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Resideo Technologies, Inc. (REZI)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for joining us and welcome to the Resideo 2025 Third Quarter Earnings Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference over to Chris Lee, Global Head of Strategic Finance. Chris, please go ahead.

Christopher T. Lee

Global Head-Strategic Finance, Resideo Technologies, Inc.

Thanks, and good afternoon, everyone, and thank you for joining us for Resideo's third quarter 2025 earnings call. On today's call will be Jay Geldmacher, Resideo's Chief Executive Officer; Mike Carlet, our Chief Financial Officer; Rob Aarnes, President of Resideo's ADI Global Distribution Business, and Tom Surran, President of Resideo's Products & Solutions Business.

We would like to remind you that this afternoon's call contains forward-looking statements. Statements other than historical facts made during this call may constitute forward-looking statements and are not guarantees of future performance or results and involve a number of risks and uncertainties.

Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in Resideo's filings with the Securities and Exchange Commission. The company assumes no obligation to update any such forward-looking statements. We identify the principal risks and uncertainties that affect our performance in our annual report on Form 10-K and other SEC filings.

In addition, we will discuss non-GAAP financial measures on today's call. These non-GAAP financial measures, which can sometimes be identified by the use of "adjusted" in the description of the measure, should be considered in addition to, not as a substitute for, or in isolation from, our GAAP results. A reconciliation of GAAP to non-GAAP financial measures is included in the Financial Data Workbook, which is accessible on the Investor Relations page of our website at investor.resideo.com. Unless stated otherwise, all numbers and results discussed on today's call, other than revenue, are on a non-GAAP basis.

With that, I will turn the call over to Jay.

Jay L. Geldmacher

President, Chief Executive Officer & Director, Resideo Technologies, Inc.

Thank you, Chris, and thanks to everyone for joining us today. Resideo demonstrated solid execution in our third quarter. Adjusted EBITDA was a record high and approximately the midpoint of our outlook range.

Net revenue was within our outlook range, despite incremental macro and operational headwinds that we believe are transitory. And record high adjusted EPS exceeded the high end of our outlook range, due primarily to higher net income associated with terminating the Honeywell indemnification agreement. Our results continue to demonstrate the company's healthy operating fundamentals.

We achieved low single-digit organic revenue growth year-over-year at both our ADI and Products and Solutions Business segments. We increased year-over-year margin rate and profit dollars at both the gross margin and operating margin levels, leading to record high gross margin and record high EBITDA. Demand for our new products, including the First Alert combined smoke and CO connected detectors, continues to be strong.

We are excited about our new products introduced in the third quarter, including our new premium ElitePRO Honeywell Home smart thermostats that we believe will be one of our drivers of future growth. As has been the case for several quarters, ADI's integration of Snap One continues to progress well ahead of schedule. Tom, Rob, and Mike will speak more to our operating activities shortly.

On the macro environment, Resideo continues to execute well amidst an unpredictable economic landscape, as further rate cuts remain uncertain with concerns of inflation, along with the ongoing volatility of the tariff landscape. On tariffs, our mitigation actions continue to be effective and are materially unchanged from what we shared with you last quarter.

In addition, we have not seen material tariff-related impacts to customer demand at either ADI or P&S this quarter. We also have not seen any meaningful impacts to our business from the recent US government shutdown.

Before I turn the call over to Tom, I'll touch upon the ongoing separation activities we announced this past July. Our various work streams are proceeding with pace and discipline, and we are on track to complete the separation during the second half of 2026, as previously communicated.

Most importantly, our P&S and ADI teams remain focused and are working diligently to advance their respective go-forward strategies. I'm very pleased to announce that Rob and Tom will lead separate companies as CEOs at the completion of the anticipated spin, and they have both started to work on their go-forward organizational design and structure.

Let me now hand the call over to Tom.

Thomas Aquinas Surran

President-Products & Solutions Business, Resideo Technologies, Inc.

Thanks, Jay. On a year-over-year basis, the Products & Solutions team delivered another quarter of organic net revenue growth, lapping a tough comparison and the 10th consecutive quarter of gross margin expansion. P&S's net revenue grew 2% year-over-year, which includes approximate 1% favorable impact from currency. Revenue grew due to both volume and price across the majority of our product families and sales channels, which more than offset the performance of our air products that were impacted by a softer residential HVAC channel.

