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EDITED TRANSCRIPT

FUL.N - Q1 2024 H.B. Fuller Company Earnings Call

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PRESENTATION

Operator

Good day. My name is Ellie, and I will be your conference operator today. At this time, I would like to welcome everyone to H.B. Fuller First Quarter Earnings Conference Call. (Operator Instructions) Thank you.

Steven Brazones, you may now begin the conference.

Steven E. Brazones - *H.B. Fuller Company - VP of IR*

Thank you, operator. Welcome to H.B. Fuller's First Quarter 2024 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 Securities and Exchange Commission, all of which are available on our website at investors.hbfuller.com.

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

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Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Thank you, Steven, and welcome, everyone. We're off to a good start to the year with first quarter financial results largely consistent with our expectations. Our team is maintaining commercial discipline, proactively innovating to create win-win opportunities for our customers and pricing to that value, while also driving restructuring savings and synergy realization on the 2023 collection of acquisitions.

We continue to proactively respond to changing business dynamics to drive strong adjusted EBITDA growth, margin expansion and robust cash flow.

Looking at our consolidated results in the first quarter, organic revenue declined 4% year-on-year due to anticipated pricing adjustments and slightly lower volume. The impact from pricing was in line with our expectations and primarily represents index-based pricing adjustments. In the first quarter, the year-over-year impact from pricing was similar to Q4, while volume declined slightly year-over-year, driven principally by HHC's hygiene market segment.

From a profitability perspective, taking into consideration that our first quarter is always our lowest margin quarter of the year due to the seasonality of our business, we performed very well. We grew adjusted EBITDA 12% year-on-year to $123 million, expanded adjusted EBITDA margin by 160 basis points year-on-year to 15.2% and grew adjusted EPS by 22% year-on-year.

On balance, global economic conditions remained similar to last quarter. Manufacturing activity continues to be subdued, evidenced by PMI readings below 50% for more than a year in both the United States and Europe.

Our outlook assumes manufacturing activity will be weak through the end of the year. However, from a year-on-year comparison standpoint, constrained manufacturing activity will be more than offset by the absence of the destocking impact that weighed so heavily on 2023 volume.

In this slow growth economic environment, it is essential that we continue to innovate and price to value, leveraging the vast set of tools and capabilities we've created to continue to expand our margins.

Our customers have increased their focus on developing lower-cost versions of their products to better suit the market environment. And we play an important role in bringing robust bonding solutions that enable their success. We also leverage our reformulation capabilities to develop solutions that help lower our customers' costs while maintaining or improving our margins.

Now let me move on to review the performance in each of our segments in the first quarter. In HHC, Organic revenue was down 9% year-on-year due to lower volume and anticipated index-based pricing adjustments. Pricing was down mid-single digits as expected. Excluding hygiene, HHC volume was flat year-over-year and has continued to strengthen sequentially over the past 3 quarters. The decline in hygiene volume reflects our customers adjusting their inventory levels to take into consideration lower than forecasted demand, our exit of lower-margin business and disruption in certain emerging markets due to currency controls and restrictions.

HHC's responsible pricing actions, focus on reliability and innovation and selective pursuit of profitable growth opportunities in its leverage market segments enabled it to increase adjusted EBITDA 4% and increase adjusted EBITDA margin by 130 basis points year-over-year despite lower organic revenue.

In Engineering Adhesives, organic revenue declined 2% in the first quarter. Strength in the electronics and automotive market segments was offset by slower demand in the woodworking market segment. Overall, the diversification of EA's portfolio has resulted in relatively strong and consistent volume performance despite the challenging global manufacturing environment.

Adjusted EBITDA increased 5% in EA and adjusted EBITDA margin increased 90 basis points year-on-year to 15.9%. Favorable net pricing and raw material cost actions and restructuring benefits drove the increase in adjusted EBITDA margin year-on-year.

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In Construction Adhesives, organic sales increased 10% year-on-year. The absence of customer destocking and the expectation for a return to a more normal construction season in North America benefited CA during the quarter. Roofing was particularly strong with organic sales increasing more than 20% year-on-year.

