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## PRESENTATION

### Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the H.B. Fuller Third Quarter Earnings Conference Call. (Operator Instructions) I would now like to turn the conference over to Steven Brazones.

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

Thank you, operator. Welcome to H.B. Fuller's Third Quarter 2023 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 reference to certain non-GAAP Financial measure. 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](http://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. In the third quarter, we delivered a double-digit increase in adjusted EBITDA year-on-year and successfully drove adjusted EBITDA margin meaningfully higher.

We achieved this despite weaker-than-expected volumes driven by a more adverse customer destocking impact in Hygiene, Health, and Consumable Adhesives. And lower market demand in construction-related markets. Customer destocking actions have been temporarily detrimental to organic growth, leading to volume declines in excess of underlying economic demand. While challenges in the short term, we are successfully managing

through this highly unusual phenomenon, taking actions that reduce our cost structure while sustainably executing our price-to-value discipline and leveraging our raw material scale.

I am quite pleased that we were able to achieve double-digit growth in adjusted EBITDA in the current environment, and, without question, the actions we are taking will continue to benefit our ability to grow adjusted EBITDA in 2024 and well into the future. Overall, organic revenue declined 7.4% year-on-year in the third quarter, with all GBUs experiencing lower volume versus the prior year.

Overall, the sequential trend in volume, largely followed the path we expected, with the exception being the magnitude of volume impact in HHC. Customer destocking actions in EA and CA are largely complete and we believe they have peaked for HHC in the third quarter.

Incremental volume development has been improving since the second quarter trough, and we expect this to continue and meaningfully improve in the fourth quarter. From a profitability perspective, we overcame short-term volume challenges to achieve a 13% increase in adjusted EBITDA year-on-year, and increased adjusted EBITDA margin 270 basis points year-over-year, and 140 basis points sequentially from Q2 to 17.3%.

The benefits from sustainable pricing discipline, proactive raw material cost management, and restructuring savings realization more than offset the detrimental impact from lower volume and drove the improvement in profitability in the third quarter. We also delivered another outstanding quarter from a cash flow perspective, with cash flow from operations increasing \$50 million year-on-year to \$108 million, driven by strong profit growth and improved working capital performance.

Now let me move on to review the performance in each of our segments in the third quarter. In HHC, organic revenue was down 10.5% year-on-year, driven by HHC's customer destocking activity, which we estimate accounted for most of the decline in organic growth. Since the pandemic, most of HHC's customers held significantly higher inventories of raw materials to mitigate the risk of supply chain availability.

This has created a very unique situation for channel inventory destocking in 2023 that is unprecedented historically and has led to volume declines for HHC that have never been experienced before. With that said, we know this to be temporary, as underlying demand is stronger than our volume reflects, and we've also recently seen distributor buying patterns improve.

Although underlying demand is down slightly given the current economic environment, we are encouraged by the trends in HHC. The team has been successful in gaining new business. This will become much more evident once the HHC customer destocking actions conclude.

Adjusted EBITDA for HHC increased 12% year-on-year to \$69 million, and adjusted EBITDA margin increased 270 basis points to 17.2%. This is quite impressive given the significant short-term volume challenges we have endured. Favorable price and raw material cost management, and restructuring benefits drove the improvement year-on-year.

In Engineering Adhesives, organic revenue declined 3.3% in the third quarter, much improved versus the 9% decline in the previous quarter, led by strength in China. Organic revenue declined due primarily to lower volume in construction-related end markets, which more than offset organic growth in the automotive, electronics and solar market segments.

Adjusted EBITDA in EA increased 26% year-on-year and adjusted EBITDA margin increased 450 basis points year-on-year to 19.3%. The improvement in profitability for EA was driven by favorable price and raw material actions and aggressive cost management. In Construction Adhesives, organic revenue declined 9.4% year-on-year, a marked improvement versus organic revenue declines of 26% in Q1 and 14% in Q2. Customer destocking impacts in CA continued to taper in the third quarter, as expected, and are largely complete now. However, end market demand has weakened in construction-related end markets, and we would ascribe most of the organic revenue declines in the third quarter to end market conditions.

