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LII.N - Q4 2021 Lennox International Inc Earnings Call

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OVERVIEW:

Co. reported 4Q21 revenue of $965m, GAAP operating income of $98m and GAAP EPS from continuing operations of $2.27. Expects 2022 revenue growth to be 5-10% and GAAP and adjusted EPS from continuing operations to be $13.50-14.50.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Lennox International Fourth Quarter Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

I will now turn the conference over to Steve Harrison, Vice President of Investor Relations. Please go ahead.

Steve L. Harrison - *Lennox International Inc. - VP of IR*

Good morning, everyone. Thank you for joining us for this review of Lennox International's financial performance for the fourth quarter and full year 2021. I'm here today with Chairman and CEO, Todd Bluedorn; and CFO, Joe Reitmeier. Todd will review key points for the quarter, Joe will take you through the company's financial performance for the quarter and year as well as the outlook for 2022. (Operator Instructions)

In the earnings release we issued this morning, we have included the necessary reconciliation of the non-GAAP financial measures that will be discussed to GAAP measures. All comparisons mentioned today are against the prior year period. You can find a direct link to the webcast of today's conference call on our website at www.lennoxinternational.com. The webcast will be archived on the site for replay.

I'd like to remind everyone that in the course of this call, to give you a better understanding of our operations, we will be making certain forward-looking statements. These statements are subject to numerous risk and uncertainties that could cause actual results to differ materially from such statements. For information concerning these risks and uncertainties, see Lennox International's publicly available filings with the SEC. The company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Now let me turn the call over to Chairman and CEO, Todd Bluedorn.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Thanks, Steve. Good morning, everyone, and thanks for joining us. Let me start with the financial highlights for 2021 overall and then walk through the fourth quarter as the company closed out a year of record revenue and earnings per share.

Overall, for 2021, revenue rose 15% to a record $4.2 billion and constant currency revenue was up 14%. GAAP operating income rose 23% to $590 million. GAAP EPS from continuing operations rose 34% to a record $12.39.

Total segment profit for the full year rose 19% to $604 million, and the total segment margin expanded 50 basis points to 14.4%. Adjusted EPS from continuing operations rose to 27% to a record $12.60.

Turning to the fourth quarter. Financial results were impacted by 6% fewer days than the prior year quarter as well as the continued impact from COVID-19 and supply chain disruptions that significantly impacted performance. As a benefit to the quarter tax timing and onetime tax benefits lowered the effective tax rate to 7% on a GAAP basis, and 8% on an adjusted basis. That brought the effective tax rate for the full year to 17% on a GAAP basis and 18% on an adjusted basis.

Company revenue in the quarter was up 6% to a fourth quarter record $965 million. GAAP operating income was $98 million compared to $139 million in the prior year quarter. GAAP EPS from continuing operations was $2.27 compared to $2.91 in the prior year quarter.

Total segment profit for the fourth quarter was $102 million compared to $139 million in the prior year quarter, and total segment margin was 10.6% compared to 15.2% in the fourth quarter a year ago. Adjusted EPS from continuing operations $2.35 compared to $2.89 in the prior year quarter.

Looking at our business segments for the fourth quarter, and residential revenue was up 12% to a fourth quarter record $620 million. And again, all (inaudible) fewer days. Both replacement and new construction business were up double digits. Residential segment profit was down 5% and segment margin was down 310 basis points to 17.8% from the prior year quarter.

In Commercial, the business continued to be hit the hardest by COVID-19 and global supply chain disruptions in the fourth quarter. Revenue was down 11%. Segment profit was down 64% and segment margin was down 170 basis points to 7.7%. Commercial equipment revenue was down mid-teens in the quarter. Within this, replacement revenue was down mid-teens with planned emergency -- excuse me, planned replacement down low single digits and emergency replacement down more than 40%. New construction revenue was down high teens in the quarter.

