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Resideo Technologies, Inc. (REZI)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to the Resideo Fourth Quarter and Full Year 2025 Financial Results Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

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

Christopher T. Lee

Global Head-Strategic Finance, Resideo Technologies, Inc.

Thank you. Good afternoon, everyone, and thank you for joining us for Resideo's fourth quarter and full year 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 and 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. I'm very pleased with how our business finished 2025, largely exceeding our financial outlook in the fourth quarter. Products and Solutions delivered results driven by better than expected activity across multiple channels, including HVAC.

ADI reported flat results, but on a positive note, achieved operational stabilization, providing conviction for future growth. Our sustained execution throughout 2025 enabled Resideo to report record highs in net revenue, adjusted EBITDA and adjusted EPS on an annual basis. We also exceeded the high-end of our 2025 outlook ranges in net revenue, adjusted EBITDA, adjusted EPS and adjusted cash provided by operations during a dynamic and uncertain global macroeconomic environment.

Looking at the full year results and the growth compared to the prior year, net revenue was approximately \$7.5 billion, growing 11%. Adjusted EBITDA was \$833 million, up 20%. Adjusted earnings per share was \$2.68, growing 17% and adjusted cash provided by operations was \$453 million, up 2%.

Let's now go into some of the annual highlights for each business segment before I hand the call off to Tom and Rob to talk about their quarterly business highlights. In 2025, Products and Solutions grew organic net revenue by 4% year-over-year, driven primarily by strong volume demand for our safety products and increased prices for our OEM products.

Gross margin expanded by 110 basis points year-over-year as we continue to gain improvements in operational efficiency. Our commitment to introducing the new and differentiated products remained evident with 10 major new product introductions in the year, including the First Alert SC5 connected smoke and carbon monoxide detector and the Honeywell Home ElitePRO thermostat. We believe customer reception for these new products has been very positive and is building demand momentum for another year of exciting new product introductions in 2026.

In 2025, ADI grew organic net revenue by 3% year-over-year driven primarily by growth across all product categories and accomplished with 3 less selling days. Organic average daily sales growth was 4%. Gross margins expanded by 200 basis points in 2025 versus the prior year due primarily to favorable product mix and sales of lower cost inventory. We are proceeding very well on the integration of Snap One. Rob will talk more about the team's progress to date.

In closing, we demonstrated resilience in 2025 by maintaining our execution focus which generates conviction and momentum toward our anticipated business separation later this year that we believe unlocks significant shareholder value. Our separation activities are progressing well and we intend to provide more details in the coming months as we get closer to the official separation anticipated to occur in the second half of 2026.

Let me now hand the call over to Tom.

Thomas Aquinas Surran

President-Products & Solutions, Resideo Technologies, Inc.

Thanks, Jay. The Products and Solution (sic) [Solutions] (00:06:21) team closed out the year strongly, highlighted by healthy net revenue growth and the 11th consecutive quarter of year-over-year gross margin expansion. In the fourth quarter, P&S net revenue grew 6% year-over-year, which includes an approximate 1% favorable impact from currency. Revenue grew due to both volume and price across many of our product families and sales channels, which more than offset the performance of our air products that were impacted by a soft, but improving HVAC channel.

Let me walk through our activities in each of our primary sales channels as our products can be sold through multiple channels. Let's start with the retail channel, where revenue growth was very strong year-over-year and highlighted by a new record high quarter in revenue dollars. Point-of-sale volumes for higher-priced products were robust and demand was broad-based across both our key accounts and products. Sales of new products introduced earlier in 2025, such as the Honeywell Home FocusPRO Thermostat and the First Alert SC5 connected smoke and carbon monoxide detector, show increasing adoption. Weather was a tailwind during the quarter, which contributed to the strength of the quarter.

The electrical distribution channel had another quarter of very strong year-over-year revenue growth. We saw continued demand for our products, primarily BRK branded safety products, culminating in record high annual revenue in 2025. Dollar content per new home continues to increase as we achieve broader penetration of our portfolio of products with residential homebuilders despite the soft residential housing market.

We also saw strength in the [ph] EMRO (00:08:24) market as demand for our products appear to be coinciding with a replacement cycle. The OEM channel posted its fifth consecutive quarter of year-over-year revenue growth. Continued stabilization in the boiler heating system market served as a tailwind that drove sales in the Americas and in the EMEA in OEM channel. Revenue dollars in the security channel were down only modestly year-over-year given the high baseline in the same period last year when we introduced a new security panel and posted strong sales with a large customer.

