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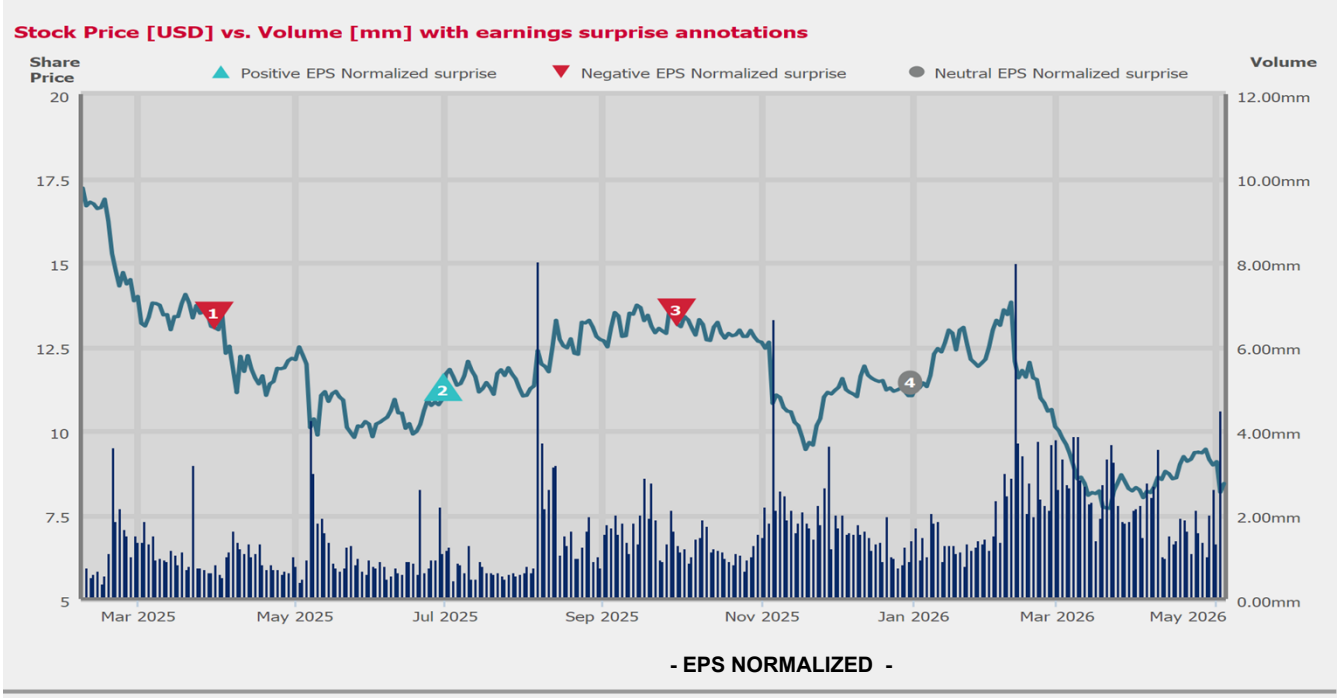
FQ1 2026 Earnings Call Transcripts

Tuesday, May 5, 2026 8:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2025-			-FQ1 2026-	-FY 2025-			-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.14	NA	NA	(0.04)	1.05	NA	NA	0.33
Revenue (mm)	607.60	NA	NA	591.35	2698.00	NA	NA	2620.35

Currency: USD
Consensus as of Apr-20-2026 5:21 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2025	0.22	0.18	(21.74 %)
FQ2 2025	0.34	0.40	17.65 %
FQ3 2025	0.36	0.33	(8.33 %)
FQ4 2025	0.14	(0.02)	NM

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Presentation

Operator

Good afternoon, and welcome to the MasterBrand's First Quarter 2026 Earnings Conference Call.

[Operator Instructions]

Please note that this conference call is being recorded.