Adjusted EBITDA for Construction Adhesives increased nearly $7 million versus the first quarter of last year and adjusted EBITDA margin expanded 530 basis points to 8.4%. Net price and raw material cost management, improved volumes and restructuring savings drove the improvement in adjusted EBITDA margin year-on-year.

Recall, the first quarter is CA's seasonally lowest volume and thus, seasonally lowest EBITDA margin quarter.

Geographically, Americas organic revenue declined 2% year-on-year, driven by HHC, which declined 8% versus the prior year in the Americas region. HHC organic revenue was adversely impacted by some lingering destocking activity as well as volume declines in hygiene. EA and CA combined achieved organic revenue growth of more than 4% year-on-year in the first quarter in the Americas region.

In EIMEA, organic revenue decreased 13% versus the first quarter of last year, with all GBUs experiencing similar magnitude declines. Economic conditions have deteriorated in Europe reflecting overall cost of living challenges on consumers' purchasing power. In addition, volume in EIMEA was adversely impacted by developments in Egypt and the broader Middle East region due to currency restrictions and continued political uncertainty.

In Asia Pacific, organic revenues increased 2% year-on-year. Strength in China, which achieved a mid-single-digit increase in organic sales more than offset weaker demand throughout the rest of the region. We continue to remain optimistic about our business in China with no direct exposure to the Chinese construction market and strong representation in the electronics and automotive market segments. We're encouraged by what we're seeing. And while we expect some uneven market activity over the near term, we'll continue to grow through innovation share gains in our select markets of choice.

Now let me turn the call over to John Corkrean to review our first quarter results in more detail and our outlook for 2024.

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

Thank you, Celeste. I'll begin with some additional financial details on the first quarter. For the quarter, revenue was up 0.2% versus the same period last year. Currency had a negative impact of 0.6% and acquisitions increased revenue growth by 5%. Adjusting for those items, organic revenue was down 4.2% with volume down 0.9% and pricing down 3.3% year-on-year in the quarter.

Adjusted gross profit margin was 30.1%, up 320 basis points versus last year, as the net effect of pricing and raw material actions and restructuring savings more than offset the impact of slightly lower volume.

Adjusted selling, general and administrative expense was up year-over-year as expected with acquisitions driving half of the increase and the rest of the increase resulting from higher wage inflation and higher variable compensation partially offset by restructuring savings.

Adjusted EBITDA for the quarter of $123 million was up 12% year-on-year, reflecting the net positive impact of pricing and raw material cost actions, restructuring savings and the favorable contribution of acquisitions.

Adjusted earnings per share of $0.67 was up 22% versus the first quarter of 2023, driven by strong operating income growth.

Operating cash flow in the quarter improved significantly year-on-year as higher margins, lower working capital requirements and favorable accrued compensation more than offset the lower organic revenue.

Strong growth in EBITDA and cash flow resulted in net debt-to-EBITDA of 2.8x at the end of the first quarter, down from 3.3x at the end of the first quarter of last year and 2.9x at the end of 2023.

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With that, let me now turn to our guidance for the 2024 fiscal year. As a result of our good start to the year, which was largely consistent with our expectations, we're reiterating our previously communicated financial guidance for fiscal 2024.

Net revenue growth is expected to be in the range of up 2% to 6%, with organic revenue flat to up 3% year-on-year.

Adjusted EBITDA is expected to be in the range of $610 million to $640 million, equating to growth of approximately 5% to 10% year-on-year.

Combined, these assumptions result in full year adjusted EPS in the range of $4.15 to $4.45, equating to year-on-year growth of between 7% and 15%.

We continue to expect full year operating cash flow to be between $300 million and $350 million, weighted toward the second half of the year.

Finally, based on the seasonality of our business, we would expect second quarter EBITDA in the range of $145 million to $155 million.

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

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Thank you, John. As the market leader in innovation, we've the privilege of collaborating with some of the most exciting and forward-thinking companies in the marketplace. Companies that think differently, act differently and exhibit the courage to take a risk to improve our world.

Next month, we'll be launching the inaugural H.B. Fuller Customer Innovation Awards. We're proud to publicly recognize the most outstanding customer innovations during the previous year that were enabled by our adhesive technology.

We look forward to celebrating with these customers and continuing to innovate to support their objectives. Keep an eye on our social media platforms and our website for the official announcement to learn who will be named our winners.

