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FUL.N - Q3 2025 H.B. Fuller Company Earnings Call

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PRESENTATION

Operator

Hello and welcome to the H.B. Fuller third-quarter 2025 earnings conference call.

(Operator Instructions)

I would now like to turn the conference over to Scott Jensen, Head of Investor Relations. You may begin.

Scott Jensen - *H.B. Fuller Company - Head of Investor Relations*

Thank you, operator. Welcome to H.B. Fuller's third-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. Reconciliations 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 SEC, 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, Scott, and welcome everyone. We delivered a strong quarter evidenced by continued margin expansion and double-digit EPS growth despite the challenging operating environment. Our continued operational discipline, strong execution, and ongoing portfolio shift keep us on track to achieve our greater than 20% EBITDA margin target. Despite our strong performance, we remain cautious and have tightened our guidance range for the year to reflect a globally subdued economic backdrop.

Looking forward, we expect volume growth to remain elusive and end market conditions to be challenging. However, we continue to actively focus on enhancing the composition of our portfolio, driving continued efficiencies, and structurally repositioning the company for growth and continued margin expansion consistent with our long-term strategy.

Looking at our results in the third quarter, our organic sales were slightly negative, consistent with our expectations given economic headwinds. Organic sales decreased 0.9% with positive pricing of 1% offset by a volume decline of 1.9%. From a profitability perspective, we executed well and delivered strong results. We grew EBITDA 3% year on year to $171 million and expanded EBITDA margin to 19.1%, up 110 basis points year on year, including positive EBITDA growth and margin expansion in all three GBUs. The net impact of pricing and raw material cost actions, the contribution of acquisitions and divestitures, and targeted cost reduction efforts drove the increase in margin relative to the prior year.

Now let me move on to review the performance in each of our segments in the third quarter. In HHC, organic revenue softened sequentially as we saw the effects of continued economic uncertainty impact consumption trends. Organic revenue decreased 3.1% as positive pricing actions were offset by weaker volume.

Strength in Medical and Tissue and Towel was offset by broad-based and market softness, particularly in some of our packaging-related market segments. EBITDA was up 2% year on year for HHC in the third quarter and EBITDA margin increased 50 basis points year on year to 16.9%. Positive pricing and the impact from acquisitions were partially offset by negative volume leverage.

In engineering adhesives, organic revenue increased 2.2% in the third quarter, driven by both positive pricing and volumes. EA continues to lead the portfolio as positive organic growth was driven by ongoing strength in automotive and a bounce back in electronics.

Solar continues to be a headwind as a result of regulatory changes, tariff-driven ambiguity, and the oversupplied global panel market. Excluding solar, EA organic growth was positive mid-single digits. We continue to see the benefits of our strategic growth focus in EA against a still difficult backdrop. Overall, more than half of the market segments in EA saw positive volume growth during the third quarter.

EBITDA increased 14% in EA and EBITDA margin expanded 190 basis points year on year to 23.3%. Positive volume leverage, the impact of net price and raw material cost management, and efficiency gains drove the increase in EBITDA margin year on year.

In Building Adhesive Solutions, organic sales decreased 1% year on year as positive pricing actions were offset by modest volume declines. BAS performed as expected as the construction market-related slowdown we identified last quarter was partially mitigated by the team's strong execution. Although construction demand remains weak, we expect a declining interest rate environment will drive an improvement in building conditions and ultimately benefit BAS moving forward.

EBITDA for BAS increased 3% versus the third quarter of last year to $41 million and EBITDA margin expanded 10 basis points to 17.7%. Net price and raw material cost management drove the improvement in EBITDA margin year on year.

Geographically, America's organic revenue was up 1% year on year in the third quarter. EA drove the increase for the region, achieving a high-single digit increase with positive organic growth across most market segments. BAS organic revenue was slightly positive versus the prior year and HHC organic revenue was down modestly.

