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EDITED TRANSCRIPT

FUL.N - Q1 2025 H.B. Fuller Company Earnings Call

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CORPORATE PARTICIPANTS

Steven Brazones *H.B. Fuller Company - Investor Relations Contact*

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

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

CONFERENCE CALL PARTICIPANTS

Ghansham Panjabi *Robert W. Baird & Co., Inc. - Analyst*

Kevin McCarthy *Vertical Research Partners - Analyst*

David Begleiter *Deutsche Bank - Analyst*

Michael Harrison *Seaport Global Securities LLC - Analyst*

Jeffrey Zekauskas *JPMorgan - Analyst*

Rachel Leon *Citi - Analyst*

Rosemarie Morbelli *Gabelli & Company - Analyst*

PRESENTATION

Operator

Good morning and welcome everyone to the H.B. Fuller Q1 2025 earnings conference call.

(Operator Instructions)

I would now like to turn the conference over to Steve Brazones. You may begin your conference.

Steven Brazones - *H.B. Fuller Company - Investor Relations Contact*

Thank you, operator.

Welcome to H.B. Fuller's first quarter 2025 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 encouraged by our first quarter financial performance and positive organic sales growth. Despite weak overall market conditions, we remain focused on maintaining pricing discipline, driving market share gains, and effectively managing our cost structure.

Simultaneously, we continue to execute our long term strategic plan to optimize our portfolio mix and streamline our manufacturing cost structure to drive our business toward our greater than 20% EBITDA margin target.

As we look ahead, we remain cautious given weak overall market demand and unpredictable geopolitical conditions around the globe. Nevertheless, we are off to a solid start to the year and remain confident we can successfully adapt and execute in this dynamic environment to deliver both growth in organic sales and EBITDA for the year while expanding EBITDA margin.

Looking at our consolidated results in the first quarter, organic revenue increased 1.9% year on year driven primarily by positive volume trends. Consolidated pricing was also positive as our index-based pricing headwinds have subsided, and we made solid progress on our price increase efforts, particularly in HHC.

From a profitability perspective, EBITDA of $114 million which was at the high end of our guidance range, declined year on year as expected and EBITDA margin was 14.5% keeping in mind, the first quarter is always our seasonally lowest margin quarter of the year.

The impact of higher raw material costs more than offset positive pricing and volume leverage. As we progress through the year, we expect this trend to reverse, resulting in a favorable net benefit from price and raw material actions for the remainder of the year.

Now let me move on to review the performance in each of our segments in the first quarter. In HHC, organic revenue was up 4% year on year on solid volume growth and positive pricing. Volume was up low single digits driven by strength in hygiene and flexible packaging.

Pricing was also positive as delayed price increases from the fourth quarter began to be realized. The positive volume trends in HHC are very encouraging and primarily reflect market share gains. However, we anticipate that market dynamics in HHC will remain challenging and variable for the remainder of 2025 due to weak consumer demand.

HHC's EBITDA margin of 12.7% was down versus last year as expected, as volume growth and pricing actions were more than offset by higher raw material cost. We expect the price versus raw material dynamic to continue to improve throughout the year as we secure additional pricing gains and annualize against the impact of higher raw material costs.

In engineering adhesives, organic revenue declined 2% in the first quarter. Strength in the electronics and automotive market segments was offset by ongoing challenges in solar. Excluding solar, organic growth was positive in the first quarter.

EBITDA increased 16% in EA and EBITDA margin increased 180 basis points year on year to 18.7%. Favorable net pricing and raw material cost actions, restructuring benefits, and the ND Industries acquisition drove the increase in EBITDA year on year.

In building adhesive solutions, or BAS, organic sales increase 2% year on year, driven by continued strength in roofing and improving trends in the infrastructure and mechanical market segment. EBITDA for BAS increased 2% year on year as volume gains and restructuring savings were partially offset by higher variable compensation.

The first quarter for BAS is the seasonally lowest volume and EBITDA margin quarter. Geographically, Americas organic revenue was down 1% year on year driven by declines in HHC and EA, but largely offset by BAS, which achieved organic revenue growth of more than 8% year on year driven by continued strength in roofing.

