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FUL.N - Q4 2022 H.B. Fuller Company Earnings Call

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CORPORATE PARTICIPANTS

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

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

Steven Brazones

CONFERENCE CALL PARTICIPANTS

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

Eric B Petrie *Citigroup Inc., Research Division - VP & Senior Associate*

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

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

Michael Joseph Harrison *Seaport Research Partners - MD & Senior Chemicals Analyst*

Vincent Alwardt Anderson *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

PRESENTATION

Operator

Good morning. My name is Chris, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the H.B. Fuller Q4 2022 Earnings Conference Call.

(Operator Instructions)

Steven Brazones, Vice President of Investor Relations, you may begin.

Steven Brazones

Thank you, operator. Welcome to H.B. Fuller's Fourth Quarter 2022 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. Before we begin to discuss our results for the fourth quarter and fiscal year, I would first like to thank the many team members I have engaged with throughout my travels over the last several months. You have been so hospitable and have smoothed my transition here into my role as CEO.

Your enthusiasm and passion for our business is energizing, and I appreciate your drive and devotion in serving our valued customers each and every day. Thank you.

In fiscal year 2022, we delivered exceptional financial results, driven by market share gains, responsible pricing actions and diligent execution of our strategy. We delivered strong double-digit growth in organic revenue, adjusted EBITDA and adjusted EPS.

This is particularly impressive given the significant headwinds we endured from continued raw material cost inflation, supply chain disruptions, a strengthening U.S. dollar and substantially higher interest rates. For the year, we grew organic revenue by 17%, with strong organic revenue growth in all 3 GBUs, EBITDA by 14% and adjusted EPS by 15%.

We also delivered another strong cash flow performance with operating cash flow up 20% year-on-year. I am very proud of the team's resilience and determination in executing our winning strategy to deliver these impressive results in spite of a very difficult operating backdrop.

At the same time, we recognize that we did not finish the year as strong as we had expected. During the fourth quarter, we experienced an accelerated slowdown in demand in Construction Adhesives driven by inventory destocking actions by our customers.

While we were expecting demand to decline sequentially in Construction Adhesives and had a very difficult comparison versus the fourth quarter of last year, destocking actions were more pronounced and faster than we were anticipating. In addition, more aggressive COVID-related shutdowns in China rather than an easing in such measures, negatively impacted growth in our Asia Pacific region.

This was unexpected and contrary to the strengthening demand trend we saw in the first 3 quarters of the year. And lastly, the U.S. dollar, which had already strengthened quite considerably throughout the first 3 quarters of the year, strengthened even further during our fourth quarter.

These challenges adversely impacted our revenue and EBITDA growth and our financial results fell below our expectations for the fourth quarter. While disappointing, our underlying business remains very healthy, and we believe the conditions negatively impacting demand in Construction Adhesives will abate over time.

Overall, given the diversity of our geographic and end market exposure, our pricing execution in 2022 and the expectation of lower raw material costs, we are well positioned for continued strong profit growth and margin expansion in 2023 and beyond.

Looking at our consolidated results in the fourth quarter, organic revenues increased 6% year-on-year. This was driven by strong organic growth in both Hygiene, Health and Consumable Adhesives and Engineering Adhesives. The strength of these 2 business units more than offset the weakness in Construction Adhesives.

Responsibly strong pricing actions taken throughout the year drove the organic growth in the fourth quarter. From a profitability perspective, despite the challenging financial results in Construction Adhesives, we again achieved sequential EBITDA margin expansion in the fourth quarter, marking the third consecutive increase in adjusted EBITDA margin this year.

On a year-over-year basis, adjusted EBITDA was up 5% in the fourth quarter to $141 million and adjusted EBITDA margin remained stable year-on-year at 14.7% despite significantly higher raw material costs. Now let me move on to review the performance in each of our segments in the fourth quarter.

In HHC, organic revenue was up 12% year-on-year, with most end markets achieving strong double-digit organic growth. Beverage labeling, hygiene, packaging, tissue and towel, and health and beauty markets were particularly strong.

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HHC's pricing actions offset lower volume and drove organic revenue growth in the quarter. Adjusted EBITDA for HHC increased 5% year-on-year. Adjusted EBITDA margin decreased year-on-year due to higher raw material costs and lower volume.

