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FUL.N - Q2 2024 H.B. Fuller Company Earnings Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to the H.B. Fuller second-quarter 2024 earnings conference call. (Operator Instructions)

I'd now like to turn the call over to Steven Brazones, Vice President of Investor Relations. You may begin.

Steven Brazones - *H.B. Fuller Company - Vice President, Investor Relations*

Thank you, operator. Welcome to H.B. Fuller second-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 Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Thank you, Steven, and welcome, everyone. I'm very pleased with our strong second-quarter financial performance, which reflects the team's steadfast commitment to execution while driving our long-term strategy to focus on more profitable, higher-growth segments of the market. We continue to innovate and deliver customized, value-enhancing solutions to our customers while acquiring highly profitable, fast-growing businesses to expand our market presence in the most differentiated segments.

As we execute our restructuring program focused on streamlining our global footprint, we are driving sustainable enhancements to our cost structure and improving our ROIC. In a large total addressable market where we win one application at a time, we continue to meaningfully move the needle and remain on track to deliver adjusted EBITDA margin greater than 20% in the next three to five years.

Looking at our consolidated results in the second quarter, our organic sales trend continued to improve, driven by organic volume growth of more than 3% during the quarter, with volume up in all three global business units. Overall, organic revenue was flat year on year as volume growth was offset by reformulation activity and index-based pricing adjustments.

From a profitability perspective, we executed well and delivered very strong results on slightly stronger-than-anticipated volume growth, consistent with our second-half expectations. We grew adjusted EBITDA 10% year on year to $157 million and expanded adjusted EBITDA margin by 120 basis points year on year to 17.1%.

Now let me move on to review the performance in each of our segments in the second quarter. In engineering adhesives, organic revenue increased 2.5% in the second quarter, marking a return to positive organic growth. Strength in the electronics, automotive, aerospace, and recreational vehicle market segments was partially constrained by slower demand in the woodworking and clean energy market segments. EA delivered a strong quarter, representative of our expectations, given the many growth segments in this GBU.

Adjusted EBITDA increased 13% in EA and adjusted EBITDA margin increased 160 basis points year on year to 18.4%. Favorable net pricing and raw material cost actions and restructuring benefits drove the increase in adjusted EBITDA margin year on year.

In HHC, the organic revenue development improved sequentially on a return to positive volume growth. Reformulation activity and index-based pricing adjustments resulted in a decline in organic sales during the second quarter for HHC. Strength in bottle labeling, packaging, and medical partially offset continued, although lessening organic sales declines in the hygiene market.

Adjusted EBITDA was flat year on year for HHC in the second quarter, despite lower organic revenue and adjusted EBITDA margin expanded 50 basis points year on year to 16.6%. Favorable net pricing and raw material cost actions, restructuring benefits, and acquisitions drove the increase in adjusted EBITDA margin year on year.

In construction adhesives, organic sales increased 7% year on year on strong demand in roofing, which achieved a 20% increase in organic sales. Construction market conditions have improved and are more consistent with a normal construction season thus far.

Adjusted EBITDA for construction adhesives increased 24% versus the second quarter of last year to $23 million and adjusted EBITDA margin expanded 90 basis points to 15%. Net price and raw material cost management, improved volumes, and restructuring savings drove the improvement in adjusted EBITDA margin year on year.

Geographically, Americas organic revenue was flat year on year in the second quarter. EA and CA both achieved positive organic growth during the quarter, and on a combined basis, achieved organic revenue growth of more than 6% year on year in the Americas region, driven by strong growth in electronics, aerospace, and roofing.

HHC organic revenue declined 7% versus the prior year. The hygiene market, while slightly improved in the Americas, continued to negatively impact organic sales development for HHC in the region.

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In EIMEA, year-over-year organic revenue development, while still down, improved significantly relative to the first quarter as expected. The organic sales development for all GBUs improved sequentially, although still declined modestly year on year. This bounce-back was expected as much of the demand weakness experienced in the first quarter was temporary. We would expect the trend to continue to improve as we progress through the remainder of the year.

In Asia Pacific, organic revenues increased 7% year on year, driven by strength in electronics, automotive, beverage labeling, and flexible packaging. Strength in China, which nearly achieved a double-digit increase in organic sales, drove the region's organic sales growth. We have a winning strategy, a focused team, and a strong track record of execution.

Our path to 20% adjusted EBITDA margin is multifaceted and includes restructuring opportunities, volume growth, improved organic mix between growth and leverage market segments and acquisitions of higher-growth, higher-margin businesses in the most differentiated adhesive applications.