Let me walk through each of our primary sales channels. Let's start with the retail channel, which experienced strong point-of-sales volumes as demand for our products, led by the new First Alert SC5 connected smoke and CO detector continues. As a reminder, the SC5 was developed in partnership with Google Nest and was specifically designed to seamlessly replace Google's discontinued Nest Protect alarms.

The OEM channel was another highlight of the quarter, posting low double-digit percentage revenue growth year-over-year. The OEM channel posted a fourth consecutive quarter of year-over-year revenue growth, driven by greater volumes of higher-priced units in both the Americas and EMEA.

The electrical distribution channel also had another quarter of year-over-year revenue growth. Greater volumes of our BRK-branded safety products were sold to more residential homebuilders, increasing our dollar content per new home. We also saw volume strength in the MRO, manufactured housing, and commercial markets, as we looked to diversify sales of our UL 8th edition safety products.

Revenue in the security channel was up year-over-year, primarily due to volume increases with several customers. This includes ADT, with whom we recently signed a new multi-year commercial agreement. Revenue in the HVAC channel was down by a low double-digit percentage year-over-year, due to the softer residential HVAC market, which impacted sales volume.

Let me add some color here. The residential housing market continues to be soft and previously relatively unchanged throughout this year. Toward the end of the third quarter, we started to see stronger market headwinds relative to last quarter, primarily due to inventory of HVAC equipment subject to the regulatory change for new refrigerants.

While our thermostats do not use any type of refrigerant, we still experienced a ripple effect from the market disruption related to the regulatory change. We believe these conditions in the HVAC market are transitory. The health of the broader industry appears better now than it did several years ago.

Various market signals indicate those industry participants currently impacted are looking to normalize inventory over the next quarter or two. We believe we are well-positioned to capitalize on the anticipated positive change in market conditions as our channel inventory levels in the third quarter are relatively healthy. We also have been experiencing continued demand for our Focus Pro thermostat, introduced in the third quarter of last year, and have received strong interest in the recently introduced Elite Pro product.

Given our customer engagement, we believe demand has been building for our new products introduced this quarter, including the Elite Pro Premium Smart Thermostats, which recently began shipping. These modern and energy-efficient premium thermostats have the largest touchscreens in their class, interoperate with video doorbells, and offer precision sensing and control functionality around temperature and indoor air quality. These

thermostats are powered by our Pro-IQ services, which can help our professional customers by streamlining labor, increasing loyalty, and generating leads.

We began taking orders for the Elite Pro during the third quarter and commenced shipping recently. Moving on to profitability, gross margin was 43%, up 80 basis points year-over-year, driven primarily by continued efficient utilization of our factories. This is the 10th consecutive quarter of year-over-year gross margin expansion, and gross margin has increased by approximately 500 basis points over that time span. Efficiency at the gross margin level, combined with operating leverage, drove our 5% growth in adjusted EBITDA year-over-year.

Looking ahead, we have conviction in our strategy to continue introducing differentiated new products across our connected home product portfolio. We anticipate profitable growth opportunities that leverage our operational scale while establishing and expanding our leading position in key markets.

With that, let's turn the call over to Rob.

Robert B. Aarnes

President-ADI Global Distribution, Resideo Technologies, Inc.

Thanks, Tom. The ADI team delivered another quarter of year-over-year organic net revenue growth and the sixth consecutive quarter of year-over-year gross margin expansion. ADI reported 2% net revenue growth and average daily sales growth of 3%, both year-over-year.

Both include an approximate 1% favorable impact from currency. From a product category perspective, ADI saw most product categories growing a low single-digit percentage year-over-year, tariff-related pricing more than offset volume in the quarter. ADI also achieved solid growth in our strategic focus areas.

Both the Datacom and Pro AV businesses each grew revenue by low double-digit percentage points year-over-year. Growth in residential AV was flat year-over-year amidst continued softness in the market. Exclusive brands revenue grew 3% year-over-year, driven by positive momentum from our new products, such as Lux Lightning and the new X4 Smart Home user interface from Control4.

E-commerce revenue also grew 3% year-over-year, highlighting the optionality that customers have with our omnichannel experience, while also mitigating some of the temporary impact on stores arising from our ERP implementation. In August, we implemented a modern ERP platform in our US business, replacing an over 40-year-old system. This deployment sets ADI up for future growth and margin expansion versus the market and our peers.

