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H.B. Fuller Co. (FUL)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to the H.B. Fuller Q3 2026 Earnings Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions] I will now hand the conference over to Scott Jensen, Investor Relations. Scott, please go ahead.

Scott Jensen

Head-Investor Relations, H.B. Fuller Co.

Thank you, operator. Welcome to H.B. Fuller's third quarter 2026 investor conference call. Presenting today are Celeste Mastin, President and Chief Executive Officer; and John Corkrean, Executive Vice President and Chief Financial Officer. After our prepared remarks, we will have a question-and-answer session.

Before we begin, let me remind everyone that our comments today will include references to certain non-GAAP financial measures. These measures are supplemental to the results determined in accordance with GAAP. We believe that these measures are useful to investors in understanding our operating performance and to compare our performance with other companies. Reconciliation of non-GAAP measures to the nearest GAAP measure are included in our earnings release. Unless otherwise noted, comments about revenue refer to organic revenue and comments about EPS, EBITDA, and profit margins refer to adjusted non-GAAP measures. We will also be making forward-looking statements during this call.

These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from these expectations due to factors covered in our earnings release,

comments made during this call, and the risk factors detailed in our filings with the SEC, all of which are available on our website at investors.hbfuller.com.

I will now turn the call over to Celeste Mastin. Celeste?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thank you, Scott, and welcome to today's call. Through disciplined execution, we delivered strong revenue, EBITDA, and EPS growth in the quarter and continued to improve profitability and advanced toward our EBITDA margin target of greater than 20%. Pricing actions are offsetting higher raw material costs and our restructuring efforts continue to enhance operating leverage. With the anticipated closing of the AMS acquisition before year-end, we remain focused on strengthening our portfolio, executing our Quantum Leap program, and creating long-term value for shareholders.

Turning to our consolidated results in the third quarter. Revenue was up 5.2% year-on-year. Adjusting for foreign exchange and acquisitions, organic growth was 4.4%, driven by pricing of 7.4%, partially offset by lower volume year-on-year. From a profitability perspective, EBITDA of \$187 million increased 9% year-on-year, and EBITDA margin expanded 80 basis points to 19.9% with EPS up 21% versus the same period last year. The continued execution of our pricing actions drove EBITDA growth and margin expansion across all three GBUs, enabling us to successfully offset elevated raw material inflation. Now, let me move on to review the performance in each of our segments in the third quarter.

HHC delivered 6% organic revenue growth year-over-year in the quarter with strength in hygiene, beverage labeling, and tape and label more than offsetting softness in packaging. EBITDA margins were 17.6%, up 70 basis points versus last year, reflecting double-digit pricing performance.

EA delivered organic revenue growth of approximately 5% year-over-year, excluding solar with continued strength in aerospace and general industries. Electronics softened in the quarter as chip shortages weighed on mobile phone production in Asia-Pacific, a reversal from the strong growth we saw in the first half of the year. Including solar, organic revenue increased 1% in the quarter. We have now fully lapped the solar exit and do not anticipate a meaningful impact on EA or consolidated H.B. Fuller organic growth going forward. EA EBITDA margin was 23.8%, up 50 basis points versus last year, driven by favorable pricing and restructuring savings.

BAS delivered another strong quarter with organic revenue up 5% year-over-year. Growth was driven by strength in roofing and insulating glass, partially offset by softness in wood. Despite a muted construction environment, BAS delivered another quarter of consistent growth and solid execution, demonstrating the importance of the innovation the group has brought to market. EBITDA for BAS increased 8% and EBITDA margins expanded 50 basis points year-on-year, driven primarily by the impact of positive price.

Geographically, Americas' organic revenue was up 4% year-on-year, with positive organic growth in all three GBUs led by BAS up 9%. Positive organic growth was driven by strong performance in roofing, insulating glass and aerospace market segments. In EIMEA, organic revenue increased 9% year-on-year, with positive price in all three GBUs and strong volume growth in EA markets, including automotive and aerospace. Asia-Pacific organic revenue was up 4% year-on-year, excluding solar, driven by strength in HHC particularly in packaging. Total organic revenue was approximately flat year-on-year, including solar.

Now, let me provide an update on the petrochemical supply chain disruption and what we're seeing as we enter the fourth quarter and look toward 2027. The dislocation continues to be a defining feature of our operating

environment. Supply chains remain disjointed, and we do not expect a normalization until well after the conflict subsides. We acted quickly and decisively in response to this situation and have been successful in maintaining supply continuity for our customers and we'll continue to do so.

On raw materials, prices have stabilized at elevated levels and we expect them to remain at or near current levels for at least the remainder of the year. As conditions warrant, we will judiciously raise price to offset raw material costs and protect our margins. We remain confident in our ability to continue mitigating inflationary pressure.