During the second quarter, we completed the acquisition of ND Industries. This highly strategic and financially compelling acquisition expands our market presence into a new and exciting growth market segment, fastener locking solutions, which is a combined system of adhesives and mechanical fasteners.

The acquisition accelerates one of our top growth priorities and is consistent with our focus on proactively driving capital allocation to the highest-margin, highest-growth market segments within the functional coatings, adhesives, sealants, and elastomer or CASE industry. As part of the acquisition, products under ND Industries' Vibra-Tite brand will be added to H.B. Fuller's existing epoxy, cyanoacrylate, UV curable, and anaerobic product ranges.

This acquisition represents a very financially compelling transaction for H.B. Fuller. ND's full-year 2024 sales are expected to be approximately $80 million at greater than 30% EBITDA margin. Total purchase price was approximately $250 million, equating to a pre-synergy enterprise value to EBITDA multiple of less than 10 times and a post-synergy EBITDA multiple of approximately 6 times.

Our M&A pipeline is robust, and we continue to evaluate a number of potential transactions. We have proven the ability to acquire multiple companies while simultaneously reducing our leverage ratio. Given this capability, we have reinitiated our share repurchase program, allowing us to both invest for growth and return additional capital to shareholders.

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

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

Thank you, Celeste, I'll begin with some additional financial details on the second quarter.

For the quarter, revenue was up 2.1% versus the same period last year. Currency had a negative impact of 1.7% and acquisitions increased revenue by 3.9%. Adjusting for those items, organic revenue was down 0.1% with volume up 3.3% and pricing down 3.4% year on year in the quarter.

Adjusted gross profit margin was 31.1%, up 210 basis points versus last year, driven by the net effect of pricing and raw material actions, restructuring savings, and higher volume. Adjusted selling, general, and administrative expense was up 9% year on year, as expected, with acquisitions driving approximately 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 $157 million was up 10% year on year, reflecting the net positive impact of pricing and raw material cost actions, volume leverage, restructuring savings, and the favorable contribution of acquisitions, which more than offset higher variable compensation and wage inflation versus the prior year. Adjusted earnings per share of $1.12 was up 20% versus the second quarter of 2023, driven by strong operating income growth.

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Year-to-date operating cash flow increased $21 million year on year on improved profitability and lower net working capital as a percentage of revenue. This strong growth in EBITDA and cash flow resulted in net debt to adjusted EBITDA of 3.1 times at the end of the second quarter, down from 3.3 times at the end of the second quarter of last year.

On a sequential basis, the ratio increased from 2.8 times to 3.1 times, reflecting the acquisition of ND Industries on a pro forma basis, including the acquired EBITDA from ND Industries, net debt to adjusted EBITDA was 3.0 times at the end of the quarter.

During the second quarter, we reinitiated our share repurchase program and acquired 182,000 shares. Now that our net debt to adjusted EBITDA ratio has returned to more historical levels and given our expectations for continued strong free cash flow, we anticipate regularly repurchasing shares with the goal of offsetting annual share creep from equity-based compensation programs.

With that, let me now turn to our guidance for the 2024 fiscal year. As a result of our strong first-half performance and recent acquisition activity, offset somewhat by the impact of the strengthening US dollar, we are updating our previously communicated financial guidance for fiscal 2024 as follows. Net revenue growth is now expected to be in the range of up 2% to 4% with organic revenue flat to up 2% year on year.

Adjusted EBITDA is now expected to be in the range of $620 million to $640 million, equating to growth of approximately 7% to 10% year on year. Net interest expense is now expected to be approximately $130 million.

Our adjusted effective tax rate is now expected to be between 26.5% and 27.5%. Full year depreciation and amortization expense is expected to be approximately $170 million. And our fully diluted share count is now expected to be approximately 56.5 million shares. Combined, these assumptions result in full-year adjusted diluted earnings per share in the range of $4.20 and $4.45, equating to year-on-year growth of between 9% and 15%.

We still expect full-year operating cash flow to be between $300 million and $350 million. Finally, based on the seasonality of our business, we would expect third-quarter EBITDA to be in the range of $165 million to $175 million.

Now let me turn the call back over to Celeste.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Thank you, John. At H.B. Fuller, we are committed to working alongside our customers to test new ideas, optimize bonding performance, and develop highly tailored adhesive solutions. It is through this unique collaborative approach that we are able to innovate with speed and enable our customers' success.