I would like to now turn the call over to Henry Harrison, Senior Director of Corporate Financial Planning and Analysis.

Henry Harrison
Senior Director of Corporate Financial Planning & Analysis

Thank you, and good afternoon. We appreciate you joining us for today's call. With me on the call today are Dave Banyard, President and Chief Executive Officer of MasterBrand; and Andi Simon, Executive Vice President and Chief Financial Officer.

We issued a press release earlier this afternoon disclosing our first quarter 2026 financial results. This document is available on the Investors section of our website at masterbrand.com.

I would like to remind you that this call will include forward-looking statements in either our prepared remarks or the associated question-and-answer session. These forward-looking statements are based on current expectations and market outlook and are subject to certain risks and uncertainties that may cause actual results to differ materially from those currently anticipated. Additional information regarding these factors appears in the section entitled Forward-Looking Statements in the press release we issued today.

More information about risks can be found in our filings with the Securities and Exchange Commission, including under the heading Risk Factors in our full year 2025 Form 10-K and updated as necessary in our subsequent 2026 Form 10-Q, which are available at sec.gov and at masterbrand.com. The forward-looking statements in this call speak only as of today, and the company does not undertake any obligation to update or revise any of these statements, except as required by law.

Today's discussion includes certain non-GAAP financial measures. Please refer to the reconciliation tables, which are in the press release issued earlier this afternoon and are also available at sec.gov and masterbrand.com. Our prepared remarks today will include a business update from Dave, followed by a discussion of our first quarter 2026 financial results from Andi, along with our second quarter 2026 financial outlook. Finally, Dave will make some closing remarks before we host a question-and-answer session.

With that, let me turn the call over to Dave.

R. David Banyard
CEO, President & Director

Thank you, and good afternoon, everyone. We appreciate you joining us for today's call. Our first quarter results reflect the disciplined execution of our near-term priorities against a challenging backdrop. Despite persistent demand softness and ongoing macroeconomic uncertainty, we delivered net sales and adjusted EBITDA in line with our expectations. We continue to advance our tariff mitigation efforts, fully executed our previously announced $30 million cost actions and remain focused on the actions within our control as we navigate near-term headwinds and position MasterBrand to emerge stronger when the market recovers.

In the first quarter, we generated net sales of $618 million, a 6.4% decrease compared to the same period last year. Our performance reflected a mid-single-digit year-over-year market decline and a slower pace of housing completions, partially offset by the continued flow-through of previously implemented pricing actions. Adjusted EBITDA for the quarter was $28 million compared to $67 million in the prior year period, and adjusted EBITDA margin was 4.5%. The lower margin was primarily driven by lower volume and the related unfavorable fixed cost leverage as well as unfavorable product mix across channels as consumers continue to shift towards value products and forgo features in made-to-order categories.

At current volume levels, these mix dynamics carry an outsized impact on margins as reduced fixed cost absorption amplifies the effect of even modest product mix shifts. Compounding these pressures, weather-related disruptions during the quarter resulted in more down days than typical across certain facilities, driving unplanned production downtime that created additional drag on our fixed cost absorption. These headwinds were partially offset by previously announced pricing actions, operational tariff mitigation efforts that progressed ahead of schedule and savings from our ongoing cost reduction initiatives.

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As is typical for our first quarter, free cash flow reflected seasonal working capital outflows. This, in combination with our net loss position, resulted in free cash outflow of $146 million compared to a $41 million outflow in the same period last year. Looking ahead, we expect these dynamics to normalize as we move through the year, and we continue to expect free cash flow for the full year to exceed net income.

Turning to our end markets. Demand remained pressured through the first quarter as affordability concerns, elevated interest rates and cautious consumer sentiment continue to constrain activity across both new construction and repair and remodel markets. The ongoing conflict in the Middle East introduced an additional headwind to consumer confidence late in the quarter and further contributed to broader market volatility. In new construction, U.S. single-family new construction was down mid- to high single digits in the quarter as weak consumer sentiment and elevated mortgage rates continue to weigh on buyer activity.