Now, let me take a moment to provide an update on Project Quantum Leap, our multi-year initiative to optimize our manufacturing and distribution network, improve factory utilization and service levels, and increase the efficiency of our global supply chain. We continue to make good progress and implementation is tracking as expected. The team remains focused on disciplined execution and delivering the long-term benefits we've outlined.

As a reminder, we began this project with 82 manufacturing facilities at the end of 2024. We expect to exit 2026 with approximately 62 facilities and excluding AMS, further reduce the footprint to below 60 by the end of 2027, while progressing to our goal of 55. These actions are improving network efficiency, while positioning us to better serve our customers with a more streamlined operating model.

From a financial perspective, Quantum Leap remains a significant value creation opportunity. We continue to target approximately \$75 million of annualized conversion cost savings by the end of 2030. Through the end of 2026, we expect to have realized approximately \$25 million of those benefits. Looking ahead, we expect the program to deliver an additional \$20 million to \$25 million of incremental savings in 2027.

In support of this initiative, we expect to invest \$150 million of capital over the life of the program. We plan to invest roughly \$50 million of capital in 2026 and anticipate capital spending of less than \$25 million in 2027, as key projects are completed with a further reduction in spending expected after 2027. We anticipate approximately \$50 million of total onetime cash costs associated with the program, with about a third of those already realized. Importantly, total onetime costs are projected to be more than offset by proceeds from real estate sales. Beyond direct cost savings, Quantum Leap is expected to generate substantial cash flow benefits through improved working capital efficiency, inventory reduction, and lower maintenance capital requirements. Overall, we remain on track and are even more confident today in Quantum Leap's ability to help enable meaningful earnings growth, cash flow improvement, and progress toward our long-term margin objectives.

Now, let me turn the call over to John Corkrean, to review our third quarter results in more detail and our updated outlook for the remainder of 2026.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

Thank you, Celeste. I'll begin with some additional financial details on the third quarter. For the quarter, revenue was up 5.2% year-on-year. Currency and acquisitions contributed a positive 0.8%. Adjusting for those items, organic revenue was up 4.4% with pricing of 7.4%, offset by lower volume. Adjusted gross profit margin was 33.5%, up 120 basis points versus last year, driven by pricing execution and restructuring savings. Adjusted selling, general, and administrative expense was up 8% year-over-year, and down 7% sequentially from the second quarter of 2026, reflecting the timing of certain expenses. Adjusted EBITDA for the quarter of \$187 million was up 9% versus last year as pricing execution and restructuring savings more than offset lower volume. Adjusted earnings per share of \$1.52 was up 21% versus the same quarter in 2025, driven by higher operating income. Net working capital in the third quarter of fiscal 2026 was 18.5% of annualized net revenue, up 150 basis

points year-over-year. The increase was primarily driven by actions taken to support Quantum Leap, as well as strategic inventory investments made to secure raw materials and ensure supply continuity for customers.

Year-to-date, cash flow from operations was \$183 million, up 17% year-over-year, driven by higher income. At the end of the third quarter, net debt to adjusted EBITDA was slightly less than 3 times, down from 3.3 times at the end of the third quarter of last year.

With that, let me now turn to our guidance for the 2026 fiscal year. Please note, this outlook does not reflect the impact of our proposed acquisition of Advanced Medical Solutions. Net revenue is still expected to be up mid-single digits and organic revenue is still expected to be up low-single digits versus fiscal 2025, with pricing up mid-single digits and volume down low-single digits. Adjusted EBITDA for fiscal 2026 is now expected to be in the range of \$655 million to \$670 million, and adjusted EPS is now expected to be in the range of \$4.70 to \$4.85. Cash flow from operations excluding AMS-related items is still expected to be in the range of \$300 million to \$325 million.

Now, let me turn the call back over to Celeste to wrap us up.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thank you, John. The financial performance John outlined reflects the strength of our strategy and execution. A key contributor to that success is the way we partner with our customers to develop innovative solutions that improve performance, address complex challenges, and advance sustainability across the industries we serve. Last week, we announced the winners of our 2026 H.B. Fuller Customer Innovation Awards. These awards recognize customers who have developed solutions, delivering measurable advances in sustainability, safety and performance. Winners are selected based on innovation, market impact, technical achievement, and successful collaboration with H.B. Fuller teams. This year, we honored Bin Dasmal General Trading Company and Huhtamaki for innovations that demonstrate the power of collaboration and technical expertise. Bin Dismal was recognized for developing an innovative prefabricated HVAC insulation system that improves protection against condensation and corrosion in hot, humid environments. Working together with H.B. Fuller, the company incorporated our Foster NeoClad protective vapor barrier technology into an offsite prefabrication process that reduces installation time, enhances long-term system reliability, and helps extend service life in demanding climate conditions.