We have the privilege of collaborating with and creating solutions for an extensive group of customers. In April, we recognized the most innovative product introductions that resulted from these partnerships in 2023 by naming Anhui Huasun, GAF, and Niine as the inaugural winners of the H.B. Fuller Customer Innovation Awards. We are proud to recognize these customers for their exceptional achievements that leverage our unique technology to improve our world.

Let me share a little more about this year's winners. Anhui Huasun Energy is a market leader in solar panel construction and their heterojunction technology solar modules were recognized for their ability to offer power that is more efficient and reliable than previous generations of solar modules. This improved solution has helped to facilitate the broader adoption of clean energy.

GAF, a Standard Industries company and North America's largest roofing and waterproofing manufacturer, was recognized for its EnergyGuard non-halogenated polyiso insulation, which gives architects and contractors an energy-efficient solution designed to help meet their sustainability goals. This product line offers excellent thermal value and is free of potentially hazardous flame retardant chemicals. The product offering holds numerous sustainability certifications.

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Niine, a leading feminine hygiene company in India and producer of sanitary napkins, was recognized for introducing India's first biodegradable solution, which helps to mitigate adverse impacts on the environment. This is particularly crucial in India, where high population density, combined with a still developing disposal system for feminine products has led to a push for more sustainable solutions. Incredibly, Niine's new product reduces the estimated decomposition time from 800 years to less than 18 months for a sanitary napkin in a landfill.

Congratulations to these customers for innovating to improve our world and for being our inaugural Innovation Award winners.

H.B Fuller was also recognized for innovation in the second quarter, winning our second consecutive annual Innovation Award from the Adhesive and Sealant Council, following our win in 2023 for our EV Protect product. This year, we were honored for our new thermoplastic encapsulant platform for photovoltaic modules used in the construction of solar panels.

Our products have application in newer thin-film modules and are advantaged by lower levelized cost of electricity, enabling the creation of solar panels that generate power at a lower cost per watt than traditional technology. We are very proud of our clean energy team and we think our peers at the ASC for the 2024 Innovation Award.

To wrap up, we are very pleased with our first-half financial results and the continued incremental improvement we are driving throughout the business consistent with our strategic plan. The team is executing well and there is complete alignment across the organization.

We have one focus: creating customized, value-added adhesive solutions for our customers. We're set to deliver another year of improved profitability and ROIC, strong cash flow, and we are on pace to achieve our long-term financial targets and drive attractive shareholder returns.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ghansham Panjabi, Baird.

Matt Krueger - *Robert W. Baird & Co. Incorporated - Analyst*

Hi, good morning, everyone. This is actually Matt Krueger sitting in for Ghansham. I just wanted to focus my first question on volumes for the quarter and for the rest of the year. So you highlighted that all three segments demonstrated volume growth. I think this for the first time since early 2022 that this can be said.

But can you provide some added detail on segment volumes during the quarter, specifically each segment? And then, how the third quarter has kicked off, and maybe, what your budgeted volume expectations by segment are for the year? Just trying to get a sense of what should we be thinking about for the second half.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Sure, Matt, and welcome. Good morning. So when you look at our volume performance over Q2 by segment, highest volume performance was logged in by our construction adhesives business, which you would expect. They're mid-season right now. And last year was definitely a weak construction season. So they're up. Volume growth is up double-digit percent.

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EA also had a strong quarter from a volume perspective and showed mid-single-digit volume growth. And HHC, low-single-digit volume growth, but volume growth all the same. So we've seen the destocking that was occurring in HHC, now solidly in the rearview mirror. And we're feeling good about all three of these businesses from a volume outlook perspective.

When we look at P7, we're seeing continued strong performance on volume. And actually, what we've seen is we were already projecting volume growth for the second half of the year and -- around mid-single digit. And we actually have now seen that earlier than planned, which really explains our second quarter.

Matt Krueger - *Robert W. Baird & Co. Incorporated - Analyst*

Got it. That's helpful. And then, just can you provide some added detail on the benefit from the cost optimization and restructuring of the business that's gone on so fa? How much have you achieved to date? How much opportunity is there left under the current program, the current effort? And then, how should this progress through the remainder of the year, maybe first-half contribution versus second-half contribution type split or something like that, just to give us a sense of the scale of the benefit that we're looking at?

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Sure. So when we announced the restructuring last year, we announced $45 million restructuring program over three years. In the first year, 2023, we delivered about $10 million towards that end. This year, we're on track for what will be about $20 million of restructuring savings. And the remainder will then occur in 2025.

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

Yeah, Matt. And in terms of kind of impact by quarter -- first half or second half, I would say we are probably seeing 35%, 40% of that $20 million in the first half, and we'll see the rest in the second half. So it'll ramp up a little bit as we go through the year.