Tech stack enhancements and corresponding capability building are expected to deliver even more cross-selling capabilities, optimize pricing management, and enhance digital user experiences. We prepared for the known complexity of the transition. This included the planned closure of all US stores for one to two days and a modest revenue impact. The expected impact was factored into the 2025 outlook provided on last quarter's earnings call.

Now, despite that preparedness, we experienced additional process headwinds to those initially expected, leading to a greater financial impact than planned. Specifically, while we had a strong sales month in July, the transition headwind amounted to a few points of unachieved revenue growth in the quarter and lower cash collections.

We believe the disruptions are temporary. The implementation is now nearly complete, and I can say that we see no material systems risk ahead. Operations on the new system are now running smoothly, and we are driving

progressive improvement in our revenue run rate. In October, we saw increased customer engagement and pipeline size, resulting in our order rates approaching pre-system implementation levels.

Moving on to profitability, ADI reported 22.6% gross margin in the third quarter, up 130 basis points year-over-year, and up 40 basis points sequentially. This is the sixth consecutive quarter of year-over-year gross margin expansion, and gross margin has increased by approximately 300 basis points over that time span.

The year-over-year margin expansion was primarily driven by another quarter of high cross-sell volumes of exclusive brands across ADI's entire customer base and mixed benefits from higher e-commerce sales. The increased margin dollars were offset by non-recurring costs associated with the system implementation, contributing to flat adjusted EBITDA growth year-over-year.

The integration of Snap One continues to progress nicely. We remain ahead of our commitment of \$75 million of run rate synergies exiting year three post-acquisition. We have great confidence that we can over-deliver that amount in that timeframe, if not sooner.

Looking ahead, we look to build upon our scale and leading position in both the security and residential AV market, underpinned by our customer-first ethos.

A proof point of our ethos was a recent award from the B2B E-commerce Association, recognizing ADI as the Enterprise B2B Distributor of the Year. This was a result of the company's organic e-commerce growth and implementation of leading technologies that improve the customer experience. We look to continue making investments that drive profitable growth opportunities in our areas of strategic focus.

We also look to maintain our world-class execution, capitalize on the revenue and cost benefits of our modern platform, and achieve greater fixed cost levers to drive stronger profitability in the future.

Now, let's turn the call over to Mike to discuss our third quarter financial results and outlook for the remainder of the year.

Michael Carlet

Chief Financial Officer, Resideo Technologies, Inc.

Thank you, Rob. Good afternoon, everyone. Let's get straight into the quarterly earnings for the total company, including record highs in gross margin, net income, adjusted earnings per share, and adjusted EBITDA.

Total net revenue was \$1.86 billion, up 2% year-over-year, including a 1% favorable impact from currency. Both Tom and Rob spoke earlier about the drivers of organic net revenue growth in their respective businesses. Gross margin in the quarter was 29.8%, up 110 basis points year-over-year. The increase was primarily driven by the more margin-accretive activities at ADI and the continued structural operating efficiencies at P&S.

Adjusted earnings per share was \$0.89 above the high end of our outlook range and up from \$0.59 in the prior period. The primary reasons for the increase year-over-year were higher net income and a one-time tax benefit from terminating the Honeywell Indemnification agreement.

Adjusted EBITDA was \$229 million in the quarter, up 21% year-over-year, and in line with the midpoint of our outlook range. The primary reasons for the increase year-over-year were the benefits associated with terminating the Honeywell Indemnification agreement and P&S's EBITDA outperformance year-over-year.

Total reported cash used by operating activities was \$1.571 billion, driven solely by the termination payment made to Honeywell in the quarter. After adjusting for the termination payment, adjusted cash provided by operating activities was \$19 million. This amount was lower than anticipated, due primarily to the timing of payments and from lower cash collections at ADI. We anticipate ADI's cash provided from operations to rebound in the fourth quarter now that the system implementation is substantially complete.

Now, before I provide our financial outlook for the fourth quarter of 2025 and the full year, I'd like to make a couple of framing comments. First, ADI's ERP implementation is now nearly complete, but those activities crossed into the fourth quarter, and the related impact is included in our revised outlook. As Rob noted, we are achieving progressive improvement across various sales and operating metrics.

Also, ADI continues to execute well against its strategy in a market where the mid-single-digit market growth rate has not meaningfully changed during 2025. Second, P&S is executing its strategy well against a challenging residential macro environment. We believe the benefit of continued new product introductions across a diverse portfolio enables P&S to offset the recent incremental softness in residential HVAC.