Huhtamaki was recognized for ProDairy, a recyclable, paper-based dairy cup designed to reduce plastic use while maintaining the performance required for chilled food applications. Leveraging H.B. Fuller's adhesive and coating expertise, the solution significantly reduces polyethylene content, improves recyclability, and supports our customers' circular packaging goals, without compromising product performance. The innovations recognized this year span diverse industries, but share a common objective. Applying science, engineering and collaboration to solve real-world challenges and make products and systems more sustainable, efficient and reliable. We congratulate both award winners and thank all of our customers who continue to work alongside us to bring innovative solutions to market. Their success reinforces our confidence in the long-term growth opportunities, created by our technical leadership, customer intimacy, and commitment to innovation. We look forward to celebrating both award winners here in St. Paul, Minnesota, on Adhesive and Sealants Day on September 29.

Now, let me provide a brief update on our proposed acquisition of Advanced Medical Solutions. We continue to make strong progress through the required regulatory approval process and remain on track to close the transaction by year-end. From a financial standpoint, we are committed to our deleveraging plan and expect leverage to return to our targeted range of 2.5 times to 3 times within two years of closing, supported by the

strong cash generation profile of the combined company, augmented by Quantum Leap. We remain confident in the strategic and financial merits of acquiring AMS. The transaction will enhance our portfolio, strengthen our position in attractive healthcare markets, and further support our long-term growth objectives. We look forward to welcoming the AMS team and sharing additional updates on our next call.

In closing, our third quarter results demonstrate the steady progress we are making across the business. We are expanding margins, advancing our operating efficiency initiatives, and maintaining a disciplined approach to execution while also positioning the company for its next phase of growth. Taken together, these actions strengthen H.B. Fuller's foundation for long-term value creation.

That concludes our prepared remarks for today. Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Mike Harrison with Seaport Research Partners. Mike, your line is now open.

Michael J. Harrison

Analyst, Seaport Research Partners

Hi. Good morning.

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Good morning, Mike.

A

Michael J. Harrison

Analyst, Seaport Research Partners

So, you guys came in just above the midpoint of your guidance range for Q3, and it looks like volumes were not down as much as you would expected. I think you had guided to a down mid-single digit and you were down 3. Can you just kind of walk us through what came in different than you expected when you provided guidance, I guess, from both a volume perspective and maybe contributed to some of the margin strength that you were seeing?

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Sure. Yeah. So, as we looked at the second half, Mike, we had anticipated that we would see more customer constraints on materials outside of adhesives. We knew we could supply, but we were concerned that they would be able to get all of the materials they needed to produce their products. And while the market has been tight on a lot of materials, it hasn't been so much short. So, that resulted in a little better volume performance than we anticipated.

A

I would also add that the demand markets are fluctuating a lot more than they usually do. Our order patterns are fluctuating more than they usually do. We're seeing instances where customers are – especially mid and small-sized customers, are, in math, doubling the amount of time or the interval between their orders. And then, sometimes they shrink rapidly, particularly when the headlines are out, that the price of oil has dramatically

increased. So, it does make volume a little more difficult to predict in this environment. In this particular quarter, we saw volumes much stronger at the end of the quarter than at the beginning of the quarter for the first couple of months, in fact. And that strength has continued into [indiscernible] (00:20:39).

Michael J. Harrison

Analyst, Seaport Research Partners

Q

All right. And then, I was hoping that you could talk a little bit about – how we should think about volume trends, as we're starting to turn our attention to fiscal 2027. So, last year, volumes were down a little bit. This year, you're probably tracking toward a down 3-ish percent number. Understanding some of that has been the solar business, and you said we're lapping that. But just curious, what's your confidence level that we can see volumes turn positive in fiscal 2027? And I guess, what end markets do you see the most risk around volumes over the next few quarters?