In Engineering Adhesives, organic revenue increased by 9%, led by exceptionally strong growth in automotive and insulated glass. Strong pricing actions and higher volume drove EA's organic growth. Adjusted EBITDA increased 23% in EA and adjusted EBITDA margin increased 240 basis points year-on-year to nearly 18%.

Pricing actions and expense management drove the improvement year-on-year and offset the impact of significantly higher raw material costs. In Construction Adhesives, organic sales declined 20% year-on-year due to customer destocking activities and more challenging economic conditions.

The prior year's fourth quarter benefited from the post-COVID demand surge in construction markets, which has since reverted given the current economic backdrop. The decline in organic sales was driven principally by a slowdown in the roofing market. Adjusted EBITDA for Construction Adhesives declined in the fourth quarter, driven by lower volume and higher raw material costs.

Geographically, Americas organic growth was up 3% year-on-year, significantly impacted by the decline in Construction Adhesives. Organic growth, absent Construction Adhesives, was up double digits in the Americas in the fourth quarter.

In EMEA, organic revenues increased 13% versus the fourth quarter of last year. Weak economic conditions in the region persisted but did not worsen sequentially versus the third quarter. In Asia Pacific, organic revenues increased 3% year-on-year.

More severe COVID-related lockdown restrictions in China negatively impacted sales development for the region, and this was contrary to the strengthening trend we experienced during the second and third quarters of 2022.

Overall, global economic conditions have slowed throughout the year, largely as we expected, but for Construction Adhesives, reflecting customer inventory reductions and slowing end market demand. Europe remains weak and an expected rebound in China has been delayed.

Macro conditions in the Americas are also slowing as the impacts of higher interest rates begin to temper demand. Construction Adhesives is being disproportionately impacted in the short term given the economic sensitivity of this sector and heavy customer destocking activities.

Both HHC and EA are weathering the challenging economic situation well aided by their diverse geographic and end market exposures. While the economic outlook poses challenges, we are prepared and well positioned to control expenses, expand margins and grow cash flow in such an environment. We are beginning to see the rate of aggregate raw material cost inflation slow, and we expect this to continue as we progress throughout the year.

Generally, it takes about a quarter for changes in raw material costs to cycle through inventory and impact the P&L. While aggregate raw material cost inflation is beginning to taper, it's not universal. The preponderance of our raw material purchases in November were at the same or higher prices than in the month of October.

Accordingly, we continued to increase prices in the fourth quarter, and additional price increases are planned in 2023. The value we generate for our customers as a solutions provider, as reflected in our pricing performance, together with the diversity and scale of our raw material purchases will enable us to expand margins in an environment of declining raw material cost inflation.

Following 2 years of unprecedented supply chain disruption and significantly higher raw material costs, this provides us with a meaningful opportunity to further expand EBITDA margin in the year ahead. Now let me turn the call over to John Corkrean to review our fourth quarter results in more detail and our outlook for 2023.

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

Thank you, Celeste. I'll begin on Slide 5 with some additional financial details on the fourth quarter. For the quarter, revenue was up 7% versus the same period last year. Currency had a negative impact of 8.7%. Acquisitions increased revenue growth by 1.6%, and the extra week compared to last year positively impacted revenue growth by 7.5%.

Adjusting for those items, organic revenue was up 6.4% with pricing having a favorable impact of 11.4% year-on-year in the quarter and volume down 5%, reflecting a slowdown in end market demand, particularly in Construction Adhesives and softness in China due to COVID-related lockdowns.

Adjusted gross profit margin was 26.2%, down 90 basis points versus last year, as raw material inflation and lower volumes more than offset significantly higher pricing. Adjusted selling, general and administrative expense was down slightly year-on-year and adjusted SG&A as a percentage of revenue declined 130 basis points, reflecting strong pricing gains, lower variable compensation and overall good expense management.

Adjusted EBITDA for the quarter of $141 million was up 5% versus last year, reflecting strong pricing actions, lower SG&A and the impact of the extra week, which more than offset significantly higher raw material costs and unfavorable foreign currency translation.

Adjusted earnings per share of $1.04 was down slightly versus the fourth quarter of 2021, driven by the unfavorable impact of foreign currency and significantly higher interest rates. Adjusting for unfavorable foreign exchange, which negatively impacted EPS by approximately $0.22 in the quarter, adjusted EPS was up 15% year-on-year.