In the fourth quarter, our sales were ahead of plan with that large customer. Revenue in the HVAC channel was down by a low to mid-single-digit percentage year-over-year. This was better than anticipated as there was an increase in user demand through many of our smaller distribution customers as the weather turned colder.

We also saw our larger distribution customers managing the Resideo inventory levels down as expected given the residential HVAC conditions discussed last quarter. On a positive note, we are starting to see normalization of channel inventory levels with those large customers. In addition, we started to ship the new Honeywell Home ElitePRO premium smart thermostat during the quarter and the strong customer demand has exceeded available stock.

Moving on to profitability, fourth quarter gross margin was 41%, up 20 basis points year-over-year driven primarily by continued improvement in factory utilization, partially offset by product sales mix. This is the 11th consecutive quarter of year-over-year gross margin expansion.

Even with the planned R&D investments to support our new product introduction road map, adjusted EBITDA grew 6% year-over-year due to continued gross margin efficiency and operating leverage achievement. Looking

forward, we are excited about the profitable growth opportunities we believe are ahead of us as a standalone building products company after completion of the anticipated separation. We believe that we can continue to leverage our operational scale to introduce a number of new differentiated products that expand upon our leading positions 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. In the fourth quarter, ADI saw a small year-over-year decline in net revenue and the seventh consecutive quarter of year-over-year gross margin expansion. Now before I go into the details on the quarter, I'd like to build upon Jay's comments. ADI is now fully operational on our new ERP system. We are seeing increased customer confidence in the stability of our operations, noted by growth in project business from our top commercial customers and progressive improvement in our operational metrics.

Now, on the details for the quarter. ADI reported a decline of 50 basis points in both net revenue and average daily sales year-over-year. Both include a favorable impact of approximately 80 basis points from currency. From a product category perspective, we saw year-over-year growth in multiple commercial security and professional audio visual product categories, which was more than offset by a decline in the video surveillance category. We anticipate video surveillance returning to growth in the near term as the pipeline is refilling nicely for products that have a multi-month sales cycle.

E-commerce net revenue and average daily sales grew 3% year-over-year, continuing the trend of our digital experience becoming a bigger part of ADI's total revenue. We continue to see positive returns on our digital platform investments as customer behaviors continue to leverage digital. Examples include year-over-year growth in after business hours revenue generation, given the 24-hour availability of our platform as well as higher add-to-cart and conversion rates, following a number of product page enhancements. Growth in e-commerce is strategically important, given the differentiated omni-channel experience we want our customers to have as well as the margin accretion that accrues to the business.

Exclusive Brands' net revenue increased 2% year-over-year, while also generating more gross margin dollars in the quarter versus the same period last year. We continue to accelerate cross-sales of Snap One exclusive brands to legacy ADI customers and broaden the availability of the new Control4 operating system.

From a new product introduction standpoint, we added approximately 100 SKUs per quarter in each of the last two quarters. A product highlight in the fourth quarter was the launch of our Episode Business Music line targeting the professional audio visual category.

Moving on to profitability. ADI reported 22.7% gross margin in the fourth quarter, up 110 basis points year-over-year and the seventh consecutive quarter of year-over-year gross margin expansion. The margin expansion was primarily driven by favorable price and mix. The increased gross profit dollars generated in the quarter were more than offset by SG&A costs related to completing the ERP implementation and ongoing investments in real estate and digital, resulting in a small decline in adjusted EBITDA year-over-year.

Snap One synergy achievement continues to progress well as we are about 18 months post acquisition. In 2025, we achieved approximately \$75 million of synergies, 18 months sooner than expected. We are driving to achieve even more synergies over the next 18 months.

And before I hand the call over to Mike, I'm encouraged about our start to 2026. Achieving operational stabilization was critical because the team can refocus on our customers and on taking share. We will look to generate this momentum throughout the year as we become a standalone specialty distribution company.

Now, let's turn the call over to Mike to discuss our fourth quarter's financial results and 2026 outlook.

Michael Carlet

Chief Financial Officer & Executive Vice President, Resideo Technologies, Inc.

Thanks, Rob, and good afternoon, everyone. Jay reviewed the full year highlights, so let's get straight into the quarterly results, starting with revenue. Total net revenue was \$1.895 billion, up 2% year-over-year, including a 1% favorable impact from currency. Net revenue exceeded the high-end of the outlook range. Both Tom and Rob spoke earlier about the drivers of organic net revenue in the respective businesses.

