record quarter. So it really does vary by type of product.

Matthew Bouley

All right. I appreciate all the detail. Thanks again.

Operator

Thank you. Our next question comes from the line of Keith Hughes with SunTrust. Your line is open.

Keith Hughes

Thank you. On the PRO paint business, it had started of a little slower in the year and you had a – you are back to kind of your double-digit growth we've seen for the last couple of years. I guess the question is, what's happened this year, we've seen a little bit more uneven performance and there was a question earlier about promotions, now, that's really more for DIY, have you seen promotional activity in the PRO paint business as well this year?

Keith Allman

I think one of the impacts in terms of choppiness in PRO this year was that we don't like to talk about weather, but undoubtedly there was some unfavorable weather in the first half. So in the prepared remarks John talked a little bit about pent-up demand. That's really what we were referring to there. So I think there was a lift there.

I talked about the size of our PRO business and the bigger you get the harder it is to get bigger. And we are seeing some of that, but again we believe in our investments, and we believe in the value proposition for the type of PRO that we're going after and we're continuing together with Home Depot to continue to invest in that.

So there will be quarter-to-quarter choppiness, there is no question about it, but fundamentally, we're committed to outgrowing the market and we've demonstrated that.

John Sznewajs

In terms of promotional activity on the PRO, Keith, not a lot news there. There is relatively consistent promotional activity on the PRO side.

Keith Hughes

Okay, thank you.

Operator

Thank you. Ladies and gentlemen that concludes today's call. Thank you for participating. You may now disconnect. Everyone have a wonderful day.