Breaking out revenue another way, regional and local business revenue was down mid-teens. National equipment revenue was down high teens. On the service side, Lennox National Account Service revenue was up low single digits, again on 6% fewer days. While the Commercial business continue to work through significant disruptions and constraints in the fourth quarter. Looking ahead, we expect revenue to resume year-over-year growth in the first quarter and profitability to be up by mid-2022 and for the full year.

In Refrigeration for the fourth quarter, revenue was up 6% as reported and up 8% at constant currency. North America revenue was up more than 20%. Europe Refrigeration revenue was down low single digits as reported up low single digits at constant currency, and Europe HVAC revenue was down mid-teens as reported to down low double digits at constant currency. Refrigeration segment profit rose 50% and segment margin expanded 190 basis points to 8.9%.

For the company overall in 2022, we are reiterating guidance for revenue growth of 5% to 10%. We are raising guidance for GAAP and adjusted EPS from continuing operations from a range of $13.40 to $14.40 to a new range of $13.50 to $14.50 for the full year. This reflects a net benefit of lower effective tax rate of 18% to 20% and higher interest rate expense assumptions. We are reiterating plans for $400 million of stock repurchases in 2022.

HVAC and refrigeration market demand remains high and as COVID-19 in the global supply chain improved Lennox International's position to further capitalize on the growth opportunities and higher profitability.

Now I'll turn it over to Joe.

Joseph William Reitmeier - *Lennox International Inc. - Executive VP & CFO*

Thank you, Todd, and good morning, everyone. I'll provide some additional comments and financial details on the business segments for the fourth quarter and the year overall, starting with Residential Heating & Cooling. In the fourth quarter, revenue from Residential Heating & Cooling was a fourth quarter record $620 million, up 12%. Volume was up 3%, price was up 8% and mix was up 1%. Foreign exchange was neutral to revenue.

Residential profit was $110 million, down 5%. Segment margin was 17.8%, down 310 basis points. Segment profit was primarily impacted by 6% fewer days than the prior year quarter, the COVID-19 pandemic, global supply chain disruptions, higher material, freight and other product costs and higher SG&A. Positive impacts included higher volume, favorable price, mix, foreign exchange and warranty and distribution efficiency programs.

For the full year, Residential segment revenue was a record $2.78 billion, up 18%. Volume was up 13%, price was up 4% and mix was flat with foreign exchange being a 1% favorable benefit to revenue. Residential profit was a record $540 million, up 26%. Segment margin was 19.5%, up 140 basis points.

Now turning to our Commercial Heating & Cooling business. In the fourth quarter, commercial revenue was $201 million, down 11%. Volume was down 21%, price was up 2% and mix was up 8%. Foreign exchange was neutral to revenue. Commercial segment profit was $16 million, down 64%. Segment margin was 7.7%, down 1,170 basis points.

Segment profit was primarily impacted by 6% fewer days than the prior quarter, the COVID-19 pandemic, global supply chain disruptions, lower volume, higher material, warranty, tariff, freight and other product costs and higher SG&A. Partial offsets included favorable price and mix.

For the full year, commercial revenue was $865 million, up 8%. Volume was up 3%, price was up 1% and mix was up 3%. Foreign exchange was a 1% favorable benefit to revenue. Segment profit was $111 million, down 19% and segment margin was 12.8%, down 430 basis points.

In Refrigeration, revenue was a fourth quarter record $143 million, up 6%. Volume was up 4%, price was up 1% and mix was down 1%. Foreign exchange had a favorable 2% impact on revenue. Refrigeration segment profit was $13 million in the fourth quarter, which was up 29%. Segment margin was 9.2%, up 170 basis points. Segment profit was positively impacted by higher volume, favorable price and mix and lower SG&A. Partial offsets included 6% fewer days in the prior year quarter, the COVID-19 pandemic, global supply chain disruptions and higher material, freight and other product costs.

For the full year, Refrigeration revenue was $554 million, up 17%. Volume was up 13%, price was up 3% and mix was flat. Foreign exchange had a favorable 1% impact. Segment profit was $49 million, up 50% and segment profit margin was 8.9%, up 190 basis points.