Gross margin in the quarter was 29.6%, up 110 basis points year-over-year. The increase in gross profit dollars was primarily attributed – primarily driven by continued operating efficiencies of P&S and favorable price and mix at ADI. Adjusted earnings per share was \$0.50 at the high-end of our outlook range, but down from \$0.59 in the prior year period. The primary reason for the decrease year-over-year was higher interest expense of approximately \$20 million related to the incremental debt incurred to terminate the Honeywell indemnification agreement.

Adjusted EBITDA was \$226 million in the quarter, up 21% year-over-year and above the high-end of the outlook range. The primary reason for the increase year-over-year was higher net income, driven in part by the \$35 million benefit associated with that terminated indemnification agreement.

Total reported cash provided by operating activities was \$299 million. This amount was higher than anticipated due primarily to strong cash collections and the timing of payments. Year-over-year, we received a net operating cash benefit of approximately \$40 million associated with the aforementioned agreement.

Before I provide our 2026 financial outlook, let me walk you through some of our market perspectives and forecast assumptions. Note that we are providing our 2026 outlook without regard to the business separation anticipated to occur in the second half of 2026. Starting with our market perspectives, our outlook on the global macroeconomic environment is cautious, given the current uncertain geopolitical landscape.

With respect to tariffs, including the recent Supreme Court ruling and related measures taken by the US administration, our assumption is that the exemptions we enjoy under USMCA for certain electronic goods will continue. Resideo will continue to take proactive steps, similar to last year, to mitigate the cost of tariffs. We remain agile and believe we will be well prepared to react to the potential tariff related changes.

Our assumption is that the 2026 US residential housing market continues to have little growth. The repair and remodel market continues to be forecasted as a low-single-digit percentage grower. The sale of existing US homes has not accelerated even with a small reduction in US mortgage rates. There is still a persistent shortage of housing supply.

In the commercial market, we assume low-single-digit US GDP growth given mixed signals across industry verticals. GDP growth could be negatively impacted by tariff and fiscal policy uncertainty, as well as by societal dynamics impacting the workforce.

Now, our forecast assumptions. Our 2026 financial outlook is based on December 31, 2025 currency rates and does not assume any future currency rate fluctuations. We anticipate both business segments to achieve year-over-year net revenue growth in 2026. We forecast the growth rate of ADI to be higher than Products and Solutions.

From a linearity perspective, we expect slightly higher revenue in the second half versus the first half in line with last year's seasonality. Note that there are four extra days in the first quarter and four less days in the fourth quarter versus the same periods in 2025 due to how our [ph] 4-4-5 (00:19:14) fiscal calendar falls within the annual calendar.

Moving to gross margins, we expect very modest total company gross margin expansion year-over-year. We anticipate that Products and Solutions will have greater gross margin expansion than ADI. We will look to drive greater operating leverage in 2026 versus 2025, while still investing in both businesses to drive future growth.

We anticipate total company R&D expenses to be a similar percentage of revenue to the second half of 2025's run rate. We are not providing an outlook for 2026 cash provided by operations due to the uncertainty of the specific amounts for separation related costs and the related timing of payments. We anticipate 2026 cash provided by operations, excluding separation related payments, to be similar to last year and we will continue to report this number in our external financial reporting during 2026.

Considering all these assumptions, here is our 2026 financial outlook. For the full year, we expect total company net revenue to be in the range of \$7.8 billion to \$7.9 billion. We expect total company adjusted EBITDA to be in the range of \$935 million to \$985 million and we expect total company diluted earnings per share to be the range of \$3 to \$3.20.

For the first quarter of 2026, we expect total company net revenue to be in the range of \$1.866 billion to \$1.890 billion. Total company adjusted EBITDA to be in the range of \$193 million to \$207 million and total company diluted earnings per share to be in the range of \$0.58 to \$0.62. Please go to our investor relations website to access our earnings presentation, which includes our outlook ranges along with key modeling assumptions.