In conclusion, we're off to a good start to the year, and we're pleased with our results in the first quarter. Our teams are executing well in a challenging environment and continue to demonstrate discipline in balancing changing price and raw material cost dynamics, drive acquisition synergy realization and deliver meaningful cost savings from restructuring initiatives to drive growth in adjusted EBITDA.

As we look ahead, we remain on track for another year of strong profit growth, continued margin expansion and improved volume trends in fiscal 2024. We'll continue to strengthen the portfolio through targeted organic investments and new highly synergistic strategic acquisitions, and we're confident in our ability to achieve our long-term growth and profitability goals.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ghansham Panjabi from Baird.

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Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Maybe you can just build on your comments on what you saw during the first quarter. I think you said Europe deteriorating a bit and China a little bit stronger. Just based on that, how are you thinking about the regional macroeconomic backdrop for the rest of the fiscal year? And then also, can you update us on your view on where we're relative to the destocking across your 3 core operating segments?

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Sure. So let's start with destocking. I think we're largely through the destocking phenomena that we saw in 2023. There were some lingering effects of that in HHC in Q1, and there might be a little in Q2. But for the most part, I think that's complete. As far as the quarter overall, as you stated, China was stronger than anticipated and Europe weaker.

In fact, Europe was pretty notable in that all 3 of our GBUs experienced volume declines of 10% or greater. So -- that was a significant change for -- versus what we had seen in 2023. But again, given the strength of China, we were able to balance that out.

If you look a little deeper and look at it by segment, overall volume was pretty flat, but for HHC and within HHC, it was really just the hygiene segment where we saw volume declines. So -- CA up on easier comparisons. EA was really lifted [by the] (added by company after the call) double-digit percentage increase, given what's happening in China. And that was really the quarter in a nutshell.

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

Ghansham. Maybe I'll add just a little color on Europe because although it was weak, and I think we continue to assume that it will be weak for the year, it did improve sequentially over the quarter. So just to give you some perspective on kind of the cadence in Q1. Revenue in Europe was down in the high teens in P1, down in the mid-teens in P2, down high single digits in P3 and then P4 [month-to-date] (corrected by company after the call), it's down mid-single digits. So we're seeing sequential improvement. We think that's a positive sign, but we still remain cautious on Europe.

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Yes. And just to elaborate on Europe a little bit. So we saw this really pronounced destocking phenomena in North America in 2023. I don't believe this is the same thing. In fact, based on anecdotes from a few of our large customers, and again, customers across GBUs, the statement that kept being repeated was that they had overproduced demand. So I think there has been a little over production happening in Europe and what we're seeing now is a correction of that, a temporary correction. And as John pointed out, the volume numbers that we experienced month-over-month ending this month to date really indicate it is a correction and not a major destocking activity.

Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Super helpful. And then just for my second question on commodity costs. And obviously, you've seen significant margin expansion at H.B. Fuller through just price cost and also your restructuring and cost optimization initiatives, et cetera. We're seeing oil tick up a bit. Some of the other inputs have started to pick up as well in terms of propylene and also some of the TiO2, et cetera, in China, et cetera, starting to pick up. How are you sort of thinking about that dynamic for H.B. Fuller going forward as it relates to the upstream inflation pulse, if you will?

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Yes. We've seen those same things, Ghansham. But again, we experience this a lot differently in our business. So remember that 87% of our raw material spend is specialty chemicals. We monitor 4,000 different material bases, and they're so influenced by the volume of what's happening, where they're in use, much more so, they don't trade like the commodities. And so if we -- what I'm anticipating is that we're going to see more deflationary or flatter raw materials possibly, but more deflationary likely if volume remains constrained.

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So if our volume continues -- remains weak, then I think we'll see more deflationary raws, again, because they really don't move like the propylenes and the crude oils of the world, I think we'll see those suppliers getting squeezed.

Operator

Our next question comes from Kevin McCarthy from Vertical Research.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

Celeste, it's nice to see your Construction Adhesives business post the results that it did -- can you talk a little bit about what you're baking into the annual guide for that segment in terms of seasonality, sales and margin opportunity?