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

Okay, Mike, maybe I'll try to take this one and then Celeste can add commentary. So, looking ahead in 2027, focusing on things that are, let's say, specific to H.B. Fuller, we'll have fully lapped the impact of our exit of solar. So, that was sort of an overhang for three quarters this year. We're now beyond that. It will be – it won't be an overhang next year. Obviously, closing of AMS, we're adding a higher growth business. I'd say there's a few markets in EA that were challenged and these were more external issues. Maybe I'll pivot to sort of external impacts. Certainly, electronics has been challenged with chip shortages. I'm hopeful, we're hopeful that, that is not an issue next year, that's impacting both electronics and auto. And the construction markets have been very sluggish with high interest rates and the impact that's having on residential. Again, don't know whether that will be resolved next year or not. But that's – if that – if we were to see some movement there, that would be positive. And then, in HHC, as you know, it's largely driven by large CPG customers, which have struggled. So, it's probably more dependent on external forces and some of those I've named. But we have a couple of things, as it relates to the portfolio improvements that we've made, that should support better growth going forward.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah, I would supplement that, Mike, by saying I think China is the region to watch for 2027. I was really pleased with our performance in Asia this quarter, because despite the fact that there was – that the consumer environment in China is weak and that electronics, some of their export markets were off, we still performed very well in Asia. Thanks to HHC's ability to grow their business there and take share in the packaging markets in particular. Europe's looking up and that's exciting. So, I think it's less of a risk for us for 2027, more because we are gaining share in that region, being a reliable supplier matters more there and the ability to bring innovation to market matters. And then, I would say that, yes, to John's point, while construction remains weak and is definitely something to watch, I feel strongly that our BAS business has brought innovation to market that has allowed them to continue to grow in a declining market. So, I think, watching construction and watching China are the key areas of risk for 2027.

Michael J. Harrison

Analyst, Seaport Research Partners

Q

All right. Very helpful. Thanks very much.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Thanks, Mike.

Operator: Your next question comes from the line of David Begleiter with Deutsche Bank. David, your line is now open.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Thank you. Good morning.

Celeste Beeks Mastin
President, Chief Executive Officer & Director, H.B. Fuller Co.

Good morning, David.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Celeste, what's the – good morning. Looking just at HHC in the last two years, I show volumes down roughly 9%, maybe I'm a bit off, but I think in that range, why is that? This is over – just over the Q3 period last couple years.

Celeste Beeks Mastin
President, Chief Executive Officer & Director, H.B. Fuller Co.

Over the last two years, yeah, so, I mean, if you think about HHC, I think one of the biggest challenges that HHC faces is a couple of market-wide changes. So, one is certainly the introduction of the GLPs. A lot of our materials in HHC go into the packaging end markets, a lot less packaged food now being consumed. And you can see that in a number of the CPG food companies' results. And the second thing I would say is, that's a business that, I think sometimes we overlook is really very heavily influenced by household formation. And we aren't seeing residential home building happen. People are not moving as much for jobs. There's a lot less mobility. And so, that weighs on people aren't filling new cupboards. People aren't changing out materials in their homes. And so, that also, I believe, is weighed on the HHC business in the last couple of years.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Understood. And just on AMS, how has the business been performing in the last two or three months, so it's still on track with the projections you gave us back in late June?

Celeste Beeks Mastin
President, Chief Executive Officer & Director, H.B. Fuller Co.

Well, I can't comment on their performance in the last two or three months. What I would say is they did just announce their first half performance. I would refer you there. They showed adjusted EBITDA improving by 8%, first half of 2026 versus first half of 2025, which is how they report. And they reported a 4% revenue increase over that same period of time. So, we're really excited, David. That's a business that we're looking forward to having in our portfolio. And as we look at that business and have made our own projections, we think that's a business that should – that will be growing about 8% a year on average. So, good organic growth prospects there.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Thank you.

Operator: Your next question comes from the line of Ghansham Panjabi with Baird. Ghansham, your line is now open.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Yeah, thank you, operator. Good morning, everybody. Celeste, just following up on the last couple of questions. Specific to EA, do you sense any sort of change in the demand trend line in that segment? I know solar has come through at this point, but I think you mentioned electronics weakening due to chip shortages, and it looks like auto has started to weaken a little bit as well. So, just curious as to the demand trend line there versus the rest of the portfolio.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Yeah, the EA business performed incredibly well in Europe in this last quarter, and strong in the US. So, overall, I don't see the segments compromised. In fact, automotive has bounced back in Q3 versus where it was in Q2. The real challenge in the EA business in Q3 was in Asia, and particularly, in China. So, a slowdown in electronics, fewer shipments of EVs. And so, that weighed on the business in the quarter. But the good news is now we are wrapping around that solar impact. So, we'll be clear of that come Q4.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