As Jay indicated, our business separation activities are progressing well. As a result, we expect to unlock value and deliver two strong and growing companies to our shareholders. We look forward to hosting you at our Investor Day events that are expected to occur before the effective date of the separation to discuss the go forward strategies, operational and financial frameworks and capital structures for each company.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin your question-and-answer session. [Operator Instructions] Your first question comes from the line of Erik Woodring from Morgan Stanley. Erik, your line is now open.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Thank you very much. Congrats guys on the quarter and the guide. A few quick ones for you. Maybe just first a clarification. Maybe this is for you, Mike, but anyone. Can you guys just maybe provide a bit more detail on just where things stand with the HVAC inventory situation and ERP upgrades? It sounds like the ERP dynamics are fully in the back seat. But I just want to make sure we understand where those issues stand today, what is entirely behind you and what is having an impact on 2026 outlook? And then a quick one after that, please.

Michael Carlet

Chief Financial Officer & Executive Vice President, Resideo Technologies, Inc.

A

Sure. I'll start, Erik, and I'll turn it over to Tom and Rob. I'll just go a high level on both. From an ADI perspective, the ERP system is done. It's running. It's up there, all is well and so that implementation is fully behind us. That's ongoing as a operating system, but it's – the implementation is all done. From an HVAC standpoint, from inventory, I'll echo what Tom's comments said, we have seen our large distributors take down their inventory levels below what were the historical norms, and they're readjusting to a new normal. We think we're reaching sort of the new normal operating standpoint. We can never guarantee that they're not going to move them around again in the future. But as we sit here today, we feel like most of that inventory adjustment, to your specific point, is behind us. Tom, Rob, anything to add.

Thomas Aquinas Surran

President-Products & Solutions, Resideo Technologies, Inc.

A

Well, I think the HVAC market, as we've said before, we were forecasting it to go through the end of the first quarter. And as we had checks with many of our customers and their customers, we continue to believe that is the correct timeline and what we're seeing. We also know the reason why our customers were able to reduce the inventory is our execution, we're getting products on time to request. So, that – being a partner with them help them to be able to execute and make it through these times. I'm also very pleased with how we executed relative to a market that's been down. When we look at our performance in the HVAC market relative to the market, we performed well.

Rob, do you want to cover?

Robert B. Aarnes

President-ADI Global Distribution, Resideo Technologies, Inc.

A

Yeah, I'll just [ph] throw (00:24:40) a few more pieces of the color on that, Erik. I mean, Mike nailed it. Right now, where we are today is exactly where team wanted to be and that is we are now leveraging a fully operational, stable [audio gap] (00:24:55). That was the goal coming out of Q4, and that's exactly what we did. And I can tell you that with personal testimony being out in the field, engaging dozens of our team members across stores, DCs, all across the business, the difference between Q3 where we were trying to provide great customer service, as we always do, but also grappling with maybe a new system versus what we saw in Q4, especially later in Q4

through November and December, which, our team now coming in every single day from morning until evening, being able to focus 100% of their priorities on providing great customer service and taking share.

Now that's going to take some time because we know some of our customers during that timeframe spread some of their share of wall around, that's okay. We know who those customers are. And now we're in a position, though, to spend 100% of our time engaging with those customers, leveraging a fully operational system.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Awesome. I appreciate that color from all three of you guys. So thank you for that. Rob, Rob, maybe if I could just stay on you. I believe the team has previously framed ADI as a business that can grow revenue over a multiyear period kind of mid- to high-single digits. We just saw, call it, 1% year-over-year declines. If we just normalize for any of the ERP upgrade costs or disruption, can you give us a sense of what growth in margins for ADI would have been in the quarter? And what gets this business to reaccelerate with strengthening margins? Thanks very much.

Robert B. Aarnes

President-ADI Global Distribution, Resideo Technologies, Inc.

A

The second [ph] point (00:26:37). I would say – as I mentioned in my remarks, look, one of our largest categories is video surveillance, right, and it's a multi-month sales cycle. And so it wasn't a surprise to me as I look at Q3 versus Q4, right, any amount of activity or projects that we might have had in the hopper that might have actually gone elsewhere temporarily would have affected us in Q4. And what gives me confidence now, as I mentioned earlier, is we're starting to see that video surveillance business and pipeline recover nicely, which is – the biggest indicator we've got to returning to future growth in that mid- to high single-digit area.