Matt Krueger - *Robert W. Baird & Co. Incorporated - Analyst*

Got it. Got it. That's helpful.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

And that $20 million was incremental, Matt, right, on top of the $10 million.

Matt Krueger - *Robert W. Baird & Co. Incorporated - Analyst*

Yeah. Yeah. Makes sense. Okay. That's it for me. I'll hop back in. Thank you very much.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Great. Thanks. And our regards to Ghansham.

Operator

Kevin McCarthy, Vertical Research Partners.

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Kevin McCarthy - *Vertical Research Partners - Analyst*

Yes, thank you and good morning. Celeste, Congrats on the acquisition of ND Industries.

So wondering if you could maybe address a few questions related to that deal. In listening to your comments on sales and margins, would it be fair to say that you're baking in, say, $5 million to $7 million of EBITDA per quarter in the back half of the year? And then just qualitatively, maybe comment on your early experience, now that you've owned it for five weeks and maybe what the integration roadmap looks like over the near term and medium-term strategic thoughts. Those sorts of comments would be welcome.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Sure, Kevin, and good morning. So we're baking in, call it, $13 million of benefit from ND in the second half. So about $6 million a quarter. And our experience with the team to date has already just been amazing. We acquired some terrific technology there and some amazing, amazing people.

When you look at their business, a portion of that business was adhesives that they produced under the Vibra-Tite brand. And we have -- we are a believer in that brand. We love that brand. Mark we already had a lot of cyanoacrylates and UV curables and epoxy systems. What they had that was really unique for us was a very advanced anaerobic product offering.

And so when you look at this anaerobic product offering, it's tremendous. They take what's basically a two part epoxy. They encapsulate that. They impart that into a carrier system -- a liquid carrier system, which then gets coded on a mechanical fastener. And it remains in our -- you saw the pictures on the presentation we just showed, until the threads are combined. And when the threads are combined, the product mixes and cures into what is really a structural bond.

So this is -- we're excited to bring this to even more of our big OEM customers in the aerospace and automotive space. Think heavy equipment. This really provides a strong structural bond. And part of the business that we acquired is also the actual coding of these customers' fasteners. So this brings us even closer to our customer base and allows us to do what we know how to do very well, which is apply adhesives.

So as I look at operation, it's a very good fit for us because it capitalizes on two things we do very well: one, formulate adhesives that meet customer needs; and secondarily, understand how those adhesives are actually applied in use to the extent that we are doing the applying now at ND.

From an integration perspective, we're implementing based on our standard integration playbook. So we've got a regimented group of activities that we do regularly that are scheduled through each month throughout the next two years. And even today, our leader -- our legacy H.B. Fuller leader and the leader from that business that we've acquired, who now becomes a market segment leader here at H.B. Fuller, are already in Europe, looking at opportunities with customers there to geographically expand the business.

In fact, one of the tailwinds that we really appreciated in the business was that one major competitor to ND Industries because of supply chain issues had decided to exit the market, leaving an opportunity for us to grow volume there and expand rather quickly. So we've got really grand plans for ND Industries, and we're so glad to have that team on board.

Kevin McCarthy - *Vertical Research Partners - Analyst*

That's super helpful. As a second question, Celeste, I was wondering if you could comment on your price experience in each of the segments in the second quarter and taking into account that your comparisons look very different on pricing, moving forward. How would you characterize pricing prospects for the fiscal third quarter? Would you expect negative numbers there to flatten out or perhaps even turn back to positive territory at some point?

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Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Yeah. So there's a few impacts affecting pricing -- that affected price in the second quarter, but that I can speak to for the second half. HHC does have a lot of index-based pricing agreements, which I've spoken about before. And when you look at our pricing performance in both the first quarter and the second quarter of this year, a lot of that negative numbers there were driven by the correction that's happening on these index-based pricing agreements.

What we're seeing to date is that raw materials are steadily increasing about -- we monitor about 4,000 different raw materials. And as I look forward, 80% of those are flat to increasing. So we will see, with these big customers, the index-based pricing agreements start to level out in the third quarter and then increase with rise over time.

The other pricing experience we're having that we'll see more of in the second quarter is reformulating products. So particularly in an environment like this when customers are very cost sensitive, we -- they will ask for help on their product, on their customer, on their adhesive price. And typically, what we will do, where it makes sense, is to work with them to replace certain raw materials within their existing formula with others that are lower cost or come from different suppliers in order to overall reduce the price we can offer that customer on that product.