In EIMEA, organic revenue declined 2% year on year, similar to the second quarter, as continued weakness in Europe weighed down the region. EA was flat year on year, while HHC and BAS were both down modestly.

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In Asia-Pacific, organic revenue decreased 4% year on year, driven by the significant volume decline in solar. Excluding solar, organic sales for Asia Pacific were approximately flat year on year, and organic revenue for EA in the region was up 7% year on year, driven by strong results in automotive and electronics.

From our vantage point, which reflects a broad-based geographic and end-market view, we have observed a widespread slowing economic environment. The manufacturing sector continues to be weak and has shown some signs of softening. Customer demand is appearing more uneven and less predictable, driven by global trade tensions and export-driven uncertainty.

In general, customers are hesitant to make product changes and incremental investments given economic volatility and high interest rates. Therefore, looking forward, we expect a slow growth environment with a continuation of these themes.

Now let me turn the call over to John Corkrean to review our third quarter results in more detail and our updated 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 in the third quarter.

For the quarter, revenue was down 2.8% versus the same period last year. Currency had a positive impact of 1%, and the net impact of acquisitions and divestitures decreased revenue by 2.9%. Adjusting for those items, organic revenue was down 0.9%, with pricing up 1% and volume down 1.9% year on year in the quarter.

Adjusted gross profit margin was 32.3%, up 190 basis points versus last year. The net impact of pricing and raw material cost actions, the benefit of acquisitions and divestitures, and targeted cost reduction efforts drove the year-on-year increase and adjusted gross profit margin.

Adjusted selling general and administrative expense was up 3% year on year. Adjusting for M&A, FX, and variable comp; SG&A was flat year on year, reflecting diligent cost control.

Adjusted EBITDA for the quarter of $171 million was up 3% year on year, reflecting the positive net impact of pricing and raw material cost actions which more than offset higher wage inflation and lower volume. The net impact of acquisitions and divestitures was neutral to EBITDA year on year.

Adjusted earnings per share of $1.26 was up 12% versus the third quarter of 2024, driven by higher adjusted net income and lower shares outstanding.

Third quarter operating cash flow was up 13% year on year, primarily driven by improved profitability. Net debt to adjust EBITDA decreased from 3.4 times at the end of the second quarter to 3.3 times at the end of the third quarter of fiscal 2025. Solid cash flow from operations, growth in adjusted EBITDA, and our intentional slowdown in M&A activity drove the sequential decrease in our leverage ratio.

With that, let me now turn to our guidance for the 2025 fiscal year. As a result of our year-to-date performance and the current macroeconomic conditions summarized by Celeste, we are updating our previously communicated financial guidance for fiscal 2025 as follows.

Net revenue is still expected to be down 2% to 3% year on year. We now expect organic revenue to be flat to up 1% year on year and expect foreign exchange to adversely impact revenue by approximately 1% year on year.

We are tightening our adjusted EBITDA range for the year to $615 million to $625 million equating to growth of 4% to 5% year on year. This compares favorably to our initial 2025 full-year guidance of $600 million to $625 million. We now expect our 2025 core tax rate to be between 26% and 26.5% and expect full-year interest expense to be between $125 million and $130 million.

Combined, these assumptions now result in full-year adjusted diluted EPS in the range of $4.10 to $4.25, equating to year-on-year growth of between 7% and 11%. We now expect full-year operating cash flow to be between $275 million and $300 million, reflecting slightly higher inventory

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levels in preparation for our manufacturing footprint optimization. Finally, we've reduced our full-year capital spending target to approximately $140 million for the year.

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

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

Thank you, John.

As we entered 2025, we anticipated a challenging macroeconomic environment where both volume growth and margin expansion would be difficult. This sentiment was further exacerbated by the upending of global trade relations and tariff-driven disruption.

As a result of our expectation for a difficult year, we took early and proactive measures delivering strong execution on pricing and raw material management as well as cost controls, while placing an emphasis on operational efficiency. These actions are clearly paying off as evidenced by our third-quarter results.