Adjusted EBITDA for CA was down modestly year-on-year and adjusted EBITDA margin of 14% was effectively flat as favorable price and raw material cost actions, as well as restructuring benefits, offset the impact of lower volume. The restructuring actions the CA team has executed position this business to deliver sustainably strong adjusted EBITDA margins consistently throughout the cycle.

Geographically, Americas organic revenue was down 13% year-on-year. Customer destocking impacts in HHC, which were notably outsized in North America relative to the rest of the world, adversely impacted the region's organic revenue development in the third quarter. In EIMEA, organic revenue declined 6% year-on-year, driven mostly by weaker demand in the construction and packaging-related market segments.

In Asia Pacific, organic revenue increased 7% year-on-year, driven by a rebound in demand in China in both EA and HHC. The organic sales trend for the region continued to improve, as expected, due to particular strength in the automotive, electronic's and hygiene market segments.

From a global economic standpoint, conditions remain relatively weak. Accordingly, we have executed supplemental restructuring initiatives, which will increase our expected annualized pretax savings by approximately \$10 million once fully implemented.

On the M&A front, we recently acquired Sanglier Limited, one of Europe's largest independently owned manufacturers and sellers of sprayable industrial adhesives. This complementary acquisition expands our innovation capabilities and product portfolio across the U.K. and Europe, particularly in the Construction Adhesives and Engineering Adhesives businesses.

In addition, during the third quarter, we announced the restructuring of the recently acquired Beardow Adams business, once completed, this restructuring is expected to result in an ongoing annualized cost savings of approximately \$20 million on a pretax basis. This is in addition to the restructuring initiative we announced in the first quarter. The majority of the restructuring charges and run rate cost savings associated with this restructuring are expected to be recognized in fiscal year 2024. The Beardow Adams restructuring benefit represents a significant portion of the fiscal 2025 EBITDA contribution from the 2023 collection of acquisitions, which we now expect to contribute approximately \$60 million of incremental EBITDA by 2025.

Lastly, I would like to inform you that the recent acquisition of Adhezio Biomedical is progressing exceptionally well and is on track for a record sales year. We have a well-defined plan for synergy realization, and we are very excited about the future growth prospects of our medical adhesives business. Now let me turn the call over to John Corkrean to review our third 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 7 with some additional financial details on the third quarter. For the quarter, revenue was down 4.3% versus the same period last year. Currency had a negative impact of 1.7%, and acquisitions positively impacted net revenue by 4.8%. Adjusting for those items, organic revenue was down 7.4% with pricing having a favorable impact of 0.6% year-on-year in the quarter, and volume had a detrimental impact of 8%. Reflecting customer destocking impacts, particularly in HHC and a general slowdown in industrial demand. Adjusted gross profit margin was 30%, up 350 basis points versus last year. As the net effect of pricing and raw material cost actions, together with restructuring benefits and general cost controls, more than offset the impact of lower volume.

Adjusted selling, general, and administrative expense was up slightly year-over-year. Good cost management, growing restructuring benefits, lower variable compensation and favorable foreign currency impacts, largely offset the incremental SG&A from acquisitions and inflation and wages and other costs. Adjusted EBITDA for the quarter of \$156 million was up 13% year-on-year, and adjusted EBITDA margin increased to 17.3%, up 270 basis points compared to the third quarter of last year. This reflects proactive actions taken to optimize price and raw material dynamics, as well as restructuring benefits and other cost savings measures.

These actions, combined with the contribution from accretive acquisitions, more than offset lower volume, unfavorable foreign exchange and wage and other inflation during the quarter. Adjusted earnings per share of \$1.06 was flat versus the third quarter of 2022 as strong operating income growth was offset by significantly higher interest expense and unfavorable foreign currency. Higher interest expense and unfavorable foreign exchange negatively impacted adjusted EPS in the third quarter by approximately \$0.17 and \$0.05, respectively.