To stimulate sales, builders sustained elevated incentive and rate buydown programs. The market also continued to work through a reset in the spec and quick move-in inventory cycle with completed spec inventory down meaningfully year-over-year. Adding to these headwinds, housing starts outpaced completions on a seasonally adjusted basis for the first time since the fourth quarter of 2024. This dynamic creates an outsized near-term impact on our business as cabinets are typically purchased later in the construction cycle closer to completion. Against this backdrop, MasterBrand results largely tracked broader market trends, while outperforming on a completions basis. Looking ahead, we expect new construction demand to remain under pressure as mortgage rates stay elevated and affordability challenges persist.

In repair and remodel, demand remained soft through the first quarter as low existing home turnover and weak consumer confidence continue to suppress larger discretionary remodel activity. Consumer sentiment towards large household purchases fell to 40-year lows during the quarter. And while rising home prices have supported homeowner equity, this has not yet translated into meaningful remodel spending. Housing turnover remains structurally constrained as well, driven in part by the significant share of homeowners locked into sub-4% mortgages, limiting the remodel activity that typically accompanies a home sale. Where there is remodel activity, we continue to observe trade-down behavior across our portfolio with consumers gravitating towards lower-priced options.

Reflecting this environment, our R&R business declined mid-single digits, consistent with the broader market. Looking ahead, we expect consumer sentiment to remain the primary driver of R&R demand and affordability constraints and low housing turnover to remain the primary headwinds.

In Canada, first quarter conditions remain challenging, mirroring the trends in the U.S. Our Canadian business declined low single digits, consistent with the broader market. With the Bank of Canada holding rates steady, we expect these dynamics to continue weighing on the market through 2026.

Stepping back, we continue to view 2026 as a transitional year with end market demand softness persisting across both new construction and repair and remodel. Affordability pressures, low consumer confidence and the complex and evolving trade environment remain primary headwinds. Federal Reserve is expected to hold rates steady through 2026 amid persistent inflation concerns, limiting the rate relief that would foster a meaningful improvement in housing activity. Additionally, the ongoing conflict in the Middle East introduces further layers of consumer uncertainty and outlook volatility that are difficult to size at this stage. While the near-term outlook remains challenging, we remain confident in the underlying long-term fundamentals that we believe will ultimately drive a recovery across our end markets.

The approximately 3 million homes underbuilt, the millennial generation entering prime home buying years, and aging housing stock prime for remodel activity and rising home equity levels all support our expectation that pent-up demand remains intact. We continue to manage the business responsibly through this period. And while we do not expect the market to begin to recover until 2027, we are focused on ensuring MasterBrand is well positioned to capitalize when conditions do improve.

Turning to the trade environment. Since our last call, the trade landscape has continued to evolve. Following the Supreme Court's ruling that invalidated tariffs imposed under the International Emergency Economic Powers Act, a 10% global tariff was implemented, which effectively returns us to a similar tariff environment as under the reciprocal tariff regime. This tariff is time limited and is set to expire in late July, at which point we anticipate further changes to the tariff landscape. While wood and wood product tariffs remain the primary driver of our overall tariff exposure, tariffs continue to stack across categories and the broader environment remains highly volatile and fluid. We are actively monitoring further developments and remain prepared to adjust our mitigation strategy as the landscape continues to evolve.

In the first quarter, gross tariff costs were approximately $25 million, and I'm pleased to share that our teams executed exceptionally well against these headwinds, delivering mitigation efforts that exceeded our expectations for the quarter. This outperformance was driven primarily by the speed and effectiveness of our supply chain actions, including sourcing flexibility initiatives and supplier

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engagement efforts that progressed ahead of schedule. While supply chain actions were the primary driver of our first quarter mitigation performance, pricing remains an important and necessary component of our overall mitigation strategy, and we will continue to lean on both levers as we move through the year. We continue to monitor the potential indirect impact of tariffs on consumer demand and housing affordability, which remain inherently difficult to size.