Cash flow in the quarter was strong. Cash flow from operations of $208 million was up $156 million year-on-year, reflecting higher profit, reduced working capital requirements, a onetime gain on the maturity of a cross-currency swap and the impact of the extra week.

Our results for the full fiscal year were also very strong. Full year organic revenues grew 17% versus fiscal 2021, reflecting outstanding pricing execution. Adjusted EBITDA increased by 14% year-on-year and adjusted EPS was up 15%.

With that, let me now turn to our guidance for the 2023 fiscal year. Our geographic and end market diversification is an asset in recessionary time periods and provides us with a meaningful buffer to the volatility in demand in any one particular market.

As we assess the economic sensitivity of our portfolio with the conditions present in the marketplace today, more than half of our portfolio has little sensitivity and is well insulated from significant swings in demand. And only about 20% of our portfolio would be more highly influenced by economic conditions, but the drivers impacting recessionary sensitivity will generate different outcomes amongst the end markets.

Our diversification will serve us well as we manage through what we expect to be challenging economic conditions in 2023. Based on what we know today, we anticipate full year net revenue to be flat to down 3% versus 2022 and organic revenue to be up 2% to 4%. We expect foreign currency translation to negatively impact revenue by 3% to 4% versus 2022.

Fiscal year 2023 will be a 52-week year compared to a 53-week year in 2022, which will unfavorably impact year-on-year revenue growth by approximately 2 percentage points. We expect adjusted EBITDA to be between $580 million and $610 million, representing a 9% to 15% year-on-year increase, up 11% to 17%, adjusting for the extra week in 2022 as the benefits from net changes in prices and raw material costs and strong expense management more than offset unfavorable foreign exchange.

We expect our 2023 core tax rate to be between 27% and 29% compared to our 2022 core tax rate of about 27%. We expect full year interest expense to be $115 million to $125 million, reflecting higher interest rates, and we expect average diluted share count to be about 55.5 million shares.

These assumptions result in full year adjusted earnings per share in a range of $4.15 to $4.55. Finally, we expect full year operating cash flow to be between $300 million and $350 million before approximately $120 million of capital expenditures.

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Based on the seasonality of the business, and the timing of working capital needs, we expect operating cash flow to be weighted to the second half of the year. All of this guidance reflects the fact that H.B. Fuller will have 1 less reporting week in fiscal 2023 compared to 2022. We estimate that extra week will have an unfavorable impact on full year revenues of approximately 2% compared with full year 2022 and an unfavorable impact on full year EBITDA of approximately $10 million versus 2022, all occurring in the fourth quarter.

Taking into consideration low construction demand in the first half of the year and continued disruptions in China as well as the typical seasonality of the business, we expect first quarter revenue to be down low to mid-single digits and to realize approximately 17% to 18% of full year EBITDA in the first quarter.

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. Since becoming CEO at the beginning of December, I have grown even more optimistic about our future. We have tremendous potential for continued organic growth and margin expansion, and I have confidence in our strategy and ability to achieve our long-term financial goals.

As we begin 2023, we do so having successfully expanded EBITDA margin sequentially over the last 3 consecutive quarters, and we are entering an environment that will be more conducive to further margin enhancement. We have many competitive advantages to leverage, particularly in the current economic environment in addition to our ability to innovate with customers to serve their needs.

We have pricing discipline, robust product substitution capabilities and a demonstrated ability to execute. Each of the last 3 years has brought unique and extraordinary challenges, including a pandemic, a conflict between Russia and the Ukraine, unprecedented supply chain disruptions with raw material cost inflation and a significant strengthening of the U.S. dollar.

And in each of the last 3 years, H.B. Fuller has stepped up to those challenges and delivered for our customers, our employees and our shareholders while consistently outperforming the competition. We expect 2023 to be no less challenging, but we are confident in our team's abilities and resolve. And we believe, based on the improvements that we've made in our business over the last several years and our ability to bring innovation to the diverse set of end markets we serve, that we are well positioned to continue to drive growth and expand margins while delivering outstanding cash flow. That concludes our prepared remarks for today. Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Ghansham Panjabi with Baird.

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

Celeste, congrats again on your new role.

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

Thanks, Ghansham.