Operating cash flow in the quarter improved significantly year-over-year as improving margins and lower net working capital requirements more than offset the impacts of lower volume, higher interest expense and unfavorable foreign currency translation. Third quarter and year-to-date cash flow from operations increased year-over-year by \$50 million and \$168 million, respectively.

With that, let me now turn to our guidance for the 2023 fiscal year. We now expect full year net revenue for fiscal 2023 to be in the range of \$3.5 billion to \$3.55 billion, and, taking into consideration the extra week in 2022, we now expect organic revenue to be down 4.5% to 5.5% versus fiscal 2022. This reflects lower than previously expected volume due to a more significant destocking impact in HHC in Q3 and slightly weaker overall industrial demand conditions.

Additionally, we now expect adjusted EBITDA to be \$580 million to \$590 million, representing a 9% to 11% year-on-year increase. This reflects lower organic revenue expectations, offset by a more favorable pricing and raw material dynamic, additional cost reductions, as well as the benefit of value-creating acquisitions completed this year.

Furthermore, we now expect net interest expense to be approximately \$135 million for the fiscal year and the full year adjusted effective tax rate to be between 27% and 28%. Combined, these assumptions result in full year adjusted earnings per share in the range of \$3.80 to \$3.90. Also, we now expect full year capital expenditures to be approximately \$125 million.

Regarding savings from restructuring plans, we now expect actions from the previously announced and subsequently expanded strategic restructuring to generate between \$40 million and \$45 million in annual pretax run-rate cost savings, up from our original estimate of \$30 million to \$35 million. This is in addition to approximately \$20 million of pretax run-rate savings associated with the Beardow Adams integration, which was announced during the third quarter. Now let me turn the call back over to Celeste to wrap us up.

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

Thank you, John. Strategically, we're driving this business where we said we would, as evidenced by our gross profit and EBITDA margin performance, demonstrating our confidence in becoming a higher EBITDA margin company. We strive to be recognized as the imperative ingredient to our customers' success. We're committed to driving innovative solutions for our customers to create valuable and sustainable solutions using drops, not trucks of adhesives. I would like to thank all of our H.B. Fuller team members around the world for delivering exceptional results in a challenging environment and for leading the way as we transform our company into a higher growth, higher margins, higher ROIC business. That concludes our prepared remarks for today. Operator, please open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question will come from the line of Jeffrey Zekauskas with JPMorgan. (Operator Instructions) Our next question will come from the line of Patrick Cunningham with Citi.

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**Patrick David Cunningham** - *Citigroup Inc., Research Division - Research Analyst*

On the strategic M&A update, you cited this \$60 million figure, up from the previous \$50 million. Can you quantify how much of that is coming from the latest acquisition versus maybe there's better than expected adhesion or other incremental synergies?

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

Yes. It is a blend of both the impact of Sanglier, as well as better performance across the collection. We prefer not to quantify how much each particular acquisition brings to the blend. But it is composed of both.

**Patrick David Cunningham** - Citigroup Inc., Research Division - Research Analyst

Yes, that makes sense. And then just, you had the comment that you're encouraged by trends in HHC and just underlying demand as well as share gains there. So, what end markets have the best underlying demand? And where are you gaining share? And where -- do you think any particular end markets will restock in 2024?

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

And when you say end markets, just for clarity, are you talking about the segments within HHC -- or are you talking more so about the different GBUs?

**Patrick David Cunningham** - Citigroup Inc., Research Division - Research Analyst

Either or both, but typically particularly within HHC.