Regarding special items, the company had net after-tax charges of $3.2 million for the fourth quarter and $7.4 million for the full year. Corporate expenses were $37 million in the fourth quarter and $96 million for the full year. Overall, SG&A was $152 million in the fourth quarter or 15.7% of revenue, the same as the prior quarter. For 2021, overall, SG&A was $599 million or 14.3% of revenue, down from 15.3% in the prior year.

Our 2021 income tax rate decline year-over-year attributable to geographic mix, year-end adjustments of taxes on export sales and finalization and settlement of our prior year tax obligations. For 2021, the company had cash from operations of $516 million, compared to $612 million in the prior year as working capital increased primarily due to sales growth increasing accounts receivable, and inventory increasing due to mitigation strategies to combat supply chain disruptions, along with inflationary effects year-over-year on product costs.

Capital expenditures were $106 million for the full year compared to $77 million in the prior year. Free cash flow was $410 million for the year compared to $535 million in the prior year. In 2021, the company paid approximately $127 million in dividends and repurchased $600 million of company stock.

Total debt was $1.24 billion at the end of the fourth quarter, and we ended the year with a debt-to-EBITDA ratio of 1.8. Cash and cash equivalents were $31 million at the end of the year.

Now before I turn it over to Q&A, I'll review our outlook for 2022. Our underlying market assumptions for the year remain the same. We expect the industry to see low single-digit shipment growth in residential and mid-single-digit shipment growth in commercial unitary and refrigeration markets in North America.

Our guidance for 2022 revenue growth remains 5% to 10% with neutral foreign exchange impact, and we are raising our guidance for GAAP and adjusted EPS from continuing operations from a range of $13.40 to $14.40 to a new range of $13.50 to $14.50. This reflects the net of a lower expected effective tax rate of 18% to 20% compared to our prior guidance of approximately 20% as well as higher interest and other expense of approximately $40 million compared to prior guidance of $35 million.

Now let me run you through some of the other key assumptions in our guidance and the puts and takes for 2022, all of which are unchanged. Pricing is expected to be a benefit of $235 million for the year, which is about a 5% yield. Factory productivity and production from our third Mexico plant is expected to be a $20 million benefit. We are guiding for residential mix to be neutral. Tariffs are also expected to be neutral, and we assume neutral foreign exchange impact.

For the headwinds in 2022, we still expect a $110 million headwind from commodities, a headwind of $60 million from components, half offset by $30 million of cost takeouts for a net $30 million headwind. Freight is still expected to be a $5 million headwind. We will be at more -- at a more normal run rate with distribution investments this year with 30 new Lennox stores planned. SG&A is expected to be up $45 million this year, including our investments in research and development and information technology.

A few other points. Corporate expenses are still targeted at $95 million, and we are planning capital expenditures to be approximately $125 million this year. Free cash flow is targeted at $400 million. And finally, we expect the weighted average diluted share count for the full year to be between 36 million to 37 million shares, which incorporates our plans to repurchase $400 million of stock this year.

And with that, let's go to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And first go to the line of Nicole DeBlase with Deutsche Bank.

Nicole Sheree DeBlase - *Deutsche Bank AG, Research Division - Director & Lead Analyst*

I guess maybe we could start with looking across 2022, it seems like it might be a bit of an unusual year. Any update on your thoughts on the quarterly cadence of earnings? And maybe just like categorize it relative to the normal seasonality you would see in your business?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

The way we plan right now and the way we expect it to be is -- well, the last couple of years have been abnormal or last 2 or 3 ago all the way back to tornado. I think if you go back past pre-COVID, pre-tornado. I think it's more of a normal cadence. So sort of our best guess is that's how it's going to lay out sort of normal to prior years.