Our continued focus on driving margin and working capital efficiencies allows for greater contribution of segment cash flow that is reflected in our increased outlook for total company cash from operations.

Given some of the headwinds we are facing, we are adjusting our 2025 outlook as follows. Total company net revenue to be in the range of \$7.43 to \$7.47 billion. Total company adjusted EBITDA to be in the range of \$818 to \$832 million. Total company fully diluted adjusted earnings per share be in the range of \$2.57 to \$2.67. And on cash from operations, excluding the Honeywell termination payment, we are raising our outlook to \$410 to \$450 million.

Our outlook for the fourth quarter of 2025 is as follows. Total company net revenue to be in the range of \$1.853 to \$1.893 billion. Total company adjusted EBITDA to be in the range of \$211 to \$225 million. And total company fully diluted earnings per share to be in the range of \$0.42 to \$0.52. Please go to our investor relations website to access our earnings presentation, which includes our outlook ranges, along with key modeling assumptions for 2025.

Now, before we open the call for questions, I'd like to share that we are in the midst of our 2026 financial planning process. Based upon what we know at this time, our 2026 outlook is positive and anticipates year-over-year growth in organic revenue and adjusted EBITDA that are both above current analyst estimates for 2026. We will provide more details on 2026 on the fourth quarter 2025 call as usual.

Operator, let's now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Ian Zaffino with Oppenheimer. Ian, your line is open. Please go ahead.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

[indiscernible] (00:20:21) Thank you very much. Just kind of wanted to get my arms around some of the headwinds here. Can you maybe quantify the impact of the HVAC regulatory change? I guess both maybe in the third quarter. And then as we look at your guidance and can you maybe do the same thing on the ERP side? So we kind of understand what the different moving parts are of what in the third quarter and then what's driving the delta in the guidance now versus what it was previously? Thanks.

Michael Carlet

Chief Financial Officer, Resideo Technologies, Inc.

A

Hey Ian. Yeah. Thanks. Thanks for the question. We don't want to get into the specific impacts of each one of those. They're roughly, overall similar type of impacts on the business. As we look at the headwinds that we're seeing, we're very, very focused on the fact that we believe they're transitory. They both caught us a little bit by surprise in the quarter, as we said. We had set our guidance based upon what we saw three months ago. And as we went through the quarter, as the HVAC markets changed at the end of the quarter, as Rob and his team went through the ERP implementation, that took a bit more than we thought, but it's mostly behind us now. We're about six weeks through the current quarter and we feel really good about the guidance that we're putting out there.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Okay. So I guess -- it to be clear, both of these headwinds aren't going to end in this quarter or have ended and there will be no bleed into 2026?

Michael Carlet

Chief Financial Officer, Resideo Technologies, Inc.

A

Yeah. Everything we see right now says there definitely the ERP will be behind us by the end of the year. On the HVAC market, we see it bleeding slightly into next year. We see what other folks are talking about in the market out there. I'll let Tom speak to it specifically, but we do believe it is transitory in nature and won't bleed much into 2026. Tom, anything you'd add to that?

Thomas Aquinas Surran

President-Products & Solutions Business, Resideo Technologies, Inc.

A

No, there's people have estimates that whether it's at the end of this year or the end of Q1, but by mid-year, almost everyone says expects it to be over. We expect it to be over by the end of the first quarter.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Okay. And then maybe on P&S, I'm just trying to understand this, if you back out the HVAC cited on the P&S, can you maybe talk about what the growth would have been or maybe just talk about different areas of P&S that grew and did particularly well? Thanks.

Michael Carlet

Chief Financial Officer, Resideo Technologies, Inc.

You want to do it?

A

Thomas Aquinas Surran

President-Products & Solutions Business, Resideo Technologies, Inc.

Yeah. Sure. I don't think we want to give what the growth would be had we not had the headwinds in the HVAC market. But I do want to emphasize that we're really excited about how we're positioned in that market, right? So we introduced that FocusPRO as our low-end product. That product has been very successful in the market in terms of its acceptance. We just introduced a premium product. We had previously not participated in the premium market. So here's a market. We're adding a product. We're going to -- our goal is to create the best product you can buy at all price points entering mid and premium. And we're very excited about the [ph] Leap Pro (00:23:44). So long-term, our position in HVAC, we're very, very enthusiastic about. Now in terms of the other markets, it was pretty much everything was doing great. Retail did great. Our OEM business did great. The safety products did well. Everything seemed to do quite well, but we did have those headwinds, which again, I think long-term when you look at how we're going to be positioned in HVAC, it's a very positive picture.