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

Yes. So I guess destocking seems to be a pretty common theme so far this earnings season. You called out Construction Adhesives, which I guess, fits with intuition. But what about the other segments, HHC and even EA?

And the reason I ask is, many of the CPG companies that are starting to report, they're reporting pretty significant declines in volumes as well. So I'm just curious as to the risk associated with destocking becoming more pronounced for the other segments as well?

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

Yes. That's a great question, Ghansham. It absolutely is. Certainly, in HHC in the fourth quarter, we saw some significant destocking. And it's a little unusual in that CPG in the consumer product business, but yes, that absolutely is the case.

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

Got it. And what about EA?

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

Not so much there. Interestingly enough, now we did see our volumes impacted in EA because of this slowdown in China. Over Q2 and Q3, we saw mid-single-digit increases in growth in China. That was not the case in the fourth quarter. Fourth quarter was flat.

And our EA business, certainly, that took some wind out of their sales as it relates to volume, but we did not see big destocking actions in EA.

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

Got you. And then maybe a question for John on the EBITDA bridge between fiscal year '22 and '23. I know you gave some parameters about the loss of the week and FX, but what about the other components in terms of volumes and price cost, et cetera?

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

Yes. So I think what we had said earlier, Ghansham, is we have got -- given our pricing actions in 2022, we've got a very nice pricing carryover into 2023. We are seeing raw materials start to ease. You have to kind of look at those 2 things together.

And that's really what's driving the majority of really all of the profit growth. We estimate that the pricing carryover and raw materials easing that's $130 million to $160 million of profit growth for us in 2023. And that offsets the headwinds we have related to probably a little softer volume obviously, unfavorable foreign exchange, the extra week and kind of normal inflation on wages and other things.

And that's probably about $80 million. That's kind of how do we get to that bridge.

Operator

The next question is from Mike Harrison with Seaport Research Partners.

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Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Happy New Year. I wanted to maybe ask a little bit of a different question on the earnings cadence. If I do the math correctly, it looks like you're kind of pointing to $100 million to $110 million of EBITDA for the first quarter.

And I guess I'm just trying to understand kind of what gives you confidence that you're going to -- it means that the rest of the year has to show pretty meaningful growth. Is -- are you seeing the raw material declines happening as we speak? Just maybe talk about the confidence level of better earnings as we get through the rest of the year. And I guess, is that mostly driven by raw material tailwinds?

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

Yes. Thanks for the question, Mike. So let me -- you're correct, to start with, in your estimation of what EBITDA looks like in the first quarter. We did guide to 17% to 18% of our full year EBITDA, which is -- would be pretty flat with last year. That 17% to 18% is little lower than what we would normally see in the first quarter.

Usually, we're around 20% of full year EBITDA. And it is this sort of, let's call it, kind of fourth quarter hangover. We are still seeing -- in our P1, which was December, we saw a December that still looked a lot like Q4.

However, with the beginning of the new year, we're starting to see things pick up a little bit. As to your question about raw materials, yes, we're still -- raw materials are really just plateauing. We were pretty flattish Q3 versus Q4 on raws.

And if you look at Q4 this year versus prior year, we're still up. So we're moving towards that inflection point. We expect that will hit us during the current year. But it's definitely not been here yet. Do you want to elaborate on that, John?

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

Yes, that's exactly right. I mean, yes, raw -- the raw dynamics will be the big impact. The other impact I'd point out is exchange, right? Exchange -- the dollar strengthened throughout 2022. I think in my prepared remarks, we indicated that it had something like a $0.20 impact unfavorable in the fourth quarter.

So we will annualize as we get through 2023. It will become less of a headwind if exchange rates stay where they are, it will actually be a little bit of a tailwind. So those are the big dynamics, I would say, Mike, the raw material dynamic and foreign exchange.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Perfect. And then in terms of the Engineering Adhesives business, obviously, very nice performance there. Was there anything unusual or maybe more onetime in nature that drove that margin strength that we might worry about reversing at some point in '23. I guess maybe my way of asking what you expect margins to look like in that business as we get into next year.

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

Yes. We are really excited about our EA business. Aspirationally in that business, we have continued to work the portfolio. We continue to drive the portfolio in that business, particularly to those highly specified applications, which do carry higher EBITDA margins.