So we're lowering our costs as we do that. We're sharing it with the customer. And there's not a margin impact to us, but you will see a pricing impact start to occur. So when we look at our full-year guidance, while we had been projecting price of negative 2% to 3%, we are more in the -- we're going to see a little more in the 1% to 2% range at this point.

Kevin McCarthy - *Vertical Research Partners - Analyst*

Perfect. Thank you so much.

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

And maybe I can just add a little color, just if you're thinking about this sequentially, Kevin, for purposes of modeling. So first half of the year, our prices are down roughly 3.3%, 3.4%. And as Celeste said, that will narrow as we go through the back half of the year, based on the fact that indexes have now leveled and we'll actually start to see a little bit of benefit from those. We'll also annualize against some of the price adjustments we had in the second half last year.

So if you're thinking about 3%-ish, 3.5% in the first half, I would say, in Q3, it will probably be closer to negative 2%, and Q4, maybe kind of negative 1% to negative 2%, something in that range.

Kevin McCarthy - *Vertical Research Partners - Analyst*

I see. Thank you, John.

Operator

Patrick Cunningham, Citi.

Patrick Cunningham - *Citi Investment Research - Analyst*

I think in terms of HHC, I wanted to drill down into volume outlook there for the year. I think you've cited some ongoing softness in the hygiene space. I guess the first part of the question is destocking mostly complete within that sector? And how should we expect it to evolve throughout the year?

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And then just broadly across HHC, it does seem we're getting some lingering. Data points on consumer weakness in the US and Europe still somewhat weak. So what's your level of confidence in solid positive volumes in the back half across HHC?

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Yeah.

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

Sorry, Patrick. So I would say we would expect the volume trends to continue. We saw that from Q1 to Q2. And I think if you look across the portfolio, it's -- generally, we've seen a return to volume growth in almost every market segment. So 8 out of the 12 market segments are showing volume growth in Q2.

Hygiene continues to be a soft spot. We've spoken about that during the last call, but that's actually improved quite a bit from Q1 to Q2. So I think we would expect to see improvement each of the next two quarters.

I think we're still projecting that the hygiene volume -- or I should say, [HHC](corrected by company after the call) organic for the full year will be down, kind of low-single digits. But you will see and you should see an improvement each of the next few quarters.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

When I think about the year -- organic growth for the year in HHC, it will be a slight negative. But most of that will be -- well, that will be entirely pricing, overcome to some extent by volume.

Patrick Cunningham - *Citi Investment Research - Analyst*

Got it. That's helpful. And then just on -- in terms of expectations for capital expenditures, free cash flow for the year, where do we stand there? And just given the sizable acquisition that you did, should we expect more of a bias towards repurchases for the balance of the year? Or would you maybe still have appetite for another $100 million plus (inaudible)?

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

So when you look at our capital forecast, it remains at $140 million for the year. And let's just talk for a few minutes about the M&A pipeline. So our M&A pipeline is very robust. We continue to identify and work closely with owners of businesses in those select spaces where we can acquire at reasonable prices, businesses that are much higher EBITDA margin than our own, which you saw -- ND Industries is a great example of that, and that are in faster-growing spaces.

So I think, safe for you to consider, for modeling purposes, expenditures of up to $350 million in M&A this year.

Patrick Cunningham - *Citi Investment Research - Analyst*

Got it. Thank you.

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Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

And we'll -- your question on repurchases. So we'll continue to repurchase shares to offset equity-based compensation programs. You've seen us initiate that in Q2. We'll continue that throughout the year.

Operator

Jeffrey Zekauskas, JPMorgan.

Jeffrey Zekauskas - *J.P. Morgan Securities LLC - Analyst*

Hi, good morning. Thanks very much. In terms of the financial leverage that Fuller is willing to bear to execute its acquisition program, is it fair to say that you want to stay within a 3 to 4 times, unless something really unusually good came up? Is that we are evolving to for 2024 and '25?

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

No, Jeff, so I would put that range in the 2.5 to 3 times, and that's where we've been operating over the course of this year. Now, we're at 3.1 with ND Industries. But as you look back, what you see is that as we acquire these businesses, we have simultaneously been able to continue to reduce that leverage, given the strong synergies that come with the businesses we're buying, their EBITDA, and our ability to further grow their EBITDA. So I'd consider 2.5 to 3 times as more so the reasonable range of operation.