Operationally, our teams navigated a challenging first quarter, managing through demand volatility while working to maintain service levels across our network. We took further actions to align our cost structure with current demand conditions, including targeted line and shift adjustments and workforce actions across our manufacturing network as well as facility closure consistent with our ongoing Supreme integration efforts. On the Supreme integration, we remain on track to achieve our target of $28 million in annual run rate cost synergies by year 3 post-close. We continue to identify additional opportunities to expand the benefits of the merger over time as end markets recover.

During the first quarter, we also fully executed our broader $30 million cost savings initiative with benefits expected to phase in over the remainder of the year. Our continuous improvement efforts delivered strong results in the quarter with notable contributions across our manufacturing network and standout performance from several of our key facilities. Our teams continue to make progress on core efficiency gains using daily management practices, standard work processes and operating discipline. These efforts contributed meaningfully to our financial performance in the quarter, offsetting material, personnel and utility inflation. We're encouraged by the impact of our continuous improvement system, and we remain confident in its ability to drive further gains throughout the year.

Turning to our pending merger with American Woodmark. Our teams continue to make meaningful progress on integration planning and readiness, ensuring we are well positioned to move quickly and capture value following close while maintaining the customer service levels and operational continuity our customers expect. We continue to expect approximately $90 million in annual run rate cost synergies by the end of year 3 post-close based on the assumptions underlying our analysis at the time of announcement. Following close, we plan to assess these estimates in the context of the current operating environment and provide updated guidance as appropriate. We remain confident in the strategic and financial merits of the merger and are progressing through the regulatory review process. As disclosed in our 8-K filed on April 22, we now expect the transaction to close in the second calendar quarter of 2026.

Finally, turning to capital allocation. We remain disciplined in our approach to capital deployment, prioritizing investments that support our operational execution, integration activities and long-term value creation. Capital expenditures in the quarter were in line with our expectations, and our balance sheet and liquidity position remained healthy. We expect our leverage ratio to remain elevated in the near term, primarily reflecting lower trailing 12-month adjusted EBITDA in the current demand environment. Andi will provide additional details in her remarks.

In closing, the first quarter unfolded largely as we expected, a challenging environment defined by persistent demand softness, a complex trade landscape and cautious consumer sentiment. While these conditions are not without difficulty, I'm proud of the way our teams have responded, executing our mitigation strategy ahead of schedule, advancing our cost savings initiatives and maintaining focus on the operational and strategic priorities that will position MasterBrand for the recovery ahead. We have a clear line of sight to the long-term drivers of demand across our end markets, and we remain confident that the actions we're taking today are building a stronger, more resilient MasterBrand.

With that, I'll turn it over to Andi for a detailed review of our financial results and outlook.

Andrea H. Simon
Executive VP & CFO

Thanks, Dave, and good afternoon, everyone. I'll start with a review of our first quarter financial results, then I'll share more details on our guidance for the second quarter of 2026 and provide some thoughts on the full year. As a reminder, we provide formal guidance on a quarterly basis. Any commentary we make about the full year reflects our current expectations and assumptions and is directional in nature rather than formal guidance.

Now turning to our first quarter results. Net sales were $618 million, a 6.4% decrease compared to $660.3 million in the same period last year, reflecting continued softness across our addressable market and a slower pace of housing completions. Anticipated flow-through of prior pricing actions was outweighed by unfavorable channel and product mix. Gross profit was $156.6 million compared to $202.2 million in the same period last year. Gross profit margin was 25.3%, down 530 basis points year-over-year, primarily reflecting lower volume and the related unfavorable fixed cost leverage and unfavorable product mix.