While we are not immune from an economic slowdown, we are diligently focused on the variables we can control, starting with providing outstanding service and support to our customers. We are a demonstrated and critical partner to our customers as they grapple with potential changes to everything from the point of origin of the materials they buy to their manufacturing locations and processes. This is increasingly valuable in this time of material optionality and supply chain disruption.

To wrap up, we are pleased with the progress we continue to make in improving our portfolio, streamlining our operations, and driving EBITDA margin expansion. While volume growth remains challenged, we have a clear and focused strategy and a highly experienced team that is well prepared to execute and drive operational success. We remain on track to deliver on our long-term EBITDA margin and growth targets.

As a reminder, we look forward to seeing you at our Investor Day on October 20, where we will provide an update on our strategic plan, including our successful M&A strategy, transformational footprint optimization, and roadmap to our greater than 20% EBITDA margin goal.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Begleiter, Deutsche Bank.

Emily Fusco - *Deutsche Bank AG - Analyst*

This is Emily Fusco on for Dave Begleiter, Deutsche Bank. Could you provide some more detail behind the reduction in cash flow guidance?

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

Good morning, Emily. John, do you want to cover cash flow?

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

Sure, it really just comes down to working capital, specifically inventory, Emily. So as we've -- in the preparation and we're actually in -- I would say in process on a number of these footprint consolidation actions, we're trying to manage inventory a little differently to accommodate these, which requires us to keep higher inventory levels. That's driving the increase in working capital and the decrease in cash flow expectations for the year.

And I would just add that they're temporary, right? They're positioning us for these changes and we would expect that we would reduce inventory to more normal levels in the future.

Operator

Patrick Cunningham, Citi.

Unidentified Participant_1

Hi, this is actually Alex on Patrick's team. Thanks for taking my question.

So for me what struck me as interesting was that, in EA autos and durables, you're saying that things were okay. I'm just curious if -- did anything accelerate in the quarter or was there anything -- whether it's in the mix or any kind of accretion from acquisitions? What kind of helped EA volumes there and margins there.

Thank you.

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

Right. Absolutely. So in the EA business, we had a great quarter and a few things happened there that are notable. So in Q2, you might recall if you were on at that time, Alex, that we said that we were experiencing a temporary [lull] in the electronics market in Q2 and that in the second half, we would see those volumes resurface as more and more product upgrades were coming out with featuring our adhesive in some wins there as we continue to take share. That was one thing that did happen during the quarter favorably. Our electronics business returned to globally double-digit organic growth.

Also in the quarter, we saw great performance improvement in our US EA business. In Q2, we had seen that business operating at negative mid-single-digit organic growth. In Q3 in EA in the US, the business drove forward to positive mid-single-digit organic growth. A lot of that based on some share take and new customer wins, but also just really strong execution by our sales and technical service teams. So we're seeing some good momentum in the EA business and we expect that to continue going forward.

Operator

Ghansham Panjabi, Baird.

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

So Celeste, just going back to your prepared comments and the caution you shared for obviously good reason, et cetera. But how would you explain the HHC decline in volumes versus EA in context of HHC generally speaking being considered a little bit more defensive versus EA which has multiple dimensions of exposure, including to some of the cyclical in markets. How would you have us think about that?

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

Yeah, the way I think about that Ghansham is our EA business today is performing much stronger than the market. I do think we're still seeing slowing in durable goods. However, that team, as I mentioned, as it relates to electronics, but also as it relates to automotive, has really been successfully growing their business, taking share, bringing unique solutions to the customer base and that has facilitated their above market growth.

In the HHC business, we saw a strong pricing performance around the globe in the third quarter. However, volumes were really tough to come by, Ghansham and they really are a reflection of the consumer. And so in all major regions the Americas, Europe, Asia, we saw mid-single-digit declines in HHC volume, and I just think that's a reflection of the eroding global economic consumer.