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

Okay. Great. So, within HHC, we're not in any of these businesses, I should just clarify, we're not planning for big restocking impacts. What we expect is we will progress through the destocking in HHC over the next 2 or 3 quarters and then we'll revert to sort of more normal demand that's maybe a couple of percent lower than what we normally would see in any given year. And we're experiencing some great wins with big consumer product companies, which are part of that space. We've seen a number of wins lately in the hygiene space, for example.

And so, we're going to see strong performance there, as well as taking share in a number of packaging applications in HHC. So HHC, I have really a favorable outlook for that particular business, again, we've got to work through the destocking. Now we're also experiencing some great wins in our other business units as well. In EA, for example, we just had a big win in fuselage airline sealants, so in the aerospace industry as well as we continue to expand our position in the EV automotive market, a market that's growing very, very fast globally, about 22% annually. And some nice wins in technical textiles, potting cables, PVC edge banding, so really, we have a very fragmented space with these 30 different global market segments, and we're driving wins in all of them, particularly EA and also seeing some big wins in HHC.

**Operator**

Your next question comes from the line of Ghansham Panjabi with Baird.

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

Hopefully, you can hear me okay. I guess in context of the 8% volume decline in 3Q, can you sort of take us through the cadence throughout the quarter and what you're seeing thus far in September? And also, EBITDA margins were up, I think, 270 basis points year-over-year during the third quarter. Are you forecasting additional year-over-year margin expansion in 4Q? We're just trying to reconcile to your guidance for the quarter.

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

Right. Okay. So, let's talk about the quarter and your question on volume decline month-over-month. So, our P7, which was the first month of our quarter was much worse than the other 2. So, in P7, we saw really extreme destocking in our HHC business, but also our EA and CA businesses were down double digit on volume in that month as well.

We saw a real inflection point for the EA business, in particular, come P8, and really experienced more flat volumes in EA, P8 and P9. And a lot of that was due to this rebound in China. So, we're seeing strong performance in China.

In fact, when you look at China, from Q1 to Q3, our volume has swung from a negative 15% roughly to a positive [10%] (added by company after the call). So, I give the team in China a lot of credit to be nimble enough to handle operationally that shift in volume. And also, we saw in the CA business also sort of some leveling off in the back end of the quarter. Your question around P10, really much more of the same.

So, we're really seeing HHC starting to settle out a little bit, but there's still destocking there. That's going to go on for a couple of quarters. However, in EA and CA, I think this destocking is completed, and we're seeing much better volumes in P10 for both of those businesses.

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

Maybe I can comment on your question on margins, Ghansham. So, we are forecasting additional margin expansion in Q4. If you look at our guidance range, both for revenue and EBITDA. That's what is reflected. And we're seeing that so far in P10. We're seeing margins continue to expand. We'd expect a bigger contribution from restructuring in Q4 than we've had the previous quarter. So, something on the order of 100 basis points of margin expansion in the fourth quarter is more or less in line with our forecast.

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

Got it and obviously, there's been more sequences of events, right, over the past couple of months, increase in crude oil prices, and we have auto strikes, and that's not an insignificant market for your EA segment. How are you sort of thinking about these dynamics? Especially on the cost side, cycling into fiscal year '24 in context of pricing starting to moderate as you reported plus 0.6% in the most recent quarter. And can you just give us any more variances to think about for fiscal year '24 that sort of underlines your confidence on EBITDA being up on a year-over-year basis?

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

Yes. So, a couple of things there. First, I'll just pick off the easy one on your point about the UAW. So, if you look at our total sales, only about 1% of H.B. Fuller's total sales are made to the big 3 automakers or suppliers of Tier 1, 2 or 3 suppliers. So now that said, it's an important market for us. We're actually in the automotive space, much more prevalent in the EV vehicle market, which is growing much faster. So, certainly, we're watching that market closely, the Big 3 and what develops there. But I don't believe it will have a material impact on us in 2024.