Nicole Sheree DeBlase - *Deutsche Bank AG, Research Division - Director & Lead Analyst*

Okay. Got it. And I guess from a commodity perspective, saw that you guys maintained exactly what you said at the Analyst Day last month, commodity costs have continued to tail off a little bit. Is that a potential source of upside if that trend continues? Or is the advanced purchases hedging you guys do, does that make that difficult for 2022?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No. If commodities go down, especially steel, which is our largest, and we don't hedge it, it will certainly be a benefit. I mean, we're not changing it because it sort of wiggles one way or another. And we take guesses on what the balance of the year is based on what futures are predicted to be. So short answer is, if commodities goes down, that's good news.

Operator

And next, we'll go to Julian Mitchell with Barclays.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

Maybe, Todd, just starting out with your sort of views around volume growth in Residential over the year. Any commentary on how the year has started out for your resi volumes? And any kind of major cadence as we go through the year, I think relative to your kind of low to mid-single-digit volume growth at resi that's in the guide.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

It's -- the short answer is we're starting out strong. I mean, we've got lots of "orders and backlog" although that's tough in this business. But given supply constraints, we have sort of lots of people telling us they need things. So the orders remain strong. But as you well know, it's tough to predict much from January. I think the short answer is, consumers seem strong, still buying. We get a warm summer, I think it's going to be another record year.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

And then in Commercial, maybe a couple of things. One is just any finer points on the confidence on that profit expansion by midyear other than sort of easy comps on profitability. And then how do you see that kind of backlog in commercial playing out? I think in a lot of industrial-facing and commercial businesses backlogs may be peaking right now and then start to bleed down a bit. Do you see that as likely to happen this year?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I don't think so. Again, I get the years confused. But in 2020, the industry was down 20%. And so it's sort of HVAC discretionary spending went way down. It's come back part way this year, and I expect it to continue to grow in 2022, and we certainly have record backlog again driven by supply constraints, production constraints. But everything we can see, it still feels very strong, in [residential] we talk to our large national accounts. Obviously, Commercial had tough fourth quarter had a tough year on the margins.

There's couple of reasons for that, one is we have 1 factory. It's in Stuttgart, Arkansas. Been very hard hit by COVID. There were days in fourth quarter where over 25%, over 1/4 of the hourly workers didn't come in because of COVID. Either they had it or they were close contacts. Similar impact we had with Omicron in January.

I think the good news is that's starting -- it's like the python swallowing the rat. I think just now going through the system, we're on the downside. Also been hit by supply chain issues harder there than anywhere else. I think we worked through those. We have a strong production team there. I think we're focused on the right things. And then you're right. I mean got a lower baseline to come from. So I feel pretty confident we'll be back year-over-year growth and profitability by midyear.

Operator

Our next question is from Jeff Hammond with KeyBanc.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Just -- maybe just update us on your inventory. Your inventory levels, what you think channel inventories look like? I know the seasonal weaker periods you've been trying to catch up.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. I mean we're still low on inventory, both in Residential and specifically in Commercial. That's why you saw emergency replacement down 40%, our ability to sort of have the inventory on the ground. So we're focused on driving it up. I mean people who look at the detailed sort of charts, we'll see our inventory levels are up year-over-year for fourth quarter, but that's driven by a couple of things. That's driven by the increased cost of components and labor, so the inflationary pressures. And also, we have a lot of WIP in raw materials. So we're sort of pulling together material and we'll miss a piece or a part and we won't be able to finish the unit. And so some of that's built in there.

But -- and then I think the distributor channel through our Allied business, I still think that's relatively lean. So I don't think we've peaked out in any way. I think they're -- in our sell into competitors' carrier and train, I don't -- I think there are distributions the same way. I don't think Watsco has too much inventory yet. I think people are still buying.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. And then just on supply chain, can you talk about where you think you're starting to see some stabilization or relief versus maybe where things are still very problematic.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

It's a continually changing picture, if you will. I -- back in December when we spoke, I was confident and remain confident. But Omicron sort of, I think, I don't think I know had an impact sort of backed everybody up a bit. And specifically in our factories, Omicron hit hard in January. We still feel confident for the quarter but had an impact in January.