Material, personnel, fuel and utility inflation, combined with the impact of tariffs, contributed to overall margin pressure. These headwinds were partially offset by continuous improvement initiatives and targeted tariff mitigation actions. As Dave mentioned,

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gross tariff exposure in the quarter was approximately $25 million. Our mitigation efforts performed better than we initially anticipated, driven by the timing and effectiveness of operational actions taken across the business, a reflection of the strong execution from our teams.

While we are pleased with this progress, tariff costs continue to flow through the business, and we have more work to do, particularly as pricing actions remain a necessary and important component of our go-forward mitigation strategy. The more pronounced headwinds in the quarter came from product mix and continued trade-down activity across certain categories versus historical norms, which reflect broader market conditions. Taken together, these factors have created a challenging operating environment, but we believe we are managing through it thoughtfully.

SG&A expenses totaled $155.9 million in the first quarter compared to $154 million in the same period last year, with the year-over-year increase primarily driven by acquisition-related costs associated with our pending merger with American Woodmark and higher outbound freight expenses reflecting rising fuel costs. Importantly, excluding acquisition-related costs, SG&A decreased year-over-year. As Dave mentioned, we took a number of structural SG&A cost reduction actions during the quarter. While it takes time for the impact of these measures to fully flow through our financial results, we expect our SG&A to net sales ratio, excluding deal and restructuring costs to improve in the second half of 2026 as these benefits phase in.

Interest expense declined to $18.4 million from $19.4 million in the same period last year as we continued to pay down our debt over the last 12 months. Net loss was $15.4 million in the first quarter compared to net income of $13.3 million in the same period last year. Net income margin was negative 2.5% compared to positive 2% in the prior year, reflecting lower gross profit and higher deal-related SG&A expenses, partially offset by the initial benefits of cost actions taken in the quarter. Adjusted EBITDA was $28 million compared to $67.1 million in the prior year period. Adjusted EBITDA margin was 4.5%, a decline of 570 basis points year-over-year, primarily due to lower gross margins, partially offset by reduced SG&A expenses, excluding deal-related costs, reflecting the cost actions implemented during the quarter.

Diluted loss per share was $0.12 in the first quarter based on 127.5 million diluted shares outstanding. This compares to earnings per share of $0.10 in the first quarter of 2025, which was based on 130.7 million diluted shares outstanding. Adjusted diluted earnings per share were $0.06 in the current quarter compared to adjusted earnings per share of $0.18 in the prior year period.

Turning to the balance sheet. We ended the quarter with $138.4 million of cash on hand and $332.3 million of liquidity available under our revolving credit facility. Net debt at the end of the first quarter was $946.5 million, resulting in a net debt to adjusted EBITDA leverage ratio of 3.7x. While net debt remained approximately flat year-over-year, our leverage ratio reflects the impact of lower trailing 12-month adjusted EBITDA in this challenging demand environment.

During the quarter, we proactively amended our existing credit agreement to provide additional flexibility related to our leverage and interest coverage covenants as we navigate the current environment and work towards the planned closing of the American Woodmark transaction. We continue to prioritize debt reduction with available cash, consistent with our track record. Net cash used in operating activities was $133 million for the first quarter of 2026 compared to $31.4 million in the first quarter of 2025, driven by lower net income, less favorable movements in working capital and an increase in our income tax receivable.

Capital expenditures for the first quarter were $13.2 million compared to $9.8 million in the first quarter of 2025, in line with our expectations. As is typical for our first quarter, free cash flow reflected seasonal working capital outflows of $146.2 million compared to outflows of $41.2 million in the same period last year. The year-over-year variance was primarily driven by lower net income, less favorable working capital movements due to timing and an increase in our income tax receivable. We did not repurchase any shares during the quarter. Our merger agreement with American Woodmark restricts share repurchase activity until the transaction closes.