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In EIMEA, organic revenue increased 4% versus the first quarter of last year driven by double digit organic growth in HHC. Our hygiene business performed especially well with several new customer wins and easier comparisons due to currency restrictions in the Middle East in the first quarter last year.

In Asia Pacific, organic revenue increased 7% year on year. Strength in China was responsible for the majority of the growth in the Asia Pacific region.

Now let me turn the call over to John Corkrean to review our first quarter results in more detail and our outlook for 2025.

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 first quarter. For the quarter, organic revenue was up 1.9% year on year with volume up 1.7% and pricing up 0.2%. Currency had a negative impact of 3.4%, and acquisitions and divestitures decreased revenue by 1.2%. Adjusted gross profit margin was 29.6%, down 50 basis points versus last year as volume gains and slightly higher pricing were offset by higher raw material costs.

Adjusted selling, general and administrative expense was up 2% year over year with acquisitions and higher variable compensation driving the increase partially offset by foreign exchange. Adjusted EBITDA for the quarter of $114 million was down as expected versus last year as volume gains, favorable pricing, and the contribution of acquisitions were more than offset by higher raw material costs, variable compensation, and unfavorable foreign exchange.

Foreign exchange negatively impacted adjusted EBITDA by approximately $5 million year on year. Adjusted earnings per share of $0.54 was down versus the same quarter in 2024 driven by lower operating income. Cash flow from operations was down versus last year as expected driven by higher working capital needs associated with revenue growth.

As previously communicated, cash flow delivery for 2025 is expected to be weighted to the second half of the year. Net debt to EBITDA of 3.5 times at the end of the first quarter was up versus 3.1 times at the end of 2024.

Our long term leverage target remains unchanged at less than 3 times. During the first quarter, we repurchased 678,000 shares. Regarding our capital allocation strategy, we continually reassess the most effective and highest returning uses of our capital.

The recent volatility in the market has created an opportunity to prioritize share buybacks. We expect to continue to repurchase shares throughout the year on an opportunistic basis. As a result of this, as well as our commitment to achieving our targeted leverage range, we have temporarily slowed the timing of M&A transactions.

With that, let me now turn to our guidance for the 2025 fiscal year. As a result of our solid start to the year, which was largely consistent with our expectations, we are reiterating our previously communicated financial guidance for fiscal 2025.

Net revenue is expected to be down 2% to 4% with organic revenue flat to up 2% year on year. Adjusted EBITDA is expected to be in the range of $600 million to $625 million, equating to growth of approximately 1% to 5% year on year.

Combined, these assumptions resulted full year adjusted earnings per share in the range of $3.90 to $4.20, equating to year on year growth of between 2% and 9%. We continue to expect full year operating cash flow to be between $300 million and $325 million, weighted toward the second half of the year.

Finally, based on the seasonality of our business, we would expect second quarter EBITDA in the range of $150 million to $160 million.

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

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

Thank you, John.

As we navigate the uncertainties of this year, we remain nimble in order to effectively execute in the current operating environment, focusing on what we can control. We are maintaining pricing discipline and being continuously selective about the markets we participate in while simultaneously leveraging our global sourcing infrastructure to maintain our competitive advantage and drive margin expansion.

Our strategy to produce in the same region where we sell to customers results in optimal customer service and acts as a natural hedge against currency fluctuations. In the current environment, it also reduces our exposure to tariffs.

In fact, on average, 97% of what we sell in a region is produced in the same region. Our unique operating model of sourcing, producing, and selling in region as well as the scale of our raw material infrastructure, the fact that we make up an extremely small portion of our customers' overall cost of goods, and our customers' willingness to pay for innovation sets us apart from our peers in the coatings and specialty chemicals industries.

From a strategic perspective, we are focused on streamlining our cost structure, improving our operational efficiency, and optimizing the mix of our portfolio. We are confident in our strategic direction and our ability to drive sustained growth in organic sales and EBITDA.

Our profitability goals aren't dependent on a robust market-driven volume recovery but are instead company-specific self-help initiatives that we are well-positioned to execute upon.