Jeffrey Zekauskas - *J.P. Morgan Securities LLC - Analyst*

Okay. Then maybe a couple of questions for John. The benefit from ND in the second half is more than $10 million and you increased your -- lower end of your guide by $10 million. So is it the case that the base business, for whatever reason, is a little bit weaker than you expected because the increase is smaller than the acquisition benefit? And --

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John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

Yeah, probably.

Jeffrey Zekauskas - *J.P. Morgan Securities LLC - Analyst*

I'm sorry. If I can --

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

Go ahead. Go ahead, Jeff.

Jeffrey Zekauskas - *J.P. Morgan Securities LLC - Analyst*

Sorry. And then, secondly, your EBITDA was up about 10% -- your adjusted EBITDA was up about 10% this quarter. But your acquisition sales benefit was about 4%. So that said, so when I do the calculation, it looks like acquisition benefits from EBITDA were about $6 million. So what I get is sort of an organic EBITDA growth of about 5.5%. Is that a calculation that's roughly, right?

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John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

Well, I think you'd have -- so let me go to your first question around the guidance. So the $10 million, yeah, that's roughly right. A little bit more than that. One of the things we saw in the second quarter was the continued strengthening of the US dollar, and we factor that into our guidance as well. We saw that start to show up in Q2. It increased as we went through Q2, and we would expect the full year to be about a negative 2% impact from FX. And so that would reflect a higher impact in the second half.

Yeah, devaluation of the Egyptian pound, Turkish lira was down about 7%. And then the renminbi, euro also weakening against the dollar. So we factor that into the second half. That pretty much offsets the impact of the ND Industries contribution to EBITDA.

So we look at it as we're adding ND, we have got some negative FX, and the guidance for the most part in the second half is unchanged. When you look at the second quarter, yeah, I think the $6 million might be a bit high. We only got $1 million from ND Industries in the quarter. It's probably around $4 million, but I get your point.

The other impact you have to factor in though is FX, right, because it [wasn't] nearly negative 2% impact. So yeah, I think, netting out FX in ND, it's maybe a little less than 10%, but it's high-single digits.

Jeffrey Zekauskas - *J.P. Morgan Securities LLC - Analyst*

And just if I could squeeze in one last one. And maybe this is for Celeste. What do you think is -- what kind of growth rate to expect for ND in sales over a three- to five-year period and what's been its historical growth rate?

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Yeah. So growth rate over a three- to five-year period, we're looking revenue growth for greater than 10% per year on that business. Historically, it has not performed to that level, but that has primarily been because it's been a little capital constrained, right? You know, this is private owners throw everything into these businesses and it could use a couple of million more CapEx here and there. And they have expanded over time in stages. And we're just at the point where they're ready for that next stage of expansion.

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

And just to add to that, Jeff -- Jeff, Celeste commented major competitor leaving the [European](corrected by company after the call) market creates a big opportunity in the near term. But the big opportunity is geographic expansion, right? And this is a business that's almost entirely US-based. As Celeste alluded, we've already got the team looking at opportunities in Europe. There's opportunities in Asia. So this will be a deal that brings a lot of commercial synergies.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

And that's something that we are much better suited to do than a private owner, given that we already have a well-entrenched footprint around the world.

Operator

Mike Harrison, Seaport.

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Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Hey, Mike.

Mike Harrison - *Seaport Global Securities LLC - Analyst*

Hi, good morning. Congrats on nice quarter. Was wondering if we could talk a little bit about the engineering adhesives business. I guess, first of all, I'm curious if you can walk through the volume growth that you're seeing in some of the key end markets within that business. I assume that electronics was still leading the pack. But what are you seeing in areas like transportation, clean energy, and some of the stuff that's exposed to construction markets?

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Yeah, sure. So really, strongest quarter in EA were automotive, aerospace, electronics, RV, and glass, and I'll talk about all of these. So automotive is a business where we are aggressively taking share. It's been strong. It's going to remain strong in the second half. In fact, we've seen double-digit increases -- I'm talking 20% to 60% increases in interior trim applications, in exterior trim applications, like plastic lift gates and adding spoilers to automotive, structures, the EV powertrain. In fact, we're making a thermally conductive gap filler now being used in the EV powertrain. In the lighting applications, so in headlight sealants, in headlight controls.

So the team has really been able to work as a strong innovation partner with these big companies around the world in the automotive space and has become part of the innovation process with these customers. So I anticipate automotive being very strong, both the IC units as well as EVs, where we have an incredibly strong position in China, working with some -- many of the EV producers.