Turning to our outlook. Our second quarter outlook reflects the current uncertainty of the demand environment, driven by ongoing affordability concerns, recent geopolitical tensions and the uncertain trade environment. The outlook incorporates tariffs currently in effect but does not reflect potential implications from other proposed or future trade policy changes. Further, our outlook does not reflect any anticipated financial benefits from the pending merger with American Woodmark nor does it include expected transaction or integration-related costs.

For the second quarter, our end markets are expected to be down mid- to high single digits year-over-year. Despite the market backdrop, we expect a meaningful sequential performance improvement in net sales versus the first quarter, driven by several factors that give us confidence in the outlook.

Net sales are expected to benefit from normal seasonal volume uplift, coupled with an anticipated modest improvement in product mix in addition to the further flow-through from previously implemented pricing actions, including tariff-related pricing. Taken together, these dynamics are expected to position us broadly in line with our end markets on a year-over-year basis in the second

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quarter. Against that backdrop, we expect second quarter 2026 net sales to be down mid- to high single digits versus the prior year. As I mentioned, to help manage near-term pressure on profitability, we took decisive action on our $30 million cost reduction initiative to align our cost structure with current demand levels.

We completed key implementation steps in the first quarter and expect the full benefit will phase in over the course of 2026. We believe these steps, in combination with our tariff mitigation strategy will help offset margin pressures, preserve liquidity and position MasterBrand to remain resilient through this period of elevated uncertainty. Given these considerations, we expect second quarter adjusted EBITDA to be in the range of $51 million to $61 million, representing an adjusted EBITDA margin of 7.8% to 8.8%. We expect second quarter adjusted diluted earnings per share of $0.03 to $0.13. The wider adjusted diluted earnings per share guidance range for the second quarter reflects a higher-than-normal degree of uncertainty due to potential variability in the effective tax rate. Against low pretax income, the impact of nondeductible deal-related expenses relating to the pending merger with American Woodmark as well as other potential discrete tax items is amplified. As a result, the actual effective tax rate and the adjusted diluted earnings per share may differ materially from the guidance provided.

Looking at the full year, we continue to expect our addressable market in 2026 to be down mid-single digits year-over-year with continued variability across end markets. We continue to expect decremental margins to remain elevated through the first half of 2026, driven by year-over-year volume declines, mix and the timing of tariff mitigation. We anticipate that our decrementals will improve in the second half of the year as our tariff mitigation and cost rationalization actions phase in further. For the full year, we also continue to expect interest expense to be flat to down as we continue to pay down our outstanding debt. Our effective tax rate is expected to be elevated and variable relative to the prior year, primarily reflecting the previously mentioned impact of nondeductible deal-related expenses relating to the pending merger with American Woodmark. Additionally, we continue to expect free cash flow for 2026 to be in excess of net income for the year.

Finally, despite recent changes and based on the trade policies currently in effect, we continue to estimate our unmitigated gross tariff exposure for the full year at approximately 5% to 6% of 2026 net sales. Additionally, we continue to expect to offset 100% of tariff dollar costs on a run rate basis exiting 2026 through our mitigation efforts, which will take time to fully materialize. We will continue to monitor the evolving trade environment while executing our comprehensive mitigation strategy and providing quarterly updates as conditions evolve.

In closing, while near-term conditions remain challenging and the industry continues to navigate an extended period of softer demand and a complicated tariff environment, we are managing the business with discipline and purpose. We are executing against our cost reduction and mitigation initiatives, maintaining financial flexibility and making meaningful progress on the integration planning work that is designed to allow us to move quickly following the close of the pending American Woodmark transaction. These are the right priorities for this moment, and we believe the actions we are taking today are building a more resilient and capable MasterBrand.

Now I'd like to turn the call back to Dave.

R. David Banyard
CEO, President & Director

Thanks, Andi. While the first quarter brought its share of challenges, our confidence in the long-term outlook for our business remains unchanged. Affordability pressures, cautious consumer sentiment and volatility in the trade environment are shaping near-term outcomes, but they do not change the underlying demand drivers that we believe will fuel a meaningful recovery. Over time, we expect macroeconomic and trade conditions to normalize and demand to recover with the broader market beginning to improve in 2027.