We look forward to providing you more information in the quarters ahead on these initiatives and a detailed update during our next Investor Day scheduled for October 20 later this year.

That concludes our prepared remarks for today.

Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ghansham Panjabi, Baird.

Ghansham Panjabi - *Robert W. Baird & Co., Inc. - Analyst*

Obviously, there's a lot of stuff going on with the news flow and tariffs and so on and so forth. Is there -- can you just give us a sense as to what you're seeing from an operating conditions standpoint as it stands today in terms of customers and how they're thinking about managing through this volatility?

And also maybe your sense as to whether there was any benefit in either 1Q or early part of 2Q from pre-buying, et cetera in front of the April 2 reciprocal tariffs?

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

Yeah. Absolutely, Ghansham.

So as to the question related to pre-buying, I don't think we're seeing that here in the United States or around the world for that matter. Certainly, our customers have been cautious. They've been hesitant. They do continue to focus on innovation and new product development, which I think is very encouraging.

But as far as pre-buying, I think if we were -- if we had seen pre-buying, it would have been in more of the durable goods types of products in the United States in particular. And that market was very weak for us. So I don't think we're seeing it at this point.

Ghansham Panjabi - *Robert W. Baird & Co., Inc. - Analyst*

And then as it relates to the market share comments, I think it was specific to HHC. Your -- it gets to your consumer end markets business. Can you just give us a broader sense as to the competitive environment at this point?

And then also give us an update on some of the previous callouts from before as it relates to solar weakness and also the impact of hydrogenated hydrocarbon I think that impacted price mix -- price costs I should say.

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

Can you repeat that last part of that question, Ghansham? I lost you there.

Ghansham Panjabi - *Robert W. Baird & Co., Inc. - Analyst*

Yeah. The impact of raw cost inflation. I think you called out some unique movement in China as it relates to hydrogenated hydrocarbons.

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

Yeah. Okay. Yeah. So as far as market share, yeah, we have been gaining share in multiple segments across the portfolio. My comments were specific to HHC. So we call in HHC in that hygiene space in particular. We've really taken a step back and looked critically at where are the customers and the end applications where we should be playing.

Where do we really create value and how do we capture that value from customers? And so in the hygiene market in particular, the company has taken share with about five large global customers. So they've done a really nice job repositioning. They've moved away from some of the cheaper Chinese baby diapers.

And they're winning with innovation. In fact, we just had a win in Latin America where we were able to bring a product that uniquely benefited a customer with a fluffless core. So we've seen some nice work out of the hygiene group there.

In the solar space, it remains very competitive. What you're going to see throughout the course of the year is that revenue will be constrained in our solar business. However, you will see margins improve in that particular business.

And again, it's a repositioning as we're moving away from the cheaper Chinese panels where technology is not valued as much as it is in some of the more higher end panels that drive higher efficiency and customers that really desire the innovation that we can bring.

And as far as raw material inflation, yeah, we really saw kind of a big slug of that move through the portfolio in Q1. You saw it in Q4. We've seen the tail end of that in Q1, in particular in the HHC business. That was the reason for the compressed EBITDA margins in HHC.

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And we're now at a point where we've moved that through the system and we're in a much better position now to deliver on the $55 million of price and raw material cost benefits that we have guided to for the rest of the year.

Operator

Kevin McCarthy, Vertical Research Partners.

Kevin McCarthy - *Vertical Research Partners - Analyst*

Celeste, just to follow up on HHC. Can you comment on your outlook for pricing there? And then if we take into account prospective pricing and the share gains that you referenced, how would you describe your level of confidence in restoring the segment EBITDA margin to say 15% or more or what are you baking in for the margin profile in HHC within your overall guidance?

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

Yeah. We are -- thank you, Kevin. We're now at a point where we are going to continue to see improving margins in HHC throughout the rest of the year. They'll be more so up in that normalized range where they should be.

Ideally, that business is operating in a 16% to 17% EBITDA margin range. We did push through price increases as I mentioned in Q4 that got delayed because of the low volume in that quarter. And so we're starting to realize those now in Q1.