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Yes. Welcome, Kevin. So as it relates to CA, what we saw this quarter was really what I would call customers buying and their sentiment and anecdotes are equivalent to the start of a normal construction season. So we're starting to see the build, and we're anticipating that will be the case. If you look at our guide for the year, what we anticipated there was high single-digit organic growth for the CA business.

Do you want to elaborate any further, John?

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

Yes. I just would say, to echo Celeste comments about our assumptions, we're assuming we're going to have a normal North American construction season. We think the destocking is complete in that market. So you will see CA have a strong first half. Q1 will be our strongest quarter, I would predict because it is our easiest comparison. Q2 should be strong, too, from a comparison standpoint. And then we'll see moderating growth in the second half as we get to comparisons against the improvements we saw in last year's trend. But we still feel good about that high single-digit type of growth range.

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Yes, Kevin, in particular, our roofing business was very strong in Q1. And actually, we're instituting some price increases in that business unit as well.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

Okay. Good to know. And then secondly, Celeste, I think you referenced some softness in the hygiene space within HHC. How is that business evolving relative to your expectations? And is the European dialogue part of the equation there? Or is that separate and distinct? Maybe you can just kind of update your thoughts on likely trajectory for that business as the year progresses?

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Yes, absolutely. So the hygiene market within HHC again, was responsible for that volume decline, the entirety of the volume decline that we saw in HHC. Now it's a smaller business for us than it used to be in the past. And we were able to offset a lot of that with growth in our packaging and medical adhesive space. But before I go down that tangent, let me just talk about hygiene, in particular. So a few things going on there. Yes, per your question relative to Europe that we did see some of our big customers overproducing demand, so a correction happening there in Europe, in particular, in the hygiene market.

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Also, our hygiene market is often the lead for us in a lot of developing markets and nations. And so the currency restrictions that we experienced, particularly in Argentina and in Egypt, caused us to halt sales in those particular regions that had an impact. Of course, we've got the index pricing adjustments. Those are significant in the hygiene space. And by the way, just for future reference, I would note that a lot of those -- that index pricing is now flattening out this quarter and future as opposed to the last 2 quarters where indexes were down.

And finally, there was some -- there is some price competition occurring in Asia and we decided to walk away from some of that business. So that's what's been -- that's sort of hygiene in Q1, and some of my comments, of course, relate to how I see it moving forward.

I think -- sorry, as far as the future, you asked about how the future there? I mean, a lot of these things are going to correct, right? We saw this correction in production in Europe. Europe is going to -- core Europe will continue to be weak, but it won't be as weak as first quarter. These currency restrictions, they're lifting in some areas. So we've seen some -- getting some help there.

As I noted, the index price adjustments are now switching to flat. So aside from some business we're walking away from in some parts of the world because of price, you'll see that hygiene market perform better in future quarters.

Operator

Our next question comes from Jeff Zekauskas from JPMorgan.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I think your SG&A expense adjusted was about $165 million. And I know that there's a lot of discretion in the way you allocate SG&A in a seasonally weak quarter. Do you expect that number in absolute terms to rise through the course of the year or to be lower or stay the same? Can you give us some assistance on that?

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

Sure. I'll take this one, Jeff. So it was in line with expectations. It's higher certainly as a percentage of revenue in the first quarter because it's our lowest revenue quarter seasonally. And if you look at the increase, it's up about 10%. Half of that is acquisitions that we didn't have in the first quarter last year. So that's driving about half of that increase. And then the remainder is really driven by higher variable compensation. So we're accruing at a higher rate than we were last year at this time and the impact of wage inflation.

So if you look forward, we would expect it to increase sequentially in terms of total dollars, but decrease as a percentage of revenue. So we -- when we look at how we accrue things like variable compensation, we do adjust the percentage we accrue to match the seasonality of the business. So we accrue a little less in Q1 than in Q2.

So you'll see that step up, but you should see that come down, both in terms of the year-on-year increase because we'll start to annualize against those acquisitions, and it should also come down as a percentage of revenue.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Great. And then for my follow-up. Do you guys think that volumes will grow year-over-year in the second quarter or no or stay flat?

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John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

I would say that they should sequentially improve, but I think we're kind of still projecting they may be down certainly less than a couple of percent, but they would -- they may be down, maybe flat to down a percent, maybe flat to up a percent. So I don't think we're going to see a significant deviation from Q1.