What we are navigating today is a direct reflection of the current market environment, not of our operating model or the underlying strength of the business. Our priorities are clear and our strategy is built for exactly these kinds of cycles, designed to carry us through periods of uncertainty and position us to win when conditions improve. We are executing our mitigation strategies, progressing toward the close of our pending merger with American Woodmark and managing the business with the discipline and accountability that defines the MasterBrand way. With our strong portfolio, resilient operating model and a team that has demonstrated its ability to execute through adversity, we believe we are well positioned to capitalize on the eventual market recovery and deliver long-term value for our shareholders.
Now with that, I'll open the call up to Q&A.

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Question and Answer

Operator

[Operator Instructions]

Our first question is from McClaran Hayes from Zelman & Associates.

McClaran Thomas Hayes
Zelman & Associates LLC

So it looks like your outlook for the market in the second quarter is similar to the environment you guys had in the first quarter at down mid- to high single digits. But rates are a bit higher, and it seems like there's more uncertainty now than there was a few months ago. So I guess, does that kind of market outlook tell us that at this point, you haven't necessarily seen any impacts to your consumer, whether that's in order trends or foot traffic patterns?

R. David Banyard
CEO, President & Director

Yes. I think our outlook is a little bit tilted down. We were saying kind of mid- to high single digits down. I think it's more of a bit of a weight on new construction than R&R. R&R is down. So it's kind of hard to tell over a long period of time how far down is down, but it feels sort of steady, if you will, in this current mode. But I think new construction has been very choppy. The March starts number was a little higher than we expected, which is good. But it's still that market with the reset that they're doing of eliminating spec homes makes our business a bit more choppy. So I think we're going into it with that in mind.

And I think the spring selling season has generally shaped up how we thought it would sort of reflected in our Q1. But I think it's -- in terms of a material difference in behavior over the last, say, month or 2, we haven't necessarily seen that. It's just -- it's not getting better. It's just kind of moving the way it was prior to that.

McClaran Thomas Hayes
Zelman & Associates LLC

Okay. Got it. That makes sense. And then on pricing, can you help give us more detail on how pricing trended in the first quarter relative to the fourth quarter? Did it accelerate or stay in a similar range? And also, do you anticipate needing additional pricing given some of the cost inflation that we've seen over the past few months that I imagine might be impacting paints and stains at the minimum in your business?

R. David Banyard
CEO, President & Director

Yes. I think probably the bigger impact is directly on fuel and logistics, but there's pressure in a number of different spots. So I think the plan is -- we've been executing on our plan for pricing throughout the year. As we've highlighted plenty of times in the past, it does take time for that price to get into the market. So we're continuing to execute on that. We're looking at other options regarding fuel. I mean, obviously, that's the one that everybody sees every day, and that's come up significantly over the past month. And so we're continuing to look at that and using the mechanisms that we have. We have a typical mechanism that you would have for something like that, that's, I'd say, near-term volatile, and we'll have to monitor how that plays out over the coming months with the situation in the Middle East.

Operator

Our next question is from Garik Shmois with Loop Capital Markets.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

Wondering if you could speak to your view on product mix improving here as you go into the second quarter. I'd love to get a little bit more color on that.

R. David Banyard
CEO, President & Director

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Yes. I think we're continuing to see the general trade down behavior. So I think that there's just a relative -- when you go into the spring selling season with more volume, you tend to see a slightly better mix in all channels. And so that's what's driving that. I think generally speaking, though, the overall market still on a year-over-year basis, will continue to be in a trade down mode, which, again, offsets any benefit that we're getting from price to some extent.