Now I think your question around raw material cost and I'm going to relate price to that also is a really important one. So first, I would point out that our raw materials don't move with crude. So, we monitor and buy about 4,000 different types of raw material, and all of those have their own supply-demand position. And what happens is when volume is down and we're a great indicator of global volume. So, when our volume is down, it tends to mean global volume is down across the industrial world, and those 4,000 raw materials are much more influenced by those unique volume movements rather than what happens with crude.

So, the advantage for us in a market like this is given that we have much scale in this industry, we have great opportunity to leverage our volume and continue to optimize our purchasing positions with those suppliers. So, in a low-volume market, we will be pushing on suppliers, and we'll get raw material advantage. We balance that out on the pricing side.

So, if you look at price for the next quarter and on into next year, our pricing comparisons will be down. There's a few reasons for that. One is carryover will have been annualized from previous year when we had big increases in Q2 and Q3. Also, we've got some customers tied to indexes. Those customers that have pricing tied to indexes, have their price tied directly to the raw materials that we buy and put in their formula. So, while it will look like pricing is coming down, it's really a margin preservation strategy for us. So, you'll see a price -- incremental price reduction because of that in the upcoming year. And also, the third thing being we're reformulating a lot of products right now.

Now where we can save money on raw materials, we're formulating our adhesives and we're sharing that savings with our customers. So again, you'll see price decrease when you look at a comparison, but margin preserved. So, at the beginning of the year, I talked about this \$130 million to \$160 million bucket of value that we would get out of this balance between price and raw material movement. What you'll see is that in the first half of the year, a lot of that was related to price. And in the second half of the year, we'll be getting more tailwinds on raw material.

So that's how the balance works, and that's why we like to talk about it that way.

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

And maybe, Ghansham, I'll give a little more perspective on considerations for 2024, not getting too granular here because we're still in our planning process. But what Celeste described in the price raw balance, it's been very consistent this year kind of in this \$40 million to \$45 million benefit each quarter. Now it's flipped between being more of a benefit from pricing to more of a benefit from raws, but we'll carry that over next year.

And if raw material costs settle out, where they are, it will not be as big a benefit as it will be this year, but we'll see some benefit, and we think it will be equal to or slightly greater than any price decreases. Obviously, some of the other big drivers are the restructuring impact will be much larger in 2024 than 2023. As we've said, we project \$40 million to \$45 million at run rate. We'll probably capture about \$10 million to \$12 million this year. So, you can kind of extrapolate the midpoint of that being kind of what we'd experienced in 2024 and then the contribution from acquisitions that we talked about \$60 million by 2025.

We'll probably be about \$12 million this year. So again, you could probably sort of extrapolate that. The negative we'd have is we do have a fairly sizable variable comp benefit this year. That's in the neighborhood of \$30 million lower than last year that will be rebuilt next year., we're projecting that it will be a continued challenged volume environment. That's kind of what we're building our plans on. We don't expect to see nearly the impact from destocking in 2024 that we had in 2023.

But those are the components that we're looking at that gives us confidence we can deliver another profit growth year in what will likely be another challenging environment.

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**Operator**

Your next question comes from the line of Mike Harrison with Seaport Research Partners.

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

I was hoping that you could maybe give a little bit more detail on the increase in the restructuring expectations. I believe you're in the midst of an operational review that has maybe helped to increase that target. Just curious what stage is that operational review in? And do you have any sense of how much more savings could potentially be identified in the future?

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

So, we're very early on, Mike, in the operational review that we're doing. Just to take a step back on that, recall, we are in the process of identifying capacity utilization by product, by plant, by line, by region. We should have a complete assessment of that outlook as well as how it relates to our future growth plans by the end of this year. And following that, we will be announcing steps we're going to be taking to optimize that footprint. So, this is very early on. And what you see in the updated restructuring is that we've identified there are additional plants that we can take out of the network. But again, we're not completely through that analysis.