So to answer your question, no, there was nothing onetime. There was nothing temporary that occurred there. That was -- it's by design and it's starting to work. So that's the good news. I think as we proceed through the course of 2023, again, EA is a business that is influenced heavily by China. We're forecasting -- in our outlook, we're forecasting kind of sluggish growth in China for the first half. So we'll see that business accelerate over the course of the year.

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Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

All right. And if I can sneak one more in. On pricing, it looks like if I do the math, that the 2-year stack, if I look at Q3 and Q4, were both up around 25%. And so my question is, did you get any sequential pricing? Or was pricing pretty flat in Q4 versus Q3?

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

Yes. We got $50 million of price in Q4, Mike. And I think as we move forward, I think it's important for 2023, especially early in the year like this, that we really start talking about price and raw materials as one big bucket, as John described, where we are -- we believe there's $130 million to $160 million of value in that bucket.

There's going to be lots and lots of puts and calls. Our top 25 raw materials make up less than 20% of our raw material cost. And we've got pricing actions. We're still increasing price in some cases where we have raw materials still increasing. We've got new product introductions that also kind of makes that a little murky.

So collectively, regardless of what happens with raws or price, we think the 2 of those will generate the incremental EBITDA as we've described. If raws don't come down, then we're going to have to continue to raise price. We're a company that's demonstrated the ability to do that, and we'll do that.

If raws do come down, it indicates that we're in a mildly at least recessionary environment. And that's a great place for this business because that's where our customers need us more than ever. We really can enable them at times like that to change substrates in their end products, which is going to save them a lot more money than changing their glue.

So we feel optimistic about the year ahead, and I just want to like have you start to think about price and raw material in one big category as we move forward.

Operator

The next question is from Vincent Anderson with Stifel.

Vincent Alwardt Anderson - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Yes. I wanted to maybe dig in on that last comment that you made, Celeste, because it really feels like you have sort of a dual strategy where ideally, you're an important technical partner to your customers and trying to increase the value add of your portfolio.

But in an environment like this, you're also trying to maintain a portfolio that offers customers that maybe are prioritizing cost and opportunity to trade down. But hopefully, without you suffering a margin hit.

So I'm just trying to get a sense for, first, how have conversations with customers drifted between those 2 types of commercial interactions recently? And do you have a sense for how much of your portfolio you feel like today you could protect with a lower-cost product before suffering either a margin mix hit or just having to decide whether or not to participate at all?

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

Yes. I think I chose to highlight our role in enabling customers to be able to reduce the total cost of their product. We enable that through our technical expertise, most certainly. If someone really wants to buy a lower-cost adhesive, we have the raw material substitution capabilities and a

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number of alternative technologies to be able to provide them as well a lower-cost adhesive, something they can save money on and something that's lower cost to ourselves as well and helps us preserve our margins.

So there's a lot of ways that we interact with the customer to help them achieve their goals. I also don't want to minimize the fact that most of our conversations with customers revolve around innovation. We are very focused on bringing new technology, new products to the market.

We've got 30 different market segments, thousands and thousands of different customers. And so it's hard for me to generalize directionally if everyone's going in one matter or another. That's -- it's really not the case. It's -- every customer we treat very differently. And our ongoing focus is on innovation first.

Vincent Alwardt Anderson - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Okay. Fair enough. That's helpful. And then if I'm remembering correctly, you've had some pretty important wins in HHC. Thinking specifically around like consumer beverage and maybe some e-commerce packaging automation technology that you're participating in, could you maybe give an update on the cadence of those contributions to HHC growth and maybe just in general terms, assuming those sales take a little longer to ramp up?

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

Yes. Let me just speak generally about some of those wins because we have -- that HHC business has really done an amazing job in that kind of solid, steady CPG space to bring new products to market. We've got our sustainable packaging adhesives, which have been really a very big -- been a big hit with our packaging customers, something very unique that enables them to be able to make their products more recyclable.

We have had a big hit with our new beverage labeling technology to replace casing that enables recyclable bottles to be returned and cleaned more effectively. So we've seen a lot of share take in beverage label as a consequence. Those are just 2. When you think of others, John, you...

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

Hygiene really had some...

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

Yes, we did just win a big application in the hygiene business as well for a fairly unique characteristics that we can bring to an application there. So yes, that is just a constant ongoing focus for us, Vincent. And we're seeing those wins really support not just our HHC business, but our other businesses as well.