Yeah. And I can add just a little more detail on the trends because Celeste is right, if you adjust for solar, the business has been growing mid-single digits from a volume standpoint, low to mid-single digits and it's very consistent. I think the only change from Q2 to Q3 and volume was largely driven by electronics, as Celeste mentioned.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Okay, that's helpful. Thank you. And then, in terms of the variances for fiscal year 2027, you sort of gave some high-level view on volumes, at least, as it relates to what to watch out for. Can you give us a bit more in terms of some of the variances at this point? I think you mentioned \$25 million on EBITDA incremental cost savings. What about pricing flow through? And then, on pricing, are you still implementing additional increases? I think you mentioned sort of a flattening of the raw material cost curve, but logistical costs and so on and so forth have gone up significantly over the last few months as well. So, just curious as to the pricing contribution, the way you see it at this point for next year.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Yeah. So, if you look at just overall next year, I would say high level, the way that the year will play out is you'll see some carryover of pricing and raw material materials happen in that first half, that will transition more to the benefits from Quantum Leap starting to flow through in the second half that we mentioned. As far as pricing, yes, the teams, as you know, got out early on price and started raising price in Q2. Our job isn't done. We continue to raise price judiciously where it's warranted, and I'd say that based on region and market segment and technology base, so, yes, we are still implementing price increases and we're anticipating that will flow into the first half of next year.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

Yeah, and I think, Ghansham, just for purposes of kind of thinking about what the next year would look like, at a high level from a P&L standpoint, and these comments exclude any impact of AMS. As Celeste mentioned, we will have carryover pricing, but we'll have carryover raw material impact as well. And we got out quickly on pricing, raw materials tend to lag. So, as you look at this year, we've got a positive spread between pricing and raws. We would expect that we would have a positive gap between pricing and raws next year, but not as significant as this year, because we still have raws that will be rolling through. That'll primarily be a first half of the year phenomenon. As Celeste mentioned, we'll sort of have annualized against that and probably there'll be very little difference between pricing raws, assuming markets don't move significantly in the second half of the year.

Quantum Leap, as we said in our remarks, should contribute \$20 million to \$25 million of incremental savings next year. That'll be more weighted to the back half of the year. And then, we'll have the normal kind of inflation, merit increases, which have been in that \$25 million range. So, we see, a view on 2027 that will grow top line and bottom line. And obviously carryover pricing will help that from both the top-line and bottom-line standpoint as well Quantum Leap, and we'll provide obviously a lot more detail in our January call.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Very good. Thank you.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Thanks, Ghansham.

Operator: Your next question comes from the line of Jeff Zekauskas with JPMorgan. Jeff, your line is now open.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. I think in your prepared remarks, you talked about land sales, that may be something like \$33 million over the next year or so? Are these sale and leaseback structures? Or is this pure sale of land, and is that the right amount of cash flow that may come to you?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

So, those are sales of manufacturing facilities and the land associated with those, Jeff. We're not going to lease those back. We're going to sell those facilities, and we will use those proceeds to pay down the onetime costs that we'll experience with severance and other closure costs.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Okay, and thank you for that. And in terms of your prices, your prices for the quarter were up 7.4%. But that's the average number for the quarter. Where are they now, are they [indiscernible] (00:34:08) 7.4%?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah, we exited the quarter at 7.6%, Jeff. So, we got a lot of that price early that's been working its way through, and that'll continue to tick up, as we continue to adjust our pricing for any raw material changes that occur. We talked about pricing on average. But it's true, pricing changes happen differently in different regions or based on different technologies. So, we've been very judicious and I would say, responsible in our pricing. Our objective is to cover raw material cost increases and maintain our margin. And that's what our plans continue to be for the upcoming year.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Since you reported your previous quarter, there's been a fair amount of clamoring by your shareholder base, wanting you to do this or that. In the light of what your shareholders have said to you in any way have you changed the way you looked or changed the way you plan to operate H.B. Fuller over the next year or two?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah, so deleveraging will be a very, very high priority for us, as you can imagine. As soon as we close the AMS transaction, Jeff, in fact, we're already working hard on trying to bring our debt level down. And I would say, there's going to be changes in a number of areas. One of those is, as I've said before, every August, our global market segment leaders come in, they present their three-year strategy for the business. We do a rigorous portfolio review after that. In fact, it was – that's what prompted the sale of our flooring business in 2025, for example. And I would say, we've just been through that exercise here, again in August. And coming out of that exercise, I'd say, we're putting even more scrutiny and a much more critical lens on those business plans, and really challenging ourselves to determine if we are, in fact, the best owner for every one of those market segments.

So, the possibility that we will divest something is something we are taking very seriously because we know it would accelerate reducing our leverage. The other thing is we're at a nice point in Quantum Leap, where we're going to be able to really generate more cash flow as a consequence of that. And maybe, John, if you want to like walk through the improvements to cash flow that we're going to see because of Quantum Leap, and because we're going to be able to operate differently because of the changes we're making through Quantum Leap.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