You saw a little bit of that. And you'll continue to see more of that distributed throughout the year with overall for the business a better raw material position.

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

I just wanted to give you, your question on kind of assumptions on pricing and margin expectations. So we've said that for the full year, we expect pricing to be up 1% to 2%. The majority of that should come from HHC and we saw that they're starting to get some traction in that area in Q1 that should accelerate.

From a margin standpoint, yeah, we would anticipate that the last three quarters of the year are going to be in that closer to 15% to 17% EBITDA margin range as we execute that pricing and we see some of this unfavorable raw material impact subside.

Kevin McCarthy - *Vertical Research Partners - Analyst*

And then maybe as a follow up for you, John. It looks like working capital was an appreciable drag. And I think last quarter, you had signaled the back end loaded nature of the cash flow profile for fiscal 2025. But water under the bridge, maybe you can just update us on your thoughts about working capital and your level of confidence in achieving that cash from operations range of $300 million to $325 million?

I guess that would imply $350 million plus in the remaining nine months. Maybe you can just kind of talk through what you're seeing there.

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

Yeah. Sure. And the cash flow story is largely a working capital story with the need to build some working capital related to this volume and pricing growth we're seeing. So it's not surprising that we would see the increase in working capital. It's a little bit higher than we expected in Q1.

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And so delivering on the full year, part of that will just be kind of getting into these normalized trends for Q2 through Q4, but we'll also -- we also have some self-help actions to drive an improvement year on year in working capital as a percentage.

That should improve steadily as we go throughout the year. The other big driver as we think about cash flow sequentially versus Q1 is just profit will increase as we go through the year. And it's a little bit of a mirror of what we saw last year with raw materials being such a tailwind in the first half of the year.

And then a headwind in the second half. And I'd say if you looked at our 2023 cash flow by quarter, it's a much better comparison to what we expect to see in 2025.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank - Analyst*

Celeste, can you talk about March? Are you seeing a normal seasonal uptick in demand or has there been some maybe push out into April given the trade and tariff uncertainties?

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

Yes. So when you look at -- just maybe take a step back and we'll talk about progression through Q1. We had a strong P3 in Q1. So that would have been February. And we're continuing to see progression like that throughout this quarter.

So we're not seeing customers push volumes out or move them forward. It's not really a volume story anyway. It's just like a slow steady crawl of volume that we're experiencing in the market.

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

Hey, David. Just to give you a little bit of color because we talked -- I think all the questions we've had right now also evolved around Q1 revenue, performance and volume. As we said in our guidance, which is unchanged, we're expecting volume and pricing organic revenue to be up 1% to 2% with most of that from pricing.

So we've forecasted the rest of this year with pretty flat volume. So we're not counting on kind of the improvement we saw in Q1. If that transpires, that would be an upside. But we're expecting that the volume growth in Q2 through Q4 will be a little constrained versus what it was in Q1.

David Begleiter - *Deutsche Bank - Analyst*

And just with leverage of 3.5 turns and the macro uncertain, how are you thinking about debt reduction versus share buybacks for the rest of the year?

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

Yeah. So one of the comments that we made in the script was that we have delayed some of our M&A pipeline and the transactions therein. That's largely in response to the leverage that you just pointed out. 3.5 times stands out in this particular environment.

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And so we're moving a little more slowly there. On share buyback, we announced last year that we would be buying back shares to counteract the creep that we have due to our compensation plans. And we accelerated those buybacks in the first quarter.

In fact, now we're looking at share buyback very opportunistically.

Operator

Mike Harrison, Seaport Research Partners.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

I was hoping that you could talk a little bit about what you guys are seeing in China. We've heard some conflicting comments on kind of what trends have looked like since the end of Lunar New Year. I'm just curious if you can talk about what you're seeing and kind of what your expectations are over the next few months or few quarters.

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

Absolutely, Mike. So in China, we're seeing mid to high single digit growth. In fact, both businesses HHC and EA performed very well there in Q1. HHC, as you'll recall, we've repositioned their portfolio, really focusing around higher growth, higher margin opportunities and applications where we had a lot of value in China. That's been successful.