The supply chain is healing, although I would tell you there's still a card or 2 on Omicron that has to be turned over on the impact that it's had on the supply chain. We're having fewer issues on the things that we had big issues with controls, steel, aluminum, packaging, sort of all those things, I think in a rearview mirror. We have a great team focused on this. We're doing all the things you'd expect us to do, and I talked about we're in suppliers' locations, we're investing in inventory. We're spending millions of dollars, airfreighting and components from Asia to make sure we have safety stock. So we're doing all the right things.

I just think every time I want to declare victory, Omicron -- excuse me, COVID takes a slightly different direction or a large direction. I think Omicron is the last piece. I think that's now behind us in our factories. I think it's broadly behind our supply base. And I think we heal quickly because, again, our -- what our factories have seen with Omicron everyone's seem to be (inaudible) went up like rocket, coming down like a rocket. But you tell me what COVID's going to do, then I'll be certain what supply is going to do.

Operator

Next, we'll go to Ryan Merkel with William Blair.

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

So first question, Todd, it looks like production was sort of right down the middle in 4Q. Any change to the outlook for production in the first half either way?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I'm not sure I understand the question.

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

Production rates, meaning factory productivity. Any change to how you're thinking about that forecast?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I mean -- no, our guides do guard. I mean -- and again, it's -- so as you know, a multivariable equation, we hope to do better, but we'll see.

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

Got it. Okay. And then what are sort of the key focus points and opportunities you're looking at over the next couple of quarters? I assume supply chain and solving that's number one. But what else is there?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Supply chain, price, drive productivity in our factories as we stabilize the production and inventory rates. And then third is our strategic investments, whether it's a product and we have some great new product coming out over the next 18 months. Digitization, which you know a lot about and then continuing to build out our distribution, our store strategy in North America. So in fact, our team is laser-focused on keeping the product flowing or improving production, driving productivity, getting price and continue to focus on strategic investments.

Operator

Next question is from Tommy Moll with Stephens.

Thomas Allen Moll - *Stephens Inc., Research Division - MD & Analyst*

Todd, I wanted to focus on labor and wages today. What context can you give us on the level of wage inflation you're seeing here in the U.S. versus maybe in Mexico as well. And the level of difficulty in hiring new employees at this point, what update could you give us there?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No. We've been fighting that battle for 1.5 years, maybe 2 years. And we've raised wages in our factories pretty significantly, 10%, 15%, depending on the factory, some even more. We pay premiums to sort of get people to work second and third shifts in our factories, both in Mexico and in North America.

I think it's all pretty stabilized at this point. I think the 1 factory that we've had the most issues with, but I think we're now focused on the right levers. It's the one that's been hit hardest in the margins, which is our Stuttgart, Arkansas factory that may be the most rural of our factories. And its sort of hard to get the employees. But I think we've balanced the wage rates to get that. And that's obviously all in the guide. And again, as you know, our cost of goods sold is less than 10% direct labor. So we have some flexibility to pay what we need to do to get people in.

Thomas Allen Moll - *Stephens Inc., Research Division - MD & Analyst*

That's helpful, Todd. Just a follow-up on your stores rollout this year. I think you said 30 earlier. Can you give us any sense of the timing across the quarters? And what, if any, revenue benefit from those new locations is embedded in your guidance?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I don't think much revenue. I think mathematically, mechanically, people should have backed some. And I think it's more of the stores we opened this year start to kick in and -- or excuse me, less in 2021 kick in and have some revenue impact. We typically are back-end loaded on stores just because we start to freeze things up in March as we prepare for the summer selling season, and we don't want to distract the sales force. And so I don't have the list in front of me, but historically, it's been 2/3 or so second half of the year. And my guess is that's what it will be this year.