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

And I'll just comment, Mike, on the increase. We increased the range by \$10 million. I think when we came out with our initial estimates of \$30 million to \$35, we said about 2/3 of that impact was related to manufacturing costs and about 1/3 related to SG&A. We did increase the number of anticipated plant closures. We had talked about 2 plant closures after Q1, we now have 8 that are planned. They're small, but they do have an impact.

But I would say the recently announced changes to restructuring savings estimates is actually a little more weighted to SG&A. So, in the sort of second round we went through, we focused in more on SG&A, where we had potential redundancies, opportunities to reduce costs given lower volume. And so, the balance now may be 60% manufacturing cost, 40% SG&A. But I think what Celeste has alluded to is there's more opportunity in the manufacturing footprint and supply chain that we will be focused on here in the near term.

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

All right. Perfect. And then my other question is on the M&A front. You've done several acquisitions now with the exception of Beardow, I think most of them are relatively small. But just curious, at what point do you start to worry about reaching capacity? I'm trying to integrate too many things at once. Obviously, you've got 30 different market segments and 3 GBUs that you work on and not all of them were in the same markets. But how do you think about integration and your capacity to integrate as a bigger company?

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

I feel good about it, Mike. So, we have focused our M&A and capital allocation activities around our top 25 growth opportunities, and we continue to update that list every year. Within that list, there's a lot of opportunities to expand and grow the business and we end up getting a lot of different market segments involved in doing so. So, when we do an acquisition from the very beginning, we assign an integration leader during due diligence. That integration leader participates in due diligence, and that embedded knowledge is very instructive as we work through the integration process.

Now as we integrate, we primarily use people from within the business that did the acquisition. And so, when you think about it, we have integrations going on in different regions managed by different people -- being performed by different people in different businesses concurrently. We're very careful as we look at our pipeline. We would not double up on a region and a business for an acquisition, if we felt like we would not have the people, the resources to place against that.

And the good news is we have lots of other targets, lots of other places where we can acquire and drive high EBITDA margin and high growth rates. So, I think it will be a long time, Mike, before we get to the point where we're really ever saturated with integration activity, particularly because we're integrating these businesses fully within 2 or 3 years.

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**Operator**

Your next question comes from the line of Vincent Anderson with Stifel.

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

Yes. So, I just wanted to spend maybe a bit more time on the cost savings side, if that's okay. It sounds like the savings are more around footprint consolidation versus site-specific costs out that have been so just can you help me get comfortable handicapping your expectations on the manufacturing cost savings prior to completing your review? And then just a part b to that, are these initiatives being paired with the inventory management changes that we can expect incremental cash return on those savings?

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

So, what we've described in the restructuring actions, Vincent, is more, so footprint related. However, we have actions underway within the businesses today to optimize our shift load to drive productivity improvement in the plants.

So, there's a lot of cost saving effort underway that would impact conversion cost that's happening already. We're just not talking about it in the form of a restructuring. And yes, you're right, we do have work ongoing as it relates also to the supply chain. We are adding capabilities that will allow us to more analytically manage, in particular, our inventory levels.

We've started down a path and we have acquired some software to do that and we actually are piloting that activity as we speak at six of our facilities. So yes, those efforts are proceeding in parallel and not just focused around the footprint.

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

Okay. All right. That's helpful. And you touched on both of my next question. So, I'm trying to pick which one to start with, all right. So, you mostly answered this one, which was along the lines of, do you feel like H.B. Fuller is already leveraging best-in-class analytical system available for procurement, inventory management. But maybe taking that a step further, I mean, the pricing and the procurement systems were really kind of normalized after the 2019 restructuring. So same question, is there more that could be investigated there?

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

So, we have an excellent pricing system, pricing team and pricing methodology. And I think I've mentioned before that I'm on a call with our pricing group every 2 weeks. So, it's definitely an area of focus. And what I'll say is that every 2 weeks, something new comes out of that, right? We expand our capabilities. We focus on some other reporting that we could do. We identify strategies for price increases in parts of the portfolio. And it's not just myself, I get to see the outcome of the work that's going on with that pricing team and in concert with the GBUs.