Operator

Our next question comes from Patrick Cunningham from Citi.

Eric Zhang

This is Eric Zhang on for Patrick. Can you walk us through how the 2023 vintage acquisitions have performed? And are there any positive or negative surprises?

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Sure, Eric. So I was just looking at the Adhesion, actually acquisition. Integration results this morning was delighted to see that we've actually doubled our performance on the deal model there. So overall, if you look at the entire collection, strong performance, we're ahead of our deal model plan and have -- I think, synergy projection for this year would be $25 million of synergies to be achieved, was $12 million last year.

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

Yes. And I can add just a little color on that, Eric. As Celeste said, the total impact that we should see year-on-year from acquisitions is about $25 million. That's what we discussed in Q1. That's the incremental impact versus 2023 and for the first quarter -- so far, first quarter, we're right in line [with that] (added by company after the call). And they're all performing very well, in line with expectations.

Operator

Our next question comes from David Begleiter from Deutsche Bank.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Celeste, your Q2 guidance is a little bit below Street expectations. Is that due to hygiene or other factors?

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

David, I'll chip in on this one. I guess, when we look at it, we probably don't look at it relative to consensus, but more so [based on] (corrected by company after the call) trends and year-on-year. So midpoint, yes, would be a little bit lower growth rate than Q1. I think the biggest item there is, we're getting our biggest net pricing raws benefit in Q1. That will be a little bit lower in Q2 and actually a little bit narrow as we go through the year.

But offsetting that, we're seeing synergies and restructuring benefits ramp up. So I think it's these assumptions really that things ---that set the backdrop for Q2 looks very similar to Q1, but we get a little bit less net pricing and raw benefit.

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David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Got it. And based on that Q2 guide, your second half guidance, EBITDA is up 29% versus your first half EBITDA guidance and results. Can you help us bridge that increase of almost 30% from Q1 -- from first half to second half EBITDA?

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

Yes. I mean it's mostly driven by seasonality and the fact that it is -- the Q1 is such a low volume quarter. So I think I mentioned the restructuring benefits and the synergies. So those will step up too as we go through -- as we go from first half to second half, but it's largely a seasonality impact.

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Yes. And David, when you look at the trends in the business, we've some favorable trends on our side, right? So we've got our index prices flattening out. Our construction season is really ramping up, particularly in our roofing space, which drives a high EBITDA margin for us. I'm anticipating continued strength in China, and I want to elaborate on that because that is in part the market in China, but also some really tremendous market share gains in China as well. So I'll come back to that.

We've got destocking that's complete in all of the GBUs. And as John just identified, we've got synergies and restructuring. But just to talk a little bit about some of these market share gains, our electronics business was up 50% versus prior year Q1. And we're really seeing some excellent work come to fruition there. In fact, 30% of our new volume in electronics is actually coming from new models.

So what that tells me is that our team is now fully integrated into these customers so much so that they become part of their development cycle. So we're winning a lot,we're well entrenched in that space, and it also indicates that our customers have gone back to innovating. So they're back on their product upgrade cycle post pandemic. And that's really important because that's the opportunity that we've to get in and drive share take and to really bring solutions to the customer base. So that's just one example.

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

And David, I might just add something on the sequential impact because we don't always look at the business the same way and I guess that's an insight that I hadn't looked at before. But I looked at last year and last year, our second half EBITDA was up a little over 30% versus the first half. So I think that's a pretty -- it's not unusual to see that type of trajectory.

Operator

Our next question comes from Rosemarie Morbelli from Gabelli Funds.

Rosemarie Morbelli

Celeste, I was wondering -- well, 2 things. First of all, following up on your customers, innovating and you're gaining shares in the electronic arena, now electronic encompasses a lot of things. So if you could give us a better feel for which areas you're really doing well. And then my second -- oh, go ahead, go ahead, I'll ask later.

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Okay. Thanks, Rosemarie. And absolutely happy to elaborate on that. So let me give you a few examples. So one example would be in consumer electronics. We just replaced a competitor with a PFAS containing product with our own PFAS-free two-part epoxy for trackpads. So we're able to take advantage of this trend away from PFAS and bring our own products that can perform without it.