Operator

Next question is from Gautam Khanna with Cowen.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Todd, I got to ask, so where are we in the CEO search, if you can say anything.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. I mean it's the same placeholder answer that I've given since it began, right? And it will be -- it's the independent directors have -- are engaged in search. When they have somebody as my replacement will announce it. Adam Schefter may say something different, but when we have somebody, we'll announce.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Okay. Just related to the Commercial business, can you update us on your views on IAQ and sort of what the pace of inquiry has been around that? And do you have any view that's changed on kind of what the average ticket size can be in the commercial space and in the resi space relative to the cost of the system?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No. I'll answer the second part of the question first. Our point of view or my point of view, personally hasn't changed. I think it's an important product offering to have. I think it's important to talk to your customers about. I think when you sell it, it can improve the ticket by 10%, 15%, 20%.

But it's not every application. I think as we get through the pandemic and it becomes an epidemic or whatever the right phrase is, I think some of the focus on this will start to pass. I think it's important that we have it. I'll be honest with you, over the last quarter or 2, we're so focused on taking care of core customer requirements given the production issues. We talk about IAQ and we're selling it. But I would tell you the sales force is spending a lot of time just taking care of base requirements.

Operator

Next, we'll go to Nigel Coe with Wolfe Research.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

So just going back to Nicole's question on normal seasonality "normal", you mentioned obviously pre-COVID, pre-tornado. Just scanning the numbers suggest 10% or below, is that what you're thinking towards in terms of normal seasonality? And the spirit of my question really is, any expectations we should have around 1Q margins, the recovery, the sequential ramp from 4Q? Or would you expect 4Q to be sort of fairly normal just as 1Q. If that question makes any sense, just wondering expectations about margins and that seasonality for 1Q, specifically?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. I mean I understand the specific question. I'm not going to tighten it -- I'm not going to get too tight and answer because I just don't want to get into habit of giving quarterly guidance. I just think if I was building a model, I would sort of normalize it based on sort of our track record pre-COVID, pre-tornado. That's roughly what it's going to be. I mean, I think Q4 may have some strength compared to prior Q4's, if there's any kind of prebuy. But right now, I don't -- my best guess is there won't be much of one. Q1 demand is strong, but we're supply constrained. And so I don't -- I think that will sort of hinder what we can do in Q1 and some will bleed into Q2. So I think it is always with us, it's going to be a second and third quarter gain.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Okay. And then just my follow-on is around the mix neutral in Residential for FY '22. I think we had some mix down during 2021. So I hope you might get some relief on that, especially the semi. So semi supply clearly getting better. So just as curious what's driving that assumption for neutral mix. And I'm just wondering if the prebuy effect into that.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No. I don't think the prebuys factors in a major way because I just said we're not counting much on that. I think maybe there's some conservatism in that number. I mean we just got to get our -- as you know, or at least what I've spoken about, our Mexico factories performed the best for us, and that's where we tend to have more of the entry-level product. We've turned on some of our mid-tier and high-tier product that we had and allowed certain dealers to buy that's now turned on. If we continue to ramp up in our Marshalltown factory, then maybe we have some positive news on mix.

Operator

Next question is from Jeff Sprague with Vertical Research.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

Just wondering if we could just touch on price a little bit more. Todd, it looks like on kind of the exit rate on resi, you're going to be in the ballpark of what you're anticipating for the year. I just wonder how much incremental price relative to your exit rate do you actually kind of need to get in the market to hit that, what is it, $235 million or so for the year?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Well, I think what happens is you lap part of that, right? So part of the price that we got in the fourth quarter on a sort of year-over-year comp goes away as we go into 2022 because it was a price increase that we announced in early in the first quarter of 2021. So the answer is we still got to go stick price and we've announced it and we're confident that we're sticking it. And so again, the numbers we're giving you are fourth quarter numbers. First quarter, we're confident that we're going to get the price that we need. And as you suggested, we had 8% or so in fourth quarter resi, and that's order of magnitude the number for next -- for 2022. Full year, we need to get 6% -- I think Joe said 5%. I have 6% on my notes. So it's probably 5.5% price in 2022. We're confident we're going to be able to do that.