And so, we're never going to be satisfied that we are perfect pricers. We continue to work on what I think is already an excellent capability and continue to make it better. And one of the things that is a very important part of that is the technology leverage, right, not just in pricing systems, but ensuring that we're pricing to the value that our customers are experiencing. So pricing is sort of the last thing to happen.

The first thing that happens is understanding our customers' needs, knowing how they use our product, understanding their goals, really driving innovation around bringing a solution that matters to them and that we can be paid for.

So pricing, we're never going to be done, and we're going to continue to capture value there. And similarly, our procurement system, you're right that we have a great team that's been in place for quite some time now, and we continue to leverage our scale successfully in these multiple raw material segments that we participate in. And each one of them is different, it's very interesting.

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

Sure. All right. That's helpful. All right. So, the last one, you talked a bit about this. It sounds like a lot of it's still kind of to be determined through the end of the year.

But a lot of your non-U.S. sites or at least appear to be running fewer technologies on a per site basis than what we see with your kind of legacy U.S. assets. So, as I think to your growth strategy, you've been globalizing a lot of U.S. developed products through buy rather than build. Are there opportunities to get more leverage out of the non-U.S. sites where the footprint and staffing might be underutilized? And is any of that in your current savings target? Or is that more related to, again, kind of your growth strategy?

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

So that again will be addressed as we look at our global footprint. So when you look at our plant base, well over half of those plants serve multiple GBUs. And you're right, most of them are technology based, probably 2 or 3 different types of technology that they will be focused on. Our intention is not to have big mega sites. We want to continue to produce close to our customer, and there's a value in doing that. We just need to make sure that, again, when we look at the business capacity utilization, buy technology that -- where there is redundancy that's unnecessary that we can remove it.

**Operator**

Your next question comes from the line of David Begleiter with Deutsche Bank.

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

John, your Q4 guidance is a pretty steep ramp from Q3. Can you give us some color on the various drivers and buckets, how much from price cost, how much from cost savings, how much from volume and normalized operations to drive that ramp?

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

Yes. I think the biggest driver is the momentum we're seeing is from raw material savings, and I think we've done a good job managing pricing. So, as I said, it's been very consistently kind of a \$40 million to \$45 million of savings per quarter between the two, and we would expect a similar number in Q4 on better volume performance, right? So those are the major drivers.

And the impact from restructuring and acquisitions will be more in Q4 than it has been in any of the other quarters, maybe close to double based just on the timing of the acquisitions and the ramping up of restructuring. So those are the things that would drive this ramp.

Now we also, have an easier [f] (added by company after the call) comparison in Q4 than Q1 through Q3 as it relates to the macroenvironment that we were facing in Q4 last year versus the previous quarters. So, the growth rates are, in part, a reflection of an easier comparison, but it's more of those things that I talked about, the timing on raws, management of pricing, improving volume and ramping up of restructuring savings and acquisition impact.

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

And John, on that \$40 million to \$45 million price cost tailwind, how much of that is locked in? I presume pricing is locked in, and I presume most of the raw material costs are locked in as well. Is that fair?

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

Yes, I think that's fair. I think particularly on the raw material side because of a lag, right, because it's the products that we purchased in Q2 were really the ones that impacted our P&L in Q3. So, if you think about what's a Q4 impact, it's really materials that we've already purchased, and on pricing, we do have quarterly resets on our formula-based pricing, but we have those based on the previous quarter's raw material costs. So, we do have pretty good visibility on that as well.

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

Great. And just last thing. In '24, on the non-formula-based products, which I know will be down, do you expect price to be down on the other portion of the business to negotiated portion of the business?

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

We will, because there will be plenty of reformulated products that we introduced to customers, that are at a lower price to the customer while still being margin preserving for us. So, there's a lot of activity, David, right now underway to reformulate and provide savings to customers given the weak volume demand that's out there. Now some customers will take advantage of that, and some won't.