In fact, I think the other thing I mentioned was most of our commercial security categories in the fourth quarter were actually up year-over-year in that range. It was just the video surveillance category that kind of brought us down a bit, but we're seeing improvement there, and we want to be able to build on that momentum early in Q1 as well as throughout the year.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Awesome. Thanks, guys. And then maybe if I can, just one question, Mike, for you. 1Q revenue and adjusted EBITDA guidance, I think it's 6% year-over-year growth and 19% year-over-year growth at the midpoint, if I got that right. Full year guide is a little bit below that 5% rev growth, 15% adjusted EBITDA growth. Just help us understand kind of maybe why we will see a deceleration in those metrics through the years, even if we saw – even if 1Q has more selling days, it's just – is that influenced by NPI? Or just trying to understand maybe the linearity of growth rates? And that's it for me, guys. Thanks so much.

Michael Carlet

Chief Financial Officer & Executive Vice President, Resideo Technologies, Inc.

A

Thanks, Erik. Really two things drive that. One, you just hit on it, that number of sales days does impact Q1 versus Q4 and does drive the first half versus the second half. So that is a factor. The other factor, if you recall, last year, our performance in Q1 was better than it was in the second half. Both of those headwinds that we just talked about, whether it was the ERP system or ADI, the HVAC headwinds at P&S were second half of the year issues. And so, we do think the back half of the year on a days' adjusted basis will be a little bit stronger than the first half of the year on a normal days' adjusted basis.

Operator: Thank you for your question, Erik.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Awesome. Thank you, guys.

Q

Michael Carlet

Chief Financial Officer & Executive Vice President, Resideo Technologies, Inc.

Thanks, Erik.

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Thomas Aquinas Surran

President-Products & Solutions, Resideo Technologies, Inc.

Thank you.

A

Robert B. Aarnes

President-ADI Global Distribution, Resideo Technologies, Inc.

Thank you, Erik.

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Operator: Your next question comes from Ian Zaffino from Oppenheimer & Co. Ian, your line is now open.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. Great. Thank you very much. Wanted to just ask about the comments about ADI being able to grow fast at least this year. I was just thinking as far as P&S, you have a bunch of product introductions coming out, product launches coming out, maybe housing gets better. So just kind of trying to understand how you're thinking about those just vis-à-vis each other? I mean, ADI, I know you had the ERP system issue, but it does seem to me that P&S should probably be a pretty good grower in 2026 as well. So any thoughts there? Thanks.

Q

Michael Carlet

Chief Financial Officer & Executive Vice President, Resideo Technologies, Inc.

Yeah, Ian, I'll start and then certainly, let Rob and Tom jump in. I think – listen, we think our guide is the right guide for where we sit here today. We are excited about the product launches that we have. There's obviously a ramp and a build on all those product launches as you go out there. There's products [ph] they're replacing that (00:30:16) are in the market, but we feel great about our product pipeline.

A

There's uncertainty out there. While housing could get better, the whole macro still remains a bit uncertain. The whole tariff environment remains uncertain, supply chain has some uncertainty in it. And so we think our guide right now from what we can see is the right prudent guide. We feel really good about it. And we think on both sides that we're well positioned to deliver the results that we're forecasting. Anything to add – [ph] you add (00:30:43) Tom, Rob?

Thomas Aquinas Surran

President-Products & Solutions, Resideo Technologies, Inc.

No. I think it's great that you hit the housing market and its condition, because that clearly has a huge impact. I think – and we're thrilled with how we see our product line and our developments and the new products we're

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introducing. And all of that's tied to strategy we have for each of our markets. But one thing to consider is in the building products market, adoption is slower than in other markets such as electronics. People's business are based on that quality and that's why we always make sure we deliver a super high quality, but we know that it's going to be a little bit slower adoption than you may see in other markets.

And when you look at what we've introduced, we did the FocusPRO at the end of last year, at the beginning of this year. We just introduced the ElitePRO, so it's just going to be getting traction as we go through the remainder of this quarter and through the rest of the year. And the products that we are very excited about coming out in the middle of the year and the back half of the year, they're going to have an impact, but they're going to continue to grow over the next couple of years. So between the conservative – you've got to look at the market conditions and we're looking out at what's going on in housing and we say this isn't the best market, but we're really happy with where we're positioned for our product road map.

Jay L. Geldmacher

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

A

I would add something – this is Jay, just on top of Tom's comment and I think I know Erik – Ian, you and Erik and others have seen that. But if you look – think about the last two years in terms of NPI momentum, I mean, it just continues to build. And I think that consistency in demonstrating the NPI funnel coming into the marketplace as well as – and how it's been – how these products have been well received, it's kind of like proof of the pudding. And so you heard me say in my remarks, beyond the excitement of what was introduced in 2025, I think [indiscernible] (00:32:35) momentum is going to continue into 2026 and so we'll be anxious to be able to share those, as Tom brings those out.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thanks. And then...