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Another example would be in mobile phones. So we just -- with one manufacturer, we just took a 100% share of the touchpad bonding and the touchpad edge gap bonding with a reactive hot-melt polyurethane for a phone that is going to be shipped to Africa, which is pretty exciting, this particular supplier is pursuing the African mobile phone market from China.

And then there's even the category that I'll call automotive electronics. So in Europe, we had last year, won a vehicle display bonding application with an OEM. That business has grown by 10x over the course of the prior year. So those are some electronics examples. Closely related to that would be our success in aerospace. So one of the high points for our business in Europe this last quarter was in aerospace. Example there would be providing -- us providing adhesives for interior trim in airplanes and even more technical applications, including -- or now supplying a syntactic epoxy that brings great compressive strength in bonding honeycomb kind of wall or door material to carbon skins in the aircraft.

So those are all sorts of examples of products and markets that are in this growth category, as we've now defined it, that we're really competing successfully and winning.

Rosemarie Morbelli

That is very helpful. I hope you've something for the aerospace that will prevent doors....

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Me too.

Rosemarie Morbelli

And then my second question would be on the hygiene side. You mentioned that it was smaller than in the past. So are you walking away from a lot of businesses? Or has the industry changed to the degree that it is not as interesting?

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Well, where we've walked away has been where we just -- we weren't able to price as a consequence of having a challenging time bringing value, particularly in some of these emerging markets, China is really tough. The product performance does not have to excel compared to some -- to performance of some other region. So we're walking away from some business, but really the bigger impact, Rosemarie, is that we're growing other parts of our business. We just talked about our Engineered Adhesives business, we've got a lot of focus on growth in that area.

And hygiene, hygiene is a leverage segment for us. So our objective with hygiene is to continue to drive productivity, drive EBITDA margin improvement, but also recognize that in order to do that, we may have to be selective where we play. So that's really kind of directionally where we're going with hygiene.

Operator

(Operator Instructions) We've a follow-up question from Jeff Zekauskas from JPMorgan.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Can you talk about demand trends in the U.S.? What the U.S. was like during the quarter and how it seems to you in the second quarter? Are we strengthening, weakening? Or how are we doing?

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Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Absolutely, Jeff. So let's just talk about -- I'll talk about U.S. in Q1 to start. So big impact there was that destocking ended in our HHC GBU. And simultaneously that our CA customers started preparing for a normal construction season. So volume was sort of up low single digits there. Strong were our -- was our packaging business as well as solar business. And in packaging, I'm really delighted with our packaging team in the U.S. They've done an amazing job, creating solutions for customers and growing our business as a consequence.

We've grown -- we grew volume in packaging Q1 '24 versus '23 by high single digits and expanded EBITDA margin by 300 basis points. So that team has identified not only how to bring solutions, but they've also looked creatively at how to expand their business into channels, where we wouldn't traditionally have gone. Channels -- pollution channels that bring solutions to specific industries rather than distribution channels that focus on bringing all kinds of adhesives.

So they've done a great job. Weaker in the U.S. in Q1 was, of course, as mentioned, the hygiene business as well as our woodworking business is challenged. It's more so products that are used in building products or they get influenced by construction for sure.

I mean, John, do you want to add anything?

John J. Corkrean - *H.B. Fuller Company - Executive VP & CFO*

Well, Jeff, just to your comment about or question about trends we're seeing. It was pretty consistent across the quarter in Q1, as Celeste hit on some of the key points for Q1. [Q2] (corrected by company after the call) started out a little bit stronger. Construction continues to be strong and will show good growth, probably not the level of growth that we did in Q1. And Engineering Adhesives is showing improving growth. And HHC is showing improvement, too, but they're -- they tend to be still a little bit weaker for some of the items that Celeste highlighted.

So small sample size, but so far, Q2 has started out a little stronger than Q1.

Operator

As of right now, we don't have any hands raised. I'd now like to hand the call back over to Celeste Mastin for closing remarks.

Celeste Beeks Mastin - *H.B. Fuller Company - President, CEO & Director*

Great. Well, thank you all for joining the call and your continued interest. We look forward to speaking with you again next quarter.

Operator

Thank you for attending today's conference call. You may now all disconnect. Have a wonderful day.

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