In glass, we just -- the glass business has really been -- there's a lot of momentum in the glass business that's driven by our 4SG innovation, which is unique product that enables a lot of architectural advances as well as [thin pin triples], right? And so in the glass business, the most automated customer in Europe actually just committed 100% of all their business to us in the US. We've leveraged our profile wrapping position with one US OEM from 25% share to 100% share, thanks to the product quality and the customer service we bring.

And again, this market is going to continue to grow for us, regardless of what happens in construction. And we're seeing -- and I say that because of the innovation, right? We're seeing customers invest in 4SG lines in the second half. So that will continue to grow in that ultimate end market.

Aerospace has been incredibly exciting. We just introduced a non-chrome corrosion inhibitive sealant for fuselage sealing, for aerodynamics moving. We've taken some share with that. We've taken share in prem in the aerospace environment because we have flame, smoke, toxicity approved products for the interior trim. And we just won some business in India in aerospace. Polysulfides for sealing the door hatches on emergency doors, which I'm sure we're all very glad about and the edge ceiling on parts of helicopters. So a lot of strong performance. Really, as I see this aerospace team take their -- this advantage portfolio we have and start to now introduce it around the world because of this global market segment leader structure that we're operating within.

And then finally, electronics. I mean, what can I say? The electronics business has been growing like crazy. Really, our position in China has been a nexus of that growth. We're very involved with customers there in their development process. And we actually just moved our leader of our consumer electronics space from China to the US to ensure again that we are effectively expanding that electronics business in every region we possibly can.

So we're pretty happy with the EA business and their growth potential. And what we're seeing there. In fact, most of our growth segments, when you look at how the growth versus leverage segments are allocated within our GBUs, about two-thirds of them are in the EA business. In fact, we've just added another with fastener locking systems.

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But another growth opportunity in that space is e-power. I actually just met with a customer in the e-power space, who's introducing new battery technology for the non-passenger car EV battery market, and we are their exclusive supplier. So we've got customers in India buying EV Protect for battery applications. It's really a very exciting space for us and it is growing. It's growing quickly.

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

Yeah, Mike, you had asked about the impact of the construction-oriented markets because we did call that out in Q1 as a soft spot for engineering adhesives, which seem probably a little counter to the comments we were making about construction -- our construction adhesives business unit. But remember, we -- I think, we tried to make it clear that the construction business -- our construction business is almost entirely US-based, which is performing very well.

The EA business is in -- that are construction-related glass, woodworking panels are very global. And Europe was really slow in Q1. That improved in Q2. So those are -- so we're seeing improvement in the construction-related businesses. Celeste called out glass as one of the highlights. So that's positive sign. And we would expect that to continue into the second half.

Mike Harrison - *Seaport Global Securities LLC - Analyst*

All right. That's definitely helpful color. And then the EBITDA margin in your engineering adhesives business is pretty strong. You said 160 basis points of year-over-year improvement. I know that long term, you see EA as a segment that can consistently deliver 20% EBITDA margin or higher. Is that 20% margin levels something that we should expect you guys to achieve in the second half, based on what you're seeing today?

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

So Mike, I would say, you know, we were at 18% in Q2. We would expect that to step up as we see continued volume improvement and ND. So yeah, I think the second half average should be closer to 20% than 18%.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

And that's in the second half. When we think about where we're taking the portfolio over the next three years, our aim is for H.B. Fuller to be in total 20% EBITDA margin business. How are we going to get there? Remember, we have the growth segments and we have the leverage segments.

Our growth segments need to deliver 25% EBITDA margin plus. Our leverage segments need to be above 15%. Our leverage segments are already pretty close to 15%. So our objective now is to continue to acquire and grow in these faster-growing, higher-margin spaces, very differentiated spaces. And to your point, watching -- you'll be watching EA in the lead to that end.

Operator

(Operator Instructions) David Begleiter, Deutsche Bank.

David Huang - *Deutsche Bank Securities Inc. - Analyst*

Hi, this is David Huang here for Dave. I guess just going back to the guidance, it sounded like volume is tracking ahead of the expectation and pricing will become less negative in the second half. Why did you reduce the top end of your organic sales guidance from 3% to 2%?

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John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

Hey, David. So the two adjustments we made is we actually changed our guidance from 0% to 3% organic growth to 0% to 2% organic growth. And the two changes we made were: effectively, we took the impact of price for the full year from about negative 1% to 2% to a negative 2% to 3%; and volume, we were projecting a full-year impact of 2% to 4%, and now we're projecting 3% to 4%. So we actually upped the volume assumption on the bottom end of our range and then offset that with a slightly negative -- more negative impact from price.