Sure. And yeah, and that is one of the reasons we feel good about our deleveraging plan is the cash flow benefits that Quantum Leap brings. Obviously, we've talked about the \$75 million of reduced conversion costs, with about \$50 million to come, that's obviously cash – an operating cash flow impact. But one of the key elements is with the changes we're making in our warehouse structure, we think we've got an opportunity to reduce working capital inventory specifically, substantially at least five days, which would be \$35 million of benefit in operating cash flow. And then, in CapEx, we'll see that come down [indiscernible] (00:38:10) we probably spend about \$50 million related to Quantum – enabling Quantum Leap this year in CapEx. As we said in our remarks, that'll be less than \$25 million next year and eventually go to zero. And the fact that we're getting out of effectively a third of our plants, we would expect maintenance capital to come down by roughly a third, which would be \$15 million. And then, Project ONE is kind of – our SAP deployment, what we call Project ONE is coming to effectively an end in terms of implementation. We have 97% of our revenue on one instance of SAP, and we've probably spent about \$25 million here in CapEx on that. And that will be substantially less. So, all of those things will be positive. As it

relates to our cash flow and our deleveraging plan as Celeste said, if there was an opportunity to potentially divest something that could further accelerate that, we would definitely look at it.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

And then, lastly, John, I think maybe your CapEx from AMS would go up \$20 million or so. So, like in a range of capital expenditures versus 2026, should your CapEx next year inclusive of the acquisition, be up or down?

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

It should be down. And I think AMS will be a little less than the \$20 million you quoted, but it'll be in the teens. But yeah, we would say, just related to certainly, the fact we're getting through the heavier spend-related to Quantum Leap and the working capital opportunity, we see – I'm sorry, on CapEx of the project – the SAP project coming to an end, both of those things should result in a reduction in CapEx even with some additional capital from AMS.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Thanks, Jeff.

Operator: Your next question comes from the line of Patrick Cunningham with Citi. Patrick, your line is now open.

Alex Miller

Analyst, Citigroup Global Markets Ltd.

Q

Hi, good morning. This is Alex on for Patrick.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Good morning.

Alex Miller

Analyst, Citigroup Global Markets Ltd.

Q

My question was – good morning. So, your margin expansion was quite striking in 3Q, despite the lower volume environment. Maybe can you help us put – help us with the puts and takes on the price/cost expansion, and maybe just your confidence on expanding margins into 2027?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Sure. John – okay...

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

So, yeah, I can give a little bit of color on that. So, the impact we're seeing is largely driven by pricing execution, relative to raw materials flowing through. As we discussed, we got out fast on pricing. A lot of that took place in the second quarter. We did take some additional actions. So, in the third quarter, we get the benefit of actions that we're taking. During the second quarter, flowing through to the third quarter, we had some new pricing actions. And raw materials are a bigger headwind this quarter than they were last quarter, but we had more pricing to offset that. So, we sort of talked about this third quarter being sort of the period when we'll see that biggest gap between pricing and raws. And we would expect that to narrow a little bit next quarter, simply because we'll see more raw material cost really finally rolling through the P&L.

But we're also getting savings related to Quantum Leap. By the end of this year, we'll have \$25 million of savings that we've been able to achieve on a run rate basis, about \$15 million this year. And that's kind of ramped up through the year. So, those are really the two things that have driven the margin expansion. And yeah, we think we will have margin expansion next year for some of the same reasons. As I said earlier, pricing raws should be positive, less than this year, but still positive. And then, Quantum Leap will have a bigger positive impact next year.

Alex Miller

Analyst, Citigroup Global Markets Ltd.

Q

Great. And as a follow-up, just curious, how should we think about like the stability of the growth for medical end market, assuming a higher-for-longer rate environment, relative to elective procedures and surgeries?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah, the medical – actually the use of surgical bonding is not just stable, but a high-growth medical end market, and there's a number of reasons for that. I mean, certainly, the number of procedures continues to increase even in a longer-rate environment, we'll still see more procedures. And there's a growing number of smaller procedures, procedures where the use of adhesive is even more likely and accepted. And so, we expect this medical end market to continue to grow quickly. In fact, that was one of the things we really liked about having it in our portfolio. It delivers strong organic growth and at a high margin rate. And it allows us to balance out some of the cyclicity that we have in the industrial end markets, as well as in the construction market. So, we think it makes for a really nice balanced portfolio, and it'll be that growth spark that endures, even when the market is challenging.

Alex Miller

Analyst, Citigroup Global Markets Ltd.

Q

Great. Thank you very much.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Thank you.

Operator: Your next question comes from the line of Kevin McCarthy with Vertical Research Partners. Kevin, your line is now open.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes. Thank you very much and good morning. John, can you elaborate on the financing for the AMS deal? I think you have fully committed financing in place, but maybe you can elaborate on what the medium-term plans are with regard to term structure. And what does that cost of debt look like given the volatility in the bond market these days?