Again, we're a very small part of our customers' end product and very enabling. There may be cases certainly where we're introducing higher-priced products that bring overall total savings to them by allowing them to use a different substrate or run their lines faster. So, it's a bit of a mixed bag, but I think that the overall movement on price will be flat to incrementally lower for all of those reasons.

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**Operator**

Your next question will come from the line of Jeffrey Zekauskas with JPMorgan.

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

Did you reiterate your [operating](added by company after the call) cash flow guidance for the year of [\$325 million to 375 million dollars] (added by company after the call) or no?

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

We didn't reiterate it, but it remains intact.

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

So, you just reiterated it. Is that what you just said ?

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

I could say we just reiterated it. We feel good about cash flow. We had another strong quarter, as expected, and everything is lining up to be in line with the guidance we gave in Q2.

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

So, you've spent \$195 million on acquisitions so far. Exclusive of the costs that you might take out or the synergies that you might achieve, what's the annual EBITDA of that \$195 million in spending? And what are the annual revenues, roughly?

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

So, this year, we'll recognize approximately \$100 million of revenue for these acquisitions and roughly \$12 million of EBITDA. And I'd say that is roughly reflective of half a year's worth of contribution because we acquired them over the course of this year.

So, you can kind of double those numbers and get to what we have acquired for the amount we spent. Now, there's a little bit of synergy in that, that we're getting this year. So maybe the number is not \$24million, maybe it's \$18 to \$20 million and then our synergies add another \$4 to \$6 million. So, does that answer your question, Jeff?

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

Your nonrecurring charges this quarter were about \$0.36. I was listening to your answers to some previous questions. Did you effectively say that your nonrecurring charges in the fourth quarter would be double that or about \$0.72.

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

No, and I kind of look at it on a pretax basis. And as of the end of the third quarter, the nonrecurring charges were about \$40 million. Some of those won't be repeating. We had an earn out related to an acquisition we did last year, which is payment we made because the business is performing better than our deal model reflected, which is a good thing. But will see the impact of these restructuring-related charges and the integration costs for these acquisitions.

I would expect that for the full year, these nonrecurring charges will be around \$55 million to \$60 million on a pretax basis. And the other thing we had going on in Q3, which made that number a little larger, was a fairly large discrete tax item related to settling some old tax audits. So, we're not anticipating that repeating in Q4.

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

In the Engineering segment, your EBITDA went up about \$10 million sequentially even though your revenues were flat. Is that raw material benefits or something else?

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

So, a couple of things going on there. Yes, raw material benefits are ramping in all 3 GBUs and that is impacting EA as well. The other thing is the mix was very favorable in Q3 relative to the first 2 quarters, as the performance of Electronics and Automotive was very strong. Electronics improved significantly in Q3. Some of that is this China effect. So, I would attribute half of it to raw material trends and the other half to the growth in the higher margin parts of the business.

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

Lastly, Celeste, do you plan to buy anything in the fourth quarter of any size?

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

We are constantly rebuilding our pipeline, Jeff. It's a real focus area for us. So, I never want to say I'm going to do a deal until it's done.

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

But you're working.

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

We're always working. We're always working the pipeline, and there's a lot of opportunities that we find to invest in those top 25 growth opportunities for the business. We have 30 market segment leaders that are desirous of growing their business, they're encouraged and incentivized to grow their business, and they've recognized that one of the ways that they can fill some of these most critical needs is through M&A. So yes, so we have a strong pipeline, and we'll continue to work those deals to close many quarters to come.

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**Operator**

We have no further questions at this time. I'll hand the call back to Celeste Mastin for any closing remarks.

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

Thanks, everyone, for joining us this morning. We appreciate your time. Have a great day.

**Operator**

Everyone, that will conclude today's meeting. We thank you all for joining, and you may now disconnect.

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