A

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. Thank you very much.

Q

Michael Carlet

Chief Financial Officer, Resideo Technologies, Inc.

Thank you.

A

Operator: Thank you. Your next question comes from the line of Erik Woodring with Morgan Stanley. Your line is open. Please go ahead.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Great. Thank you, guys, for taking my questions. Maybe if we just touch on re-ask the HVAC question. I'm just trying to get a little bit better understanding of why we think these headwinds are transitory. And then I guess if the issue is an inventory glut for purchase for products that you don't have exposure to, why does that impact the Resideo? Just trying to maybe -- just a little bit more color, just maybe that last question is really the key there. If it's not a Resideo issue, why is Resideo being impacted? And then I have a quick follow up, please. Thank you.

Q

Thomas Aquinas Surran

President-Products & Solutions Business, Resideo Technologies, Inc.

Okay. So, Erik, great question. All right. So what's going on is because of this, you had a lot of inventory that was brought in in order to protect all the distributors from the transition and the regulatory change. That inventory is still sitting in there. It's impacting the balance sheet of all the distributors and their cash and their ability to fund it.

A

It's also creating a little bit of disturbance and chaos kind of in the marketplace, because now you have discount's going, trying to liquidate this.

And whether people hold to see if there's further discounts, there's just a lot of things that are kind of in a very dynamic situation. The amount of the impact people are saying, and you can look at all a lot of the HVAC equipment guys, the Carrier, the Trane, the Lennox, what have you. You can look at the distributors of Watsco. You can look at the AHRI data, it's having a material impact. But there's also then the fact of what's actually happening in the residential housing market, there's a little bit of instability there as well.

That's why we look at it long-term wise as transitory, because every home is going to need an HVAC system. These systems have a certain life, so you know there's going to be a replacement. We know how well we're positioned and what we've introduced with the products and then what share we're capturing. So long-term that's why we see this as transitory.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And Tom, maybe just a very quick follow-up on there. You mentioned discounts in the marketplace. Is it safe to then say your P&S gross net operating margins were negatively impacted by HVAC as well?

Thomas Aquinas Surran

President-Products & Solutions Business, Resideo Technologies, Inc.

A

No, that's not what I'm saying. So I'm just talking about that because of this disturbance that's occurred in the market, other parties, especially people with the equipment, especially this inventory, that's the older generation, the older gases that uses the older refrigerants, that product in terms of the discounting. I wouldn't overplay that, right? So just -- in looking at it, I'm just saying there's a number of things that happen when you have excess inventory in the channel and how people behave. Now, our products, there's no discounting of our products, but the ability of distributor to stock our product at a certain level because they have cash tied up. The ability of what's happening within customers, all of those things have some ripple to this.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Okay. Super clear.

Thomas Aquinas Surran

President-Products & Solutions Business, Resideo Technologies, Inc.

A

And we have very strong -- yeah, we do have very strong margins in the HVAC market.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Okay. That is super helpful. And then I don't know who wants to fill this one, but I'll leave it up to you guys. One of the most important factors that you know can drive a re-rating for Resideo is this kind of continued margin expansion. And granted, on a year over year basis, you showed nice gross margin expansion, but in 3Q, we saw operating margins compress for both companies sequentially. I guess, how to think about operating margins for each business into 4Q.

And then like as we look out one to two years and think about investors that are looking at Resideo today for the long-term opportunity. What type of margins should they be looking for -- from operating margin, should they be

looking for from each one of these businesses? Again, looking out, call it one, two, three years. Just would love some framing of that, please. Thank you so much.

Michael Carlet

Chief Financial Officer, Resideo Technologies, Inc.

A

Sure. Sure, Erik. I'll kick it off and I'll let Rob and Tom join in if they want to correct anything or want to add on to it. Clearly, in the quarter, when we talk about margin expansion, there's both gross margin and the operating margin. So really pleased with continued gross margin expansion. Despite the fact that the headwinds at P&S and the HVAC market, as Tom said, our HVAC margins are very robust. So as we think about that having a headwind, it flows through the bottom line at a different rate than the overall blended rate. It's a bit higher. So that does compress it. So that transitory nature does compress the bottom line, despite which we still saw margin improvement.