David Huang - *Deutsche Bank Securities Inc. - Analyst*

Okay, got it. And then on working capital, do you still expect that to be a source of cash for the full year?

John Corkrean - *H.B. Fuller Company - Executive Vice President, Chief Financial Officer*

I think I'm not sure it's going to be a source of cash. I think it was a source of cash in Q1 and use of cash in Q2 as we return to volume growth. So it's going to be, I think, for the full year, probably relatively neutral. We still expect our full-year working capital to get down closer to 16% or closer to -- between 15% and 16% [of revenue](added by company after the call). So we believe we'll see continued sequential improvement, but year over year, it will probably be up because of the volume growth.

David Huang - *Deutsche Bank Securities Inc. - Analyst*

Okay. Thank you.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Back to your price-volume comment, David, I mean, when you look at the change in midpoint for our adjusted EBITDA projection, really, when you think about it, we're going -- we're increasing our midpoint by about $5 million, which you've seen in Q2, and offsetting the benefit of ND Industries with FX. So not a lot of other changes happening.

Operator

Rosemarie Morbelli, Gabelli Funds.

Rosemarie Morbelli - *Gabelli Funds - Analyst*

Thank you. Good morning, everyone, and congratulations on the strong quarter.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Thanks, Rosemarie.

Rosemarie Morbelli - *Gabelli Funds - Analyst*

Celeste, the company's focus, and obviously, the ND acquisition is showing that you are following the playbook you have mentioned previously. On the leverage categories, with a margin of 15%, are there any divestiture potential that we should expect in order for you to get to that 20% plus EBITDA margin over the next three to five years?

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Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

So when you look at that leverage category, we are very close to 15%, and you know, we don't have many businesses that don't deliver a benefit. Now, we are looking at all of them with a very different lens than we have in the past.

As you know, we have requirements to be a leverage business revolving around raw material scale, ability to have pick where we play selectively. So that's always the first thing we'll look at. We'll look at a market segment and say, can -- we want to stay in as many of these segments as we can. If we pick where we play effectively, is this going to be a higher margin, but maybe a little smaller business? So that's the first evaluation point.

If we find -- you know, as we're going through the portfolio, if we see a business that we don't think meets our leverage parameters, can't meet those characteristics, we'll certainly consider divesting it. One thing to keep in mind is that in this business, while our plants and infrastructure is allocated to a global business unit for management purposes, almost all of our plants are technology-based and they produce for multiple business units.

So the prospect of separating out a market segment and exiting it does have -- can have other consequences where we have shared plants. So it is a complicated evaluation, but certainly, we have it underway and we're very critically evaluating all of these businesses on a regular basis.

Rosemarie Morbelli - *Gabelli Funds - Analyst*

Thanks, Celeste. So you just said that all of the plants are servicing, so -- if I can use that term, all of your operations, all of your businesses. So how do we go from that comment to restructuring and eliminating, lowering your overall structure?

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

So most of them are shared. Most of them are technology-based. That doesn't mean that there's not opportunity or redundancy to eliminate plants. And in fact, since we started our optimization exercise, we've announced that we're exiting 9 plants out of the 80 that I started with.

So there are opportunities to continue to streamline the footprint. We're at nine today. And as I look forward, you know, I see there's -- we're evaluating three to six more right now we have in process. So there are ways to rethink our infrastructure that we are focused on.

Secondarily, I would say we've also started looking at our warehouse infrastructure. And in the US, we have a network optimization program underway to evaluate and streamline our warehouse infrastructure. So there's quite some opportunities to take fixed costs out of this business. That's never easy and we are -- want to be very careful as we proceed forward. But there are many opportunities.

Rosemarie Morbelli - *Gabelli Funds - Analyst*

Thank you. And if I may sneak in one last one. Looking at ND 30% EBITDA margin, that was when they were operating on their own and not as part of a public company. Are you allocating some of the additional costs of being public, and therefore, their growth, we can anticipate that margin not to stay at that 30% level?

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

You should anticipate that margin to remain and increase over time. Yes. I mean, they certainly will end up supporting some corporate costs. But there are also synergies on the business and opportunities for us to reduce cost within it so that we will employ. Plus, as we continue to expand the business and grow volume, we'll get additional operating leverage out of that. So say, 30% is the low watermark, Rosemarie.

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Operator

That concludes our question-and-answer session. I will now turn the call back over to Celeste Mastin for closing remarks.

Celeste Mastin - *H.B. Fuller Company - President, Chief Executive Officer, Director*

Thanks, everyone, for joining us. We look forward to speaking with you again next quarter.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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