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

Sure. Happy to, Kevin. So, yeah, as you mentioned, we do have bridge financing in place. So, we are assured to have financing to close the transaction. Our plan would be to execute the takeout financing prior to close, having it contingent on the close. And we're quite far along, I would say, in planning for that. Expect to see strong interest and feel highly confident that we'll be successful. If we kind of look at the structure that's still being discussed, but it'll probably be some combination of short-term term loan B type loans and probably unsecured type bonds. We, obviously, want to make sure that we have ample amounts of debt that we can repay quickly because we plan to delever quickly. So, that will be reflected in the structure. Financing rates, I would say right now, kind of, sort of eight-year fixed rates are probably in the 6.5% to 7% range. Shorter rates term loan B, that's kind of been pretty consistently around 175 basis points to 200 basis points over SOFR. So, that is kind of what we're seeing right now. And as I said, we'll be moving to finalize the financing before the deal closes.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Very helpful. And then, Celeste, there's a lot of discussion previously on the call regarding your volume of minus 3% for the quarter, including GLP-1s and the chip shortages and other factors. If I just kind of zoom out the lens and think about your demand function for adhesives relative to macro metrics, did you have in your mind that it should reconverge with macro metrics over some period of time, whether that's 6 months or 18 months or for some other period? How do you think about that future trajectory?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah, it's so hard to index this business against a collection of macro metrics because that – we are in so many different end markets, in so many different regions. And when you think about it, big picture, I mean, it's an \$80 billion market and we are less than 5% market share. And so, like being able to dial in volumes in the adhesive space versus a macro collection of indices is really hard. One of the things that we do in the adhesives industry is we bring to our customers high mileage adhesives. What I mean by that is they'll start using an adhesive and in order to further optimize production, a lot of times, we'll work with them to bring them a higher value. And you see that in higher price adhesive that they can use less of. And so, that's a dynamic that's constantly occurring in this market. And so, there's a component of that, that you see that really disassociates it from the macro trends, the – particularly, the fact that our share is so low, you'll see it in a lot of our spaces when construction or automotive are doing badly or when the number of mobile phone handsets is declining, we will still be growing our business in those spaces, largely because we're able to take share through technology and because we have a low share position.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

I see. Very helpful. Thank you for the color.

Operator: Your next question comes from the line of Lucas Beaumont with UBS. Lucas, your line is now open.

Lucas Beaumont

Analyst, UBS Securities LLC

Hi. Thanks. Good morning.

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Good morning.

A

Lucas Beaumont

Analyst, UBS Securities LLC

Sort of putting together all – thanks, Celeste. Yeah, putting together all your comments kind of on the call today, I was just trying to sort of think about like the high-level considerations for the business as we go into next year. So, I mean, based on your fourth quarter guide, I mean, it looks like you're going to be sort of exiting with high-single digit pricing, volumes kind of down low-single digits, continued kind of cost pressures [indiscernible] (00:49:45) on the raw material side, it sounds like the volume outlook is kind of being choppy across sort of different end markets and could remain under pressure, as we sort of go into next year as well. I mean, you're going to have some benefits from easier comps, I guess, with solar and just the declines from this year. But I mean, overall, this seems like a set-up that might point to more constrained growth into next year before the AMS acquisition. I mean, putting all of that together, it probably points to something more in the low to mid single-digit kind of EBITDA growth range, more like what you had in 2024 and 2025, than the high single-digits kind of tracking towards this year. So, I guess, just how would you sort of put all that together for us and any other considerations or upsides [indiscernible] (00:50:35) that we should sort of work into our outlook there as well? Thanks.

Q

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

So, Lucas, I'll add a little color and you kind of recapped some of the key drivers of next year from a financial assumption standpoint. And I would say, I don't know that I'd conclude, low-single digit or even mid-single digit EBITDA growth yet, I think, and we'll come forward with all of that in January. It, obviously, depends on the broader macro and we'll probably – we'll have more of a view on that in three and a half to four months. But I think – we still think there's a lot of benefit that is specific to the things that we're doing from an execution standpoint. As I mentioned, the pricing raw benefit will be positive next year. And we're ready to, as Celeste said, judiciously, take additional actions if we need to. And the Quantum Leap savings are meaningful. So, we'll lay that all out. I think you've got the right key considerations, and we'll provide a sort of picture, as to where that gets us. But we'll grow, right. We'll grow, we'll grow next year. We grew this year, we grew last year. So, we will grow.