Robert B. Aarnes

President-ADI Global Distribution, Resideo Technologies, Inc.

A

Yeah, Ian, I'll...

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Go ahead.

Operator: Is there a follow-up question?

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Yeah. So I was going to ask about the spin-off. If you could give us any kind of more color on what's going on there as far as timing, milestones; a 100% spin, 80% spin? Is there any other type of color you could give us on that would be great.

Michael Carlet

Chief Financial Officer & Executive Vice President, Resideo Technologies, Inc.

A

Yeah, Ian, I think – listen, I think the spin is progressing according to our plan. We've said second half of this year. We're still right on our timeline to deliver it in the second half of this year. I think as we said, we'll be holding Investor Days. Obviously, the next big event that will happen is at some point, we'll file a public Form 10. That will be the indication moving forward. When we do that, all the information will become available. Until then, all I can really say is that things are progressing right in line with our expectations and according to plans and we're all real pleased with the progress that we're making on the separation. No real surprises, no real impediments as we sit here today.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. Thank you very much.

Q

Operator: Thank you for your question.

Jay L. Geldmacher

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

Thanks, Ian.

A

Operator: At this time, we have one remaining question in the queue. [Operator Instructions] Your next question comes from the line of [ph] Dan Stratemeier at Jefferies. Dan (00:34:02), your line is now open.

Q

Hey, fellows, thank you. And look, great to see you get back on the winning ways here. First question for Rob and then for Tom. Rob, first, a quick follow-up to Erik's first – one of Erik's questions there. There's no additional significant costs that you foresee being spent on the ERP, correct? That's what you're saying?

Robert B. Aarnes

President-ADI Global Distribution, Resideo Technologies, Inc.

That is correct.

A

Thank you for that. And then on a high-level basis, Rob, I wanted to hand – ask you to explain why you're excited about Snap One. The market's struggled with this one a little bit because it's such different end markets, huge synergy number, obviously, but revenues are down since you bought it. Obviously, I'm sure that was all factored into the purchase price you paid for it with these synergies looks very attractive. But just help us understand on a high-level basis, why this was smart? Why you're so excited about it? Mike says that these two companies were just made to be put together. And then overall, on Control4, has that positioning changed or not in the marketplace and how is it doing?

Q

Robert B. Aarnes

President-ADI Global Distribution, Resideo Technologies, Inc.

Thank you very much, Dan. This is a great question. One I haven't had to answer in a while. So it's good to revisit this. Myself and my team, just you know, we've been after [ph] Snap Cheese, like (00:35:35) 2015, I think was the

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first time we first engaged and we always thought this was a very complementary deal for us back then and certainly when we finally got to do the deal back in 2024. So this is a great deal across all fronts; operationally, financially, strategically, because of the complementary nature that it has with ADI. And despite the fact that the Resi AV, macro environment has been soft, we see greater potential even beyond that. I mean, at some point, it will come back. And in the meantime, we made a couple of very strategic decisions to, one, accelerate synergies to compensate for some of that growth. And we delivered \$75 million, 18 months sooner. That's part one.

Now as I look for – I look toward the future, right, there's still more synergy dollars to go get. If you think about right now where we are, we want to obviously combine under one common platform for both operations and go-to-market. That's part one.

When it comes to real estate, right, there – we're basically the first inning, second inning in terms of our store and DC rationalization or what I call footprint optimization, and we'll be engaging in a number of activities over the next 18 to 24 months to garner more synergies.

And then the real, I think, magic is going to come from the ability and attractiveness really to this deal was the ability to transition some of this R&D firepower that now we have as a distribution business and exclusive brands. And where Snap was traditionally played in the Resi AV market, now we're going to point and [ph] being able to start driving MPI (00:37:24) for the light commercial part of the business, which for ADI, right, that is the majority of our customers. I mean that's 75,000-plus active customers in our database that now are kind of [ph] right to (00:37:40) target for new MPI in the commercial space. And I anticipate being able to ramp up and see some of those products start to hit late 2026, certainly into 2027.

So if you think about our ability to scale, the structural margin accretion capabilities, the expanded exclusive brand opportunities, I mean, this has the potential long term to be a significant benefit to almost across all of our financials.