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

Got it and then in past calls you've given us some characterization in terms of your different GBUs and the number that are decelerating versus accelerating. Can you do that the score around as well? Like, how did 3Q actually shape up as it relates to the different GBUs?

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

Yeah, so in the business in total about 18 of our market segments out of 30 were accelerating. And what we saw typically was in every GBU that the case for about half of them. So nothing really notable there. And I'm pleased that we were able to deliver a quarter that demonstrated EBITDA margin expansion and positive pricing in all GBUs and maintained that mid-level of acceleration. It didn't take all of our segments operating in concert positively to deliver that.

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

Okay, and then just one final one as it relates to the outlook for fiscal year '26, which isn't that far away, is solar -- will that fully have cycled through as it relates to the negative volumes by then or will there be some sort of lingering flow through into fiscal year '26?

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

Yeah, so let's talk about solar. Just the solar strategy, solar technology, and then what you should expect from a revenue and an EBITDA margin perspective.

So in the global solar industry, we operate supplying three different product lines essentially to that space. Two of the three of those product lines are very specialized and in fact, they are critical in enabling more efficient solar panels to be produced and introduced in the future upcoming years. So we're continuing to emphasize those product ranges.

Now the third product range, which is more of a silicon sealant type of product. It became really a challenging part of that market, particularly in China, as construction in China slowed down and those sealants were redirected into the solar industry. That's a part of the market where we're going to be de-emphasizing our focus.

And so with all of that as the technology backdrop and the market backdrop to what's going on, what you'll see in the P&L is that on the top line there will continue to be headwinds as it relates to revenue as we continue to draw back away from the silicon sealant product line in particular regions. Now what you will also see, however, is a shoring up of EBITDA and EBITDA margin as we're exiting that lower margin space.

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Operator

Michael Harrison, Seaport Global Securities.

Michael Harrison - *Seaport Global Securities - Analyst*

You've talked about this, I believe it was $55 million worth of kind of pricing versus raw material cost tailwind for the year. I was hoping that you could give us a sense of where we stand on that. Are you tracking above or below that number? How much of it is yet to be realized? And maybe give us a little bit of a sense of how you're seeing raw material costs trending as we start to think about price/cost and some potential tailwind from that into fiscal '26.

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

Sure, so that's correct.

At the beginning of the year, we established that in order to achieve our guidance of $600 million to $625 million of EBITDA, we would be delivering $55 million of price and raw material cost action benefits. So it's less about how the market's trending, more about the actions that we were taking on raw materials in order to get there.

And so if you look at our progress as of the first half, as I mentioned last quarter, we had achieved about $5 million of that. However, we also established that we have taken all of the actions that we needed to take in order to make both of those factors, price, and raw material savings come to fruition.

What we realized over the course of this quarter is that the cadence for those savings is going to be slower than we anticipated given that we have more material inventory in preparation for this footprint optimization. So through third quarter, we've generated about $15 million of the $55 million of price and cost action. We anticipate another $15 million benefit in Q4, and then the remainder will wrap around into the beginning of next year.

In the interim, in order to still achieve our guidance, we did take action to pull forward some of our footprint optimization savings and so we still feel very confident and as you see, we brought up the bottom end of our range last quarter have just tightened it now to be able to achieve $615 million to $625 million of EBITDA this year.

Michael Harrison - *Seaport Global Securities - Analyst*

All right, so it sounds like maybe $20 million or $25 million yet to come in '26. Is that the way we should think about it?

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

Correct.

Michael Harrison - *Seaport Global Securities - Analyst*

Okay, perfect.

And then my other question for you is, you guys have had a number of organic growth initiatives since you took over, Celeste. Also done a number of bolt-ons over the past couple of years. If you look at the cross selling and geographic expansion opportunities, just curious if you can talk about

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how much faster than underlying markets you think you can grow in the next year or two. It sounds like you're really delivering on that potential in EA, but I'm just curious, can it accelerate in EA and what do you think about the other two segments?