At ADI, as Rob talked about the impacts of the ERP implementation as we work through that, there was incremental cost, whether that was overtime in the warehouses, whether that was work with consultants to implement the system. There's incremental SG&A in both Q3 and Q4 that again, is one-time in nature as we work through those two things. I think overall, at a high level, as we go through the separation of these businesses, I want to make sure we're careful about talking about what the margins are today as segments without the allocation of overhead and what they might be in the future.

But as we sit here today and look at the ADI business, Rob continues to target a double-digit operating margin as his goal. We've got long-term plans that that get us there and that's going to change a little bit once the business is standalone and we allocate all the cost out. But as it exists today, we would think that we have the ability to drive the business towards double-digit operating margins over the next three to five years. Similarly, at P&S, as we continue to see the operating efficiency in our factories, which that race has not yet run. We're well into the game, but the race is not yet over at all.

And then the incremental margin that we think we drive with the ongoing product development and the incremental margin we can demand from that, we think that will continue to be operating margin expansion. 300 basis points to 500 basis points over the next three to five years probably makes a lot of sense. But again, as we work through our modeling for each business on a standalone basis, we'll update that and get those numbers out to the market at the appropriate time.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. That was super helpful, Mike. And then maybe just last question, just a clarification. I'm going to pick on that last comment you made in your prepared remarks about 2026 number. So just a clarification, as I see consensus at \$7.76 billion of revs, \$3 of earnings, and your comment is, despite the ERP, despite the HVAC kind of [ph] lead (00:31:11) you into 2026, those estimates are on, let's call it the lower end of what -- how you're planning for 2026?

Michael Carlet

Chief Financial Officer, Resideo Technologies, Inc.

A

That's right, Erik. We're early in our detailed planning, but as we sit here today, we want to be clear that these headwinds are very transitory. Now, we can't guarantee what else is going to happen next year. We'll guide 2026 when we usually do in February. But just as we're sitting there today, we want to be clear that we remain very

comfortable with those numbers that are out there. And we would say they're at the low end of what our initial budgeting process for next year looks like.

Erik W. Woodring*Analyst, Morgan Stanley & Co. LLC*

Okay. Awesome. Thank you, guys. Good luck.

Christopher T. Lee*Global Head-Strategic Finance, Resideo Technologies, Inc.*

Thanks, Erik.

Operator: And your next question comes from the line of Neil Matalia with Jefferies. Your line is open. Please go ahead.

Neil Matalia*Analyst, Jefferies*

Hey, guys. Thank you for taking my questions. I want to ask you on the ERP impact because I think this is a really important point, especially to understand some of the fourth quarter dynamics relative to what the implied fourth quarter guidance previously was. It'd be helpful to understand how much of a quantitative impact this is having on the fourth quarter. In the press release, you mentioned that there's nearly \$15 million of higher costs year-over-year on SG&A and R&D related to the ERP. What level of impact are you seeing in the fourth quarter?

Michael Carlet*Chief Financial Officer, Resideo Technologies, Inc.*

I think at a high level, it's roughly half in the third quarter and half in the fourth quarter of those SG&A impacts as they flow through. So if you take that \$15 million, you sort of split it between the two, you're in the ballpark. And we think the impact on the revenue will be greater in Q3 than Q4. But not significantly greater. We do think we're most of the way through it right now. I think, Rob, I'll let you comment, but we're really confident with the metrics and KPIs we're seeing right now that we're getting our feedback on the rest of the systems running well. We're through most of the growing pains that you go through something like this. They were higher than we expected. But at the end of the day, they didn't take much longer than we thought they were just more than we expected. Rob, anything you'd add?

Robert B. Aarnes*President-ADI Global Distribution, Resideo Technologies, Inc.*

No, no, actually, yeah. Actually, Mike, you nailed it. But I'd be remiss. First of all, I didn't say that this is really exciting time for us, despite the fact that the results were disappointing. This represents a major step towards modernizing and digitizing our tech stack, which is basically a two and a half, three-year project finally coming to fruition, which will net a number of benefits. A lot of those I actually talked about in the prepared remarks. But we are seeing two real good indicators that make me feel optimistic about the go-forward recovery. One, as I mentioned earlier in the remarks, we're seeing our average daily sales rate approach pre-go-live levels. The deeper we get into Q4, that's one.