And in the EA business, that team is just doing a fantastic job, taking share in electronics and in EVs. And in fact, if you strip out the impact of solar on the EA business in China in the quarter, it was up high teens. So the business is performing very well there.

As for the overall environment, it is an interesting one. We don't participate there in the construction space, and I'm pretty glad about that right now. Consumer electronics for us was flat to just slightly up. So I do think in some of the smaller electronics, there is really weak consumer demand there.

I don't know if you've heard about the cell phone upgrades that normally would have been announced by now by Chinese producers getting delayed a bit. We're clearly seeing that. But the team's doing a good job repositioning EA as well in Asia and in China in particular away from solar, more so into these applications where we've already been having success.

And now redefining how they're looking at our general industries segment, seeing wins in MRO, in appliances, in electrical motor applications there. So we -- our experience in China is good and continues to be good, and I think will remain so.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

That's great to hear. And then I wanted to ask you about in the news, we've seen that there's been a recent recall on Tesla Cybertrucks because of issues with the adhesive bonding. So I wanted to ask, is that a Fuller adhesive? If so, I'm sure this would not be the first time you've had maybe an issue with performance here.

How do you manage through a recall or kind of warranty issue like that? And if not, is this an opportunity for you guys to step in and maybe pick up some business repairing those recalled vehicles and maybe using your adhesives in the future rather than something that wasn't working?

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

Mike, that was absolutely not an H.B. Fuller product. And in fact, it even emphasizes the opportunity that we have. Our team has continued to grow that automotive business. Despite seeing some market declines, they've continued to take share, and they're taking share through innovation.

And so if you look at the business today, we're the world leader in interior trim applications in automotive. I've talked previously about us expanding the business into exterior trim applications. This is a great example of an exterior trim application where customers need to work with a partner like H.B. Fuller that has highly technical successful products to bring as a solution.

And so yes, I think there's a lot of opportunity for us in that market and I've talked also previously, Mike, about as we look at our top 20 opportunities to grow this business, the highest margin, fastest-growing spaces, one of those is structural adhesives.

And this is a good example of an application where structural adhesive from H.B. Fuller would be successful.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

Well, I've seen some of the videos of that. I didn't think it was your product, but I wanted to check. So thank you for the detail there.

Operator

Jeff Zekauskas, JPMorgan.

Jeffrey Zekauskas - *JPMorgan - Analyst*

Your solar business has been weak for a while. Do we have maybe another quarter to go before we lap comparisons and that business begins to stabilize in China?

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

So Jeff, that business will on a top line continue to be weak throughout the rest of the year. And the reason for that is we are repositioning that business away from certain applications, certain suppliers, some of the cheaper panels that don't have high efficiency.

And we're migrating the business into the more demanding innovation-driven applications, particularly in the panels of the future with higher efficiency. So while you're going to continue to see this revenue drag on that business throughout the rest of the year, the margins on that business will appreciate significantly.

Jeffrey Zekauskas - *JPMorgan - Analyst*

Well, maybe another way to ask it is what was the EBITDA penalty from that in the quarter or what do you expect the EBITDA penalty to be for the year in solar?

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

Yeah. So I would say that this is a business, Jeff, that is probably down. It's a $100 million business in terms of revenue. Last year, it'd probably be down about 20% year on year. Pretty decent margins in the 35% kind of flow through margins.

So $20 million and a 35% flow through is kind of the negative drag we have related to solar from an EBITDA standpoint.

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Jeffrey Zekauskas - *JPMorgan - Analyst*

In terms of raw materials, what's going up? And is it more a raw material or a set of raw materials that's peculiar to HHC in that? I don't really see much margin deterioration in the other businesses.

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

Yeah. So raw materials are -- about 20% of the portfolio is increasing. If I look at it from a material count, we monitor 4,000 different raw materials because we've got so many different raws going into the business. So there is a segment of those that are inflationary.

A lot of those were in HHC. And those continue to increase. And again, we're reacting by driving price and also reallocating raw materials to different suppliers around the globe.