Joseph William Reitmeier - *Lennox International Inc. - Executive VP & CFO*

Yes. it is 5.5%, Todd.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

Okay. Great. .

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Okay. Good.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

And just one little peculiarity, and maybe I heard it wrong, but it looks like Refrigeration got less price in the quarter than in the year. Is that correct? Everything else seemed to be building over the course of the year.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I'm going to count on that one.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

I think Joe said price up $1 million, I think, for the quarter and up $3 million for the year. Maybe I wrote that down wrong.

Joseph William Reitmeier - *Lennox International Inc. - Executive VP & CFO*

And what's your question. About that?

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

I just want to confirm that's correct.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Yes. Joe, Do you know that?

Joseph William Reitmeier - *Lennox International Inc. - Executive VP & CFO*

Yes. That's correct.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

What I have in my notes is for the year, we got about 5% price -- and in 2022, we need to get 5% price for refrigeration. And we're confident that we're going to be able to do that. And I think they're confirming the numbers, $1 million in fourth quarter, $3 million for the year.

Operator

Next, we'll go to Joe Ritchie with Goldman Sachs.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Guys, can you help me maybe just parse out the margin headwinds in 4Q and resi, just given you did exit with 8 points of price, just trying to understand what you felt the impact in? And then like should we be anticipating a similar impact in 1Q in the resi business?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think one thing to think about is on a year-over-year basis, we had 6% fewer days. That was worth order of magnitude, $10 million of EBIT. And then the other impact in resi was the COVID impact. And I think that will be less in first quarter than it was in fourth quarter. And that was order of magnitude another $10 million. So there's sort of $20 million of headwind between COVID and a 6% fewer days on a year-over-year basis that don't impact first quarter.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Okay. Great. That's helpful. And then I guess maybe just kind of thinking through the Commercial business and getting back to like pre-COVID margins in that business, is kind of like the expectation for 2022. I mean we don't quite get there, but you'll see meaningful improvement in the second half and maybe we start to see those kind of rates from 2H.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think that's right. I don't think we get back to where we were pre-COVID in commercial in 1 year. I think it will take a couple of years. And as I said, it will be midyear when we start the improvement. But again, I think all the pieces are there. We got the product, we have customer demand. We've just got to get the factory humming.

Operator

Our final question will be from Josh Pokrzywinski with Morgan Stanley.

Breindy Elizabeth Goldring - *Morgan Stanley, Research Division - Equity Analyst*

This is Breindy on for Josh. So a question on commercial market share. I know the timing of business differences make it a little hard to compare the businesses, but do you have a sense for how your Commercial business did in 2021 versus your comparable light unitary markets?

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

I think we lost share. I don't think there's any doubt about that. So I see the numbers, I won't give the exact numbers, but we lost share. I don't -- it's less a point of share because share moves slowly in Commercial, but we lost share. And I think in our Residential businesses, we were flat to slightly up, but the production issues in Commercial hardest.

Breindy Elizabeth Goldring - *Morgan Stanley, Research Division - Equity Analyst*

Okay. That's helpful. And then on resi mix up 1%, do you have an idea of what mix was within replacement and how 2021 mix within replacement compares to a typical year.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

No. I don't have that in front of me. I'll have Steve dig that up and get back to you. I think the answer is -- I think the answers that I have in the math in front of me is, we didn't have the normal mix up in replacement than we typically would because we were able to produce more product in our Mexico facility, which is more entry level. And so we steered customers to more entry-level product than we typically would. And so I think on a full year basis, replacement mix was probably flat to slightly down. So that's it...

Operator

I'll turn it back to the company -- yes, go ahead with any closing comments.

Todd M. Bluedorn - *Lennox International Inc. - Chairman & CEO*

Okay. Thanks, everyone, for joining us. To wrap up in challenging conditions, Lennox International team is executing well, capitalize on market opportunities, and we look forward to a year of strong growth and profitability in 2022. Thanks, everyone, again, for joining us.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.

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