A

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Yeah. And I think the – I would also – I'm also positive about next year, particularly because when you look at our – again, our position in this industry, it's a \$80 billion industry and our share is less than 5%. And we now have teams that are working hard, hitting on all cylinders, to deliver great innovation to our customers. And it's making a difference. Just look at BAS, not – that's a very constrained market, particularly here in the US. Yet that team has introduced new products that they have used to grow share. In fact, we put out a price increase on Monday, where we announced the expansion of our 4SG Kōfinity product range, with really some new products that have decidedly better benefits for our customers and building owners. And so, that is the way that we are going to

A

continue to drive improvement in EBITDA. It's not just pricing and the regular volume mix. It's bringing innovation. And it's also delivering on our Quantum Leap commitment which is on track, as John indicated, and will, at its conclusion, deliver \$75 million of run rate savings that will influence EBITDA very favorably.

Lucas Beaumont

Analyst, UBS Securities LLC

Q

Great. Thanks. And then, I guess, just given kind of the macro environment sort of challenges currently, that are so choppy, I guess, how do you sort of see that impacting the outlook for the AMS business? I mean, just talk us through how defensive you sort of view their sales and earnings compared to like other parts of the portfolio. I guess, if 2027 ends up being a little more challenged from a macro perspective, I guess, do you see that adding any risks on the synergy, or sort of earnings targets side, and also just around your deleveraging considerations [indiscernible] (00:54:15). Thanks.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

No. In fact, the AMS team continues to make really good progress on their Peters Surgical synergies. So, when we quoted our synergy target, recall that we were getting the benefit of synergies related to their closure of 75 facilities and they are well on track and delivering on that commitment. So, we ended up stepping into that business when there's already synergies in-flight, which is very helpful. Now, when you look at the market structure, it's a market, as I indicated before, that's growing rapidly. The use of tissue bonding in surgical procedures continues to grow. The combination of the two businesses makes us the second largest surgical tissue bonding company in the world. And that's a position where we anticipate not feeling the challenges of the macro environment, but more so being able to expand the business in that environment because it's less oriented to the fluctuations of the industrial or the construction spaces that we're in today.

Lucas Beaumont

Analyst, UBS Securities LLC

Q

Thanks very much.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Thanks, Lucas.

Operator: Our last question comes from the line of Mike Harrison with Seaport Research Partners. Mike, your line is now open.

Michael J. Harrison

Analyst, Seaport Research Partners

Q

Hi. Just one more for me.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Hi, Mike. Sure.

Michael J. Harrison

Analyst, Seaport Research Partners

Q

I appreciate you giving me the chance to ask this one. Just on the BAS offer that you guys – the unsolicited proposal that you guys received, the board rejected that proposal. And one of the reasons that was noted was some dyssynergies that would be associated with shared plans and maybe reduced scale and procurement impacts. Can you help us quantify those dyssynergies at all? And I guess, I'm curious how you're thinking about it. Is there a price for BAS at which a divestiture could still make sense, even though there are maybe some heavy-lifting that you – that would be required in carving that out?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah. So, the board fairly considered the offer for BAS. And in any case, if we receive an offer for a business – for a component of the business or the business itself, the board's going to do its fiduciary duties and fully evaluate that. In the case of BAS, as we indicated, it's significantly integrated into the company as a whole, and that's not unusual. In fact, if you look at our business, we have now 62 plants around the world, that generally produce two or three different materials and produce them for 15 to 20 different market segments. So, they are assigned to a GBU, that's more for management purposes. They, in fact, are technology based. And so, we have a lot of businesses here that are really entwined like that, as you would expect in our production and sourcing – raw material sourcing environment. In this case, we think that we're the best owner of BAS. But we're always open minded and willing to consider other alternatives that make sense.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

Yeah, and I can comment a little bit on just the dyssynergies. But as opposed to quantifying them, I'll kind of describe where they come from and then how we think about them in light of a potential divestiture. There's obviously stranded costs that you're always going to have with the divestiture we did with flooring. Flooring was a business that was relatively tangled with our other businesses. And we had six dedicated manufacturing plants for flooring. The materials they bought were fairly unique to the flooring business. With BAS, they probably manufacture in 25, 30 different manufacturing facilities, probably two-thirds of which they're sharing with the other businesses. So, they don't have a lot of dedicated plants. So, that creates some dyssynergies. On the sourcing side, BAS is roughly 20% of H.B. Fuller's revenue. They probably represent about 35% to 40% of the solvents we buy. So, that would have a significant impact from our purchasing power as it relates to that material, which would impact other businesses. So, those are the things we look at and all of those are over – we can overcome all of those, right, if we could, depending on the potential valuation of a sale of an asset. But there are real considerations. And they were meaningful enough with BAS, that we thought we should mention them.

Michael J. Harrison

Analyst, Seaport Research Partners

Q

All right. Thanks very much.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Thanks, Mike.

Operator: We have reached the end of our Q&A session. I will now turn the call back to Celeste for closing remarks.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thanks very much for joining us this quarter. We look forward to talking to you in January.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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