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

And just to comment on the raw material movement, it's pretty flat sequentially from Q4 to Q1. So I know we made a lot of comments on our prepared remarks around the negative impact of raw materials on EBITDA versus last year. But that's primarily a carryover impact for the increases we saw last year.

They're pretty flat sequentially from Q4 to Q1. And that's why we know that to the extent raw materials stay flat for the rest of this year or we drive savings that we'll start to see year on year favorable comparisons of raw materials as we annualize against last year's increases.

Jeffrey Zekauskas - *JPMorgan - Analyst*

And then lastly or I don't know, maybe there are two left. Your pre-tax charges in the quarter were about $23 million but about $10 million were acquisition proto costs. So I guess those will go away. So maybe your non-recurring charges for the remainder of the year are another $30 million. You did $22 million or $23 million or so.

So maybe your non-recurring items are $55 million pre-tax for the year. Is that a reasonable estimate?

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

Yeah. That's a reasonable estimate. Maybe but even a little bit lower than that, Jeff. And you're right, the biggest impact in the quarter was acquisition costs. Of that, $10 million over $6 million was related to the flooring divestiture. So that obviously isn't repeating.

We will have a little bit of activity related to acquisition activity that's ongoing. But that number should get smaller. And so I think -- I'm thinking this number is probably in the $40 million to $50 million dollar pre-tax range.

Jeffrey Zekauskas - *JPMorgan - Analyst*

And then lastly, can you talk about whether it feels like the European and US economies are accelerating or decelerating or staying the same? I know you commented already about Asia.

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

Yeah. So if you look at our 30 segments, in Q1, we saw half of those accelerating. So those are global market segments. So about 16. Now if you looked at those 30 market segments in Q4, only 8 were accelerating.

So really twice as many of our market segments are showing acceleration versus prior quarter. If I look just at the European and the US businesses, I really feel like the US business, the North American business is slowing.

Our US business was really buoyed by our BAS segment this quarter. And we can talk about some of the wins there. But I think suffice it to say, our HHC business, our EA business where we have more of that durable good exposure, both of them were weak in the US.

And I think the US consumer is weak. In Europe, we saw a different story. In Europe, the construction market was not very good. So our BAS business was slower. Our EA business, which is exposed to automotive there and other durable goods also was weak.

But the HHC business was in really good shape in Europe which tells you a little more maybe about the European consumer. However, there's a big component of that which is share wins. And so I don't want to draw too many conclusions about the consumer feeling really good in Europe because a lot of the benefit that we saw was both from innovation and share wins.

And also we did have an easier comp in Q1 for HHC in the Middle East or in Egypt in particular and in Turkey. Because you might recall, Jeff, last year, first quarter, we had some currency constraints that kept us from selling in that market.

So is that enough color?

Jeffrey Zekauskas - *JPMorgan - Analyst*

Yeah. That's enough color.

Operator

(Operator Instructions)

Patrick Cunningham, Citigroup.

Rachel Leon - *Citi - Analyst*

This is [Rachel Leon] for Patrick.

Maybe a follow up on the Europe environment. Can you point to the areas of share wins in HHC and how have volumes been performing this quarter?

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

How have -- can you say that again? How has what been performing this quarter?

Rachel Leon - *Citi - Analyst*

How have Europe volumes been performing this quarter?

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

Yeah. So we've experienced share wins across the board in HHC. In fact, almost every single segment grew in Europe this quarter. I mentioned some of those hygiene wins. We've taken share with about five major global hygiene customers.

Much of that was in Europe. Of course, in beverage labeling, we have a great new product that has been taking share, essentially a beverage label with a biocide incorporated into the adhesive that prevents mold growth on labels.

Our tape and label business has been doing a super job there. Our end-of-line packaging business is growing or grew this quarter in Europe. And so really strong share take across the board also not HHC related, but as it relates to aerospace in Europe, the team has done a nice job continuing to grow the business in that commercial MRO space and is well-positioned in aerospace to benefit from defense spending in Europe and in North America.