Coming to your second question around Control4, we believe in this product actually. It was one of the areas that we wanted to revive, if you will. In fact, we launched the new Control4 X4 operating system this – last year in April. It was the first time we had seen an upgrade since 2019-2020 timeframe. And we returned the Control4 business to growth for the year, which that hadn't been the case for a number of years before that. And that obviously has pull-through capabilities and we plan on now launching upgrades more to kind of like every 18 months to 24 months versus every few years. So there's a lot that gets me excited about this deal. I know in the short term, right, it doesn't appear so, but it's got real long-term benefits for us.

Q

Yeah. It all makes sense. How hard is it to [ph] port (00:39:02), say, the residential AV product to a commercial product? Are they pretty similar?

Robert B. Aarnes

President-ADI Global Distribution, Resideo Technologies, Inc.

A

There are definitely nuances, right? I mean, commercial has a much – I would say, much higher level of stringency, if you will, because there's more [ph] riding (00:39:25) on commercial applications. So we've got to make sure that we're building products and launching new products that have applicability, feasibility to our light commercial customers. And we've got that, we've got a very robust road map that we've been working on really

since late 2024. These things don't happen overnight. We've got the products designed, got to get it in development, working with our supplier partners for launch in the back half of this year and into 2027.

Q

Perfect. Thanks Rob. Tom, turning over to you man. Listen, the margin progress and expansion over the last few years in such a difficult market has been truly exceptional and the way we think about this is that it's a clear positive attribute about – of your company going forward. I think you've said you're in the early innings of that new product introduction. So if you could spend a minute on the overall margin ramp that you're thinking about and how you and the finance team manage the trade-off of continuing to roll out all these new products and drive growth, but also keeping a mindset on expanding margins at the same time.

Thomas Aquinas Surran

President-Products & Solutions, Resideo Technologies, Inc.

A

Okay. So you're trying – talking about the adjusted EBITDA, [indiscernible] (00:40:52) just to add to that...

Q

[indiscernible] (00:40:53)...

Jay L. Geldmacher

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

A

[ph] Gross margin, too (00:40:55).

Thomas Aquinas Surran

President-Products & Solutions, Resideo Technologies, Inc.

A

Well, yeah, but in terms of the investment offsetting the two, so they counterbalance. So I assume that, but I'm happy to deal with gross margin. Gross margin is a metric on the efficiency...

Q

[ph] Oh, that would be great (00:41:03).

Thomas Aquinas Surran

President-Products & Solutions, Resideo Technologies, Inc.

A

Okay. Gross margin is a metric for us delivering value to our customers [ph] efficiently (00:41:12). Now, we're a product company. So I'm going to talk about products in a second, but as a product company, I want to be clear that we have a sales organization and a customer support organization that are completely focused on making sure our customers are delighted with their experience with us. Same thing with our supply chain team and how well they execute in efficiently delivering the products that we create.

Now, the products that we are creating and as we look at it, there are a lot of variables. And I know we've had 11 consecutive quarters and that sounds like, well, it's just easy, you just kind of keep going. I would never expect it to be purely linear, because what we'll be doing is we're going to continue to deliver products that offer superior

value and doing so efficiently, but it will not be every quarter consecutive as we've had. I just want to set that expectation correctly, but we will be continuing to improve it.

And the products that we're introducing, the reason why I say it's early stage is two years ago, we set a strategy for each of the markets we served and then one that's cohesive that ties all of those product segments. And we are executing that in each of the markets. We know what we want to do in the air market. We introduced the low end. We just introduced the high end. We're going to be coming in with our mid-tier. We've got ventilation things that we're working on. We've got humidification, dehumidification products that are coming out. So that will be driving that. We're very happy with what we've done in the safety market, and we've got some great products. I don't want to preannounce things that will be coming out this year that we're very excited about. Security is – this is going to be a very big year and all of these things that I'm talking about, yes, we are going to be delivering more value, more differentiated products that helps contribute, but the efficiency of the team, the understanding of the marketplace, our sales to understand and appreciate the value we're delivering, all has to work together for the company to be successful. And that's what so far has been happening and I expect that to continue to happen.

And as I look forward, I'm very excited about the opportunities. When the market starts improving and we don't have the HVAC headwinds, we've had over this past year in a market – with the housing market to be in a more normalized situation, then I think, you'll even see things really [indiscernible] (00:43:31).

Q

Awesome, fellows. Appreciate the time.

Operator: There are no further questions...

Thomas Aquinas Surran

President-Products & Solutions, Resideo Technologies, Inc.

Thanks.

A

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

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