Even more positive is what's going on with our project pipeline. Normally the biggest month of the year where our pipeline would be at its peak is kind of mid-year July timeframe and we ended October with a higher pipeline volume amount than we had even in July was a record number for us. And so that is the really the most, I guess,

pruned indicator of the future health of the business. And we expect to convert that pipeline at the same conversion rates we've seen in quarters and years past. And so those two things make me optimistic that the impact of the ERP is truly transitory.

Neil Matalia*Analyst, Jefferies*

Q

Okay. That's helpful. Maybe just then to clarify and make sure we're 100% clear on this fourth quarter issue. The EBITDA guide down relative to the implied guidance previously is, call it, \$40 million or so? Part of that is the higher costs from the ERP impacts. Part of it is the HVAC, can you give like a numerical breakdown relative to that \$40 million and how much is coming from each, including the revenue impact for the ERP-related issues that you're facing?

Michael Carlet*Chief Financial Officer, Resideo Technologies, Inc.*

A

Yeah. At a high level if you're modeling it, I think as we said, it's roughly high single digits, millions of the cost side of ERP side, the rest of its driven by the revenue, and it's roughly equal across the both businesses.

Neil Matalia*Analyst, Jefferies*

Q

Okay. Got it. Okay. And then on 2026, again, very helpful to hear the guidance. This is very much in line with the way we've been thinking about it. We just felt that the outlook was quite strong for 2026 relative to what consensus had been modeling. Specifically, though, I know without giving any numbers, given you're going to wait to the fourth quarter to give that. Could you at least address qualitatively what the different factors are that we should be considering from an idiosyncratic perspective? If, for example, there's a \$70 million step up in EBITDA just from the Honeywell related indemnity. Are there other factors that we need to be taking into account where it's just, hey, we can look at the full-year guidance for EBITDA of \$865 million or sorry – of \$825 million and then say, all right, at least \$70 million higher is the bare minimum and then from there, what other factors there are?

Michael Carlet*Chief Financial Officer, Resideo Technologies, Inc.*

A

I think it's a good way to frame it. I think the -- you take this year, you add that \$70 million, you add back these transitory impacts on top of that, which gets you somewhere a little bit above what that consensus number is. And then everything else is the initiatives that we're working on, the things that we're building. Again, we're going through our plans. We'll guide them when we do. But I don't think there's anything significant. But Tom talks about his new product launches that are out there. They'll continue to drive performance, as Rob talked about the benefits of the ERP system, right?

Right now, it's all about the short-term pain. But the reason we're doing it is for the longer term, mid-term and long-term benefit, those will start coming through our continued investments in the omnichannel experience of ADI, the Snap synergy that we continue to realize we're bringing those together. So all those things go together again. There's lots of work still to go in building the specific models. But when we look at all of that today, as we said, we're very comfortable that the numbers that are out there are definitely achievable.

Neil Matalia*Analyst, Jefferies*

Q

Okay. And then lastly for me, on the project pipeline you just mentioned earlier, you said October was higher than where you ended July, which is not normal. What exactly are you hearing from your customers in there? Part of

what we've heard in our research and any background check here is that security never goes into recession. And obviously, there's a number of instances that happened recently that, we're just wondering if there's like some kind of multi-year secular upcycle that might be happening in security market that kind of underlies a lot of these. Is there more proactive versus reactive customers now?

Christopher T. Lee*Global Head-Strategic Finance, Resideo Technologies, Inc.*

A

I would say not a whole lot has changed in that space this year. Going forward, we're still expecting the commercial security market to grow at low to mid-single digits. I mean, it has during my entire tenure here at ADI and in terms of ADI, we've always been able to grow kind of mid-to-high single digits. And we fully expect that going forward. And I always look at our pipeline to be able to give me the -- an indicator of what we can expect three to six months out. And I think some of it is just our execution and others -- other parts of it is we had customers that were patient with us as we navigated the disruption of ERP, and we're bringing those now those customers back in, and that's actually increased our pipeline as well. So I would say those are the biggest factors in terms of why I think the pipeline is growing and why we're in that position this late in the year versus we normally see these peak levels in the middle of the year when most of our big installations happen, kind of that June through July, June, July, August timeframe for our large integrators.

Neil Matalia*Analyst, Jefferies*

Q

Okay, great. Thank you very much.

Operator: There are no further questions at this time. This concludes today's call. Thank you for attending. You may now disconnect.

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