Rachel Leon - *Citi - Analyst*

And in BAS, it seems to be strong, but given some of the headlines and tariff pressures, market growth in 2025 doesn't seem to be a given. Do you see any volume risk across specific end markets?

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

I am so glad you asked about BAS. Rachel, I was hoping someone would. So I got -- the BAS team has really come together nicely. There's a lot of benefit in having these various construction related segments working together.

If you look at the construction market, particularly, in the US for us, I think we're in a very good position. And I say that because we're in the right spaces and we're innovating. So as far as being in the right spaces, the places where construction growth is still occurring in the US is in healthcare, it's in education, it's in data centers, and what are those? Those are big flat adhered roofing systems which is perfect.

That is really where our product creates a lot of value. In fact, I think there may be some benefit for us from these tariffs as mechanically fastened roofing systems may be tariffed because of the steel component. So back to data centers, we continue to grow there. That's a business. That's a space that's growing over 40% a year and is expected to do so in 2025 and over 30% in 2026.

That's the overall market. We've introduced some new adhesives speaking to innovation in that space. In fact, within -- probably momentarily, you'll be seeing the introduction of our PG-1 EF ECO2 product, the Millennium product which is actually a spray adhesive.

So it enables customers that are labor constrained to spray adhesive. And while those have been around for a little while, ours, our new introduction is actually non-fluorinated, no VOC. So low global warming impact. Now I talked a little bit about how these BAS businesses are working together.

We now have the glass, wood and composites business as part of BAS. And one of the most exciting innovations that I saw this quarter from our wood and composites business, was the introduction of a product for data center elevated floors that dissipates static electricity. So it's a really important need in these data centers.

And we introduced a very novel unique product that enables that to happen. So I think we're going to see a lot more synergies that come from these markets segments working together in these spaces like data centers over the coming years.

And I feel like our BAS business is very well-positioned in the US because we're in the right spaces and we're delivering innovation in these very complex non-traditional construction markets that puts us ahead.

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Operator

Rosemarie Morbelli, Gabelli Funds.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Celeste, I was wondering if you could touch -- if we could go back to the tariffs for a second. I understand that the direct impact is most likely going to be minimal. But when you look at your customers, some of which are going to be affected, can you put a percentage number on those customers' revenues contribution to your operations that could be affected by the tariffs and therefore affect you indirectly?

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

Yeah. I think it's going to be -- it's a hard question to answer, Rosemarie. I think the simplest answer is that durable goods production will be more so impacted by tariffs like the automotive business than other businesses.

But the consumer overall in the United States is likely to be impacted. And so I'm not sure how big the indirect impact will be. But what I do know is that H.B. Fuller is a great stock to own in a recession. Our suppliers are more volume sensitive than we are.

That gives us a lot of opportunity to drive down raw material costs in a low volume environment. And I think if that happens, what you're going to see is a situation similar to what we delivered in 2023, which was a year where volume was really constrained if you remember that because of the destocking phenomena. But we were able to grow EBITDA 10% even in that environment.

And I think that's how we think about this year. We're not counting on volume at all. In fact, we don't have any baked into our guidance. However, and if that happens, we'll be able to continue to deliver the $55 million in price and raw material benefit action that we have already guided to and planned.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And if I may ask another question, there are -- my understanding is that there are PFAS in sealants and some adhesives. Do you have products that actually could replace those unless you have them in your own, but I don't think so? And how large could that particular market be for you?

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

Yeah. That is an exciting market for us, particularly as the innovator in the space. And yes, we have already in the past introduced some products and taken some share, particularly in the electronics market, Rosemarie because we had PFAS-free alternatives to other PFAS containing products.

So we are working closely with customers on this topic. As far as how large that market could be, it's very hard to say, hard to state. But I do think the overall industrial production will continue to migrate away from PFAS containing materials. And we'll be at the front end of that.

Operator

Since there are no questions -- there's no further question at this time. I will now turn the conference back over to Celeste Mastin for closing remarks. Celeste?

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

Thank you and thank you to all of you for joining us this morning. We look forward to speaking with you again next quarter.

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Operator

That concludes today's conference call. You may now disconnect.

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