So the price mix, we've seen that, that's a challenge for us. And so we're working on how do we upsell more. Some of those efforts we are going to see here in the second quarter. But I think just in general, the consumer is under pressure. And so you've got to meet them where they are. But generally speaking, with higher volume, we tend to see a slightly better mix. And so that's what we're anticipating here.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

Okay. And then just my follow-up question is on incremental margins. You mentioned they're expected to improve in the second half of the year. Should we think about incrementals improving? Is that related to a sequential improvement quarter-on-quarter in the second half of the year? Should we think about incrementals on a year-on-year basis? And any more detail on what kind of level of improvement on incrementals is possible?

R. David Banyard
CEO, President & Director

Yes. We're not really giving full year guidance at the moment, Garik. But I think when we talk about that, we're talking year-over-year. I mean you're seeing sequential improvement from Q1 to Q2, which is normal seasonality. But again, it goes back to volume is the issue we have. So when you go from Q1 lower volume into Q2 higher volume, you see pretty good flow-through on that. And that's the challenge we face on a year-over-year basis throughout the year. But because of the mitigation on tariffs as we go through the year, we will see better decrementals as the -- as we said, we see the market being down for the full year.

So I would anticipate -- though we're not guiding yet for the full year, I would anticipate revenue to be down through the year. And so -- but we're expecting those decrementals on a year-over-year basis, quarter-by-quarter to improve.

Operator

[Operator Instructions]

Our next question is from Steven Ramsey with Thompson Research Group.

Steven Ramsey
Thompson Research Group, LLC

I wanted to hear a bit more on the pricing actions that you're taking in response to tariffs and rising fuel costs. First, do you feel like the pricing that you're taking and that you're seeing from competitors is near parity with one another? Or is anyone using this time to maybe take less price to gain some share? And then connected to this, price actions on fuel, you have not taken any so far. So just to clarify, the margin guide for the second quarter does not include that you might take actions for rising fuel costs?

R. David Banyard
CEO, President & Director

I'll answer the last part first, and that's incorrect. We have taken some action already on rising fuel costs. I'd rather for competitive reasons, not go into the details of how we do that. But suffice to say, we have short-term mechanisms that we use for any kind of, what I'll say, volatile commodity inputs like fuel. In terms of the market, I think it's no different than I highlighted back in the previous earnings call, Steven, which is it's a very competitive market.

And so you've got to meet the consumer where they are. And that involves a number of different aspects of what you're trying to bring to the consumer, and that's why you see a lot of trade down in our mix because we have a lot of different alternatives we can bring to the consumer and the customer. But I think ultimately, that's -- it's more competitive now than it has been. The market is still very fragmented, and we're leaning into that, but I think it's -- we also understand the cost burden that we're facing. And so we -- it's a dual approach.

Steven Ramsey
Thompson Research Group, LLC

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Okay. That's helpful. And then on the gross tariff cost, $25 million in the first quarter, about 4% of sales and a little bit lower than the full year outlook for the gross tariff cost as a percentage of sales. Do you expect that you kind of get into that 5% to 6% zone in the second quarter and it sustains? Or I know there's a lot of moving parts, but definitely good to see a little bit better to start the year.

R. David Banyard
CEO, President & Director

Yes. I mean it's a combination of things, Steven. Some of it is our mitigation. It's part of mitigating tariffs is coming up with ways to not have to pay them. So that's part of it. It's also the mix that we're using -- the mix of our portfolio is pretty broad and there are different impacts from tariffs. So I wouldn't necessarily look at that as the run rate moving forward. It's why we reiterated that it's the 5% to 6% because that's what we think it will be. Also, the tariffs have changed slightly.

So we just want to make sure that the changes are understood to not really be material in terms of the different impact to our P&L. So I think it's a combination of part of how we're mitigating these things is coming up with ways to avoid. And then other ways, otherwise, it's mostly mix. And you do see a lower volume in Q1, so you're going to have a lower tariff dollar number as part of that.

Operator
This now concludes our question-and-answer session. Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. Please disconnect your lines, and have a wonderful day.

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