Vincent Alwardt Anderson - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

All right. Sure. No, that's helpful. I guess the way I'm trying to frame all of that then is over the next year or 2, is HHC still a kind of slow steady business just given the number of wins that you've piled up there?

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

Yes. So I think the objective with that business is get -- is to get to mid-teens EBITDA margin. That's a good level of profitability for that business. And it's continued to grow kind of mid-single digit, high single-digit, over time.

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So we're going to continue to take market share in that space, and we're going to continue to grow through innovation. I think if you're anticipating kind of mid-single-digit, high single digit growth in the HHC business, you're probably spot on.

Vincent Alwardt Anderson - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Okay. Excellent. And then I just wanted to sneak in a quick one, just checking in on a couple of markets in the EA that we haven't talked about. It looks like Chinese solar cell numbers have been really strong this year, but you mentioned glass and auto and not solar. So I just wanted to see how that was going. And then same question, but on electronics.

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

Yes. The solar story is really exciting. What we are -- our solar business is doing well, and that is a business that we're starting to see migrate around the world. So we are working with big customers to take -- leverage our expertise that we have in Asia, in solar, and bring it to other parts of the world.

And I think that's a great example of a way that we are very strong, being able to take technology and work with big customers and bring it to new regions successfully and evolve it for the unique circumstances in those regions is something we're very good at. Do you want to add something there, John?

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

Yes. I think just to amplify that a little bit, we called out auto and insulated glass. Auto has been a huge growth story for our EA business, particularly electronic vehicles. And we see that as a continued area that we should be able to drive outsized growth. And insulated glass, it's really an innovation play and even despite some softening in parts of construction and their products go into construction, they continue to perform very well.

Electronics has always been a strong performer. It's been a little more -- it's been a little lower growth still growing, but because of chip shortages and some of the other challenges. And then in the new energy space, that continues to perform well, and we're seeing the opportunity there from geographic expansion.

It's historically been a business that's been sort of China-centric. And we have a strong presence there, but we are really in a competitive advantage as that industry starts to globalize because we can reach customers more effectively in other geographies than a lot of our competitors. And we have already started to see the benefit of that.

Operator

Our next question is from David Begleiter with Deutsche Bank.

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

Celeste, on the Q1 guidance and the range itself, what could drive the upper and lower ends of that guidance range being achieved? And by segment, how do you expect the segments to perform within that range in Q1?

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

Yes, I think that -- the range we've expressed there is definitely going to be subject to what happens with volume.

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Destocking, we were anticipating, we'll be seeing destocking in HHC complete in Q1 with Construction Adhesives. It's going to be interesting to watch that one. I think we're going to start seeing the restocking kind of February, March time frame. What will be interesting is what level are we restocking to. That remains the question in the construction business. So I'd say -- I don't know, John, do you want to add more color?

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

Yes, I'll just kind of maybe help David with how that may look in terms of our different businesses. So Celeste's comments on China, if China recovers more quickly, that could be an upside. If we start to see other economies, maybe start to show a little bit more bounce back from what was a very slow Q4, that could be an opportunity.

As you think about the core -- that guidance for the quarter and how that looks by our GBUs, we think HHC will continue to be very steady, right? EA, which has more of a China exposure will probably be a little more impacted than HHC in terms of slower results.

And then construction, as Celeste indicated, we think it will take a little longer than the first quarter to see the recovery there. So that's kind of the direction we would see those 3 GBUs going in the first quarter.

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

No, very helpful. Appreciate that. And guys, just on the cost issue, if you go back to beginning of 2021, how much have your raw material costs increased by? And how much do you expect them to fall by in '23, just raw material costs?

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

Yes. So they've increased by $800 million. But -- and when you ask how much should we expect them to fall? It's a great question, right? And that's why I continue to go back to wanting to bucket price and raw material cost into one big category for the upcoming year.

It's very hard to assume how much those materials are going to come down, particularly because there are so many. We're monitoring 4,000 of them at any one point in time and watching for movements. And none of them is really -- none of them is significant. So that's a great question, and that's why what we've decided is, regardless of what happens, whether raws come down significantly and we benefit by, of course, lower raw material costs, but also being able to support our customers in a recessionary time, or if raw materials don't come down or they move up a little, we'll pass through price increases.

So I hate to speculate on what kind of reduction we'll see. And I think the important thing is that the company is preparing itself no matter what happens.

Operator

The next question is from Jeff Zekauskas with JPMorgan Chase.

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

If your prices didn't move from the end of fiscal '22, how much would your average prices be higher in fiscal '23? Is it 3%? Or is it more or less than that?

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

It's about 4% to 6%.

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

4% to 6%. Okay...

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

Again, it's murky water because there are so many -- there's indices, we have new product introductions, we have -- I mean, it's a challenging question. And so, again, I want to remind you to -- let's go back to looking at that overall price and raw material cost bucket as one.

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

Okay. Your nonrecurring charges this year were about $40 million. Is that a good number for next year?

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

Why don't you take that? Why don't you take that one, John?

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

Sure. It's a little bit on the higher side, Jeff. I would say we had a couple of items that were kind of unusual and noncash actually that probably represented about $10 million between a pension curtailment and a noncash charge on a legal entity consolidation.

So I think the [2023] (added by the company after the call) number will probably be lower than that, probably between $20 million and $30 million, kind of representing kind of those same areas as far as the M&A-related activity, our SAP implementation and probably some -- finalization related to some restructurings we've done.

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

In the fourth quarter, your -- in your working capital statement, your other assets were a cash inflow of $46.5 million. In the third quarter, they were -- for the 9 months, they were a cash outflow of $40 million. So there was an $86 million or $87 million positive cash flow change from other assets in the fourth quarter. What was that?

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

Yes. I think you got to look at the fourth quarter, but you're exactly right, Jeff. And I mentioned it in our prepared remarks, we did have a onetime gain on maturity of a cross-currency swap and the impact that you're seeing on other cash flow is almost entirely related to that. So that's nonrepeating. Even if you take that away, it was a very strong cash flow quarter, driven by improving working capital and good profit growth.

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

How big was the cross-currency swap gain?

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

It was about $50 million.

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

$50 million?

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

Yes. It was about $50 million.

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

Was the engineering volume growth in the quarter above 3%?

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

It was right about that. It was very near that.

Operator

(Operator Instructions)

Our next question is from Eric Petrie with Citi.

Eric B Petrie - *Citigroup Inc., Research Division - VP & Senior Associate*

How much of your construction exposure is new construction versus repair and remodel? I'm sure there's probably differences between flooring, roofing and insulated glass.

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

Yes. So if you look at our portfolio, less than 15% of our business is in new construction. I've got to remember your question. Less than 15% of our business is in new construction and then we've got some additional business in the repair and remodel. I think that's what you're asking.

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

Yes. And just -- and when Celeste quotes those numbers, that would include our Construction Adhesives business as well as our other businesses in EA that are construction oriented like insulated glass windows. So it's -- as Celeste said, kind of all in across the whole portfolio, it's a little less than 15% and then a little -- and then repair and remodel would be similarly sized, but actually a little less than that.

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

Yes, and a little countercyclical.

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Eric B Petrie - *Citigroup Inc., Research Division - VP & Senior Associate*

Helpful. And then just as you turn leverage kind of to the 3x and below, H.B. Fuller has been a consolidator in the industry. How do you see it, Celeste, that returning cash back to shareholders versus M&A?

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

Yes. So we have a target to hit, 3x net debt-to-EBITDA leverage. We're very serious about that target. And we're progressing nicely along the path to get there.

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

Yes. So we should be going below 3x debt to EBITDA in 2023, and would like to stay in that kind of 2.5 to 3x range. Eric, I think there's -- I think if you look at our strategy around M&A, there's a lot of consolidation opportunity. We've got a robust pipeline for M&A.

It's mainly very small bolt-on deals, which have worked very well for us. So we would expect that, that would be the use of most of the excess cash to sort of keep us in that targeted capital structure range. If we were to move below 2.5x, we would look at share repurchase, depending on where the stock price is.

But we feel like the M&A pipeline is robust enough to really be the use of cash for us as it relates to maintaining our target capital structure.

Operator

We have no further questions. At this time, we'll turn it over to Celeste Mastin, Chief Executive Officer, for any closing remarks.

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

Thanks, everyone, for joining us today. We look forward to interacting with you in the future. Take care.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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