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

Yes, it has accelerated the EA.

In fact, I was really pleased just the other day to be talking to one of our leaders here in the US and finding that we have adopted the Vibra-Tite product range from ND Industries into our HVAC product range. So we are expanding the ND Industries products very quickly. In fact, you will see an expansion by the conclusion of the year of those in multiple additional geographies, three new locations versus where that business was when we acquired last year.

The other thing I would say is, we've been really pleased with medical adhesive business. Again, it's a business where we're growing businesses that we acquired into new geographies and in fact if you look at the medical adhesive technology business, the EBITDA has doubled and revenues are up 60% with EBITDA margins over 40% just this year. So we're really excited. We're validated that our strategy is delivering in the manner that we originally anticipated, and you see that in the EBITDA expansion numbers, it's been a prime contributor.

Michael Harrison - *Seaport Global Securities - Analyst*

All right, and any comment on BAS? I know that the Middle East in particular has been an expansion initiative.

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

The Middle East has been an expansion. That business, I know organic growth was down 1% this quarter, but bear in mind it was, it held in there well on a very good comp from Q3 prior year. In fact, Q3 of 2024, our roofing business, which is one of the bigger businesses in that GBU was up 30% organic growth. So the business is performing well. We're seeing adoption of our 4SG insulated glass sealant. In fact, we're -- we just won a couple of projects in Japan, so we're seeing kind of geographical expansion of that business and are pleased with its performance. Yes, the Middle East represents a great opportunity for us there.

Operator

Kevin McCarthy, Vertical Research Partners.

Matthew Hettwer - *Vertical Research Partners LLC - Analyst*

Hi, this is Matt Hettwer on for Kevin McCarthy.

Staying with BAS, as the Fed presumably continues to cut interest rates moving forward what kind of lag effects do you expect to see between the timing of lower interest rates and how they might feed through to stronger results in that business and are there any specific underlying business lines in BAS such as maybe glass or woodworking that you think might benefit from lower interest rates more than others.

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

Yes, so lower interest rates tend to impact our business. We call it 15 to 18 months later than we would see them in the architectural billing index. Now that said, there will be more immediate impacts of lower interest rates both on that business and at H.B. Fuller. I mean, just the mobility that lower interest rates create, the possibility for household formation and moving households helps bolster our business in many ways. The HHC

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business would benefit from that in BAS. Specifically, the woodworking business, I think furniture would benefit from that. And so ultimately, we don't have to see building as a consequence of interest rates to get the benefit. We will see indirect benefits in addition.

Matthew Hettwer - *Vertical Research Partners LLC - Analyst*

Great. Thank you.

And then yeah, I guess one more for BAS. Data centers has been a source of strength to you. I was wondering if you could just give us a sense for how large that business is and I assume it's maybe on the smaller side, but is the high growth rate there relative to the size of the business, is that strong enough for it to have a meaningful impact on segment results moving forward.

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

Yeah, so the data center business, just to speak more broadly, and then John, maybe you can speak to it relative to H.B. Fuller.

More broadly, the data center business grew this year at 40%, as I understand it, and the outlook is for that business to continue to grow at a rate of call it 30%. Our BAS business has taken a very strategic approach to data center building. We've long been part of the specification for the roofing systems in data centers, and now that we have revised that GBU and have different market segments working together, we've been able to bring a package of adhesives to support different parts of the structure.

And I think I mentioned last quarter I was pretty wild about the flooring adhesive we've introduced for panels and raised floors and data centers that dissipates electrostatic energy. So the team is approaching the business very strategically.

John, do you want to comment on (multiple speakers) how to contextualize that.

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

-- maybe dimensionalize the size. So most of this activity resides in our roofing business, which is 100% commercial focus. And that business, it's between 5% and 10% of total revenue. I'm going to guess, data centers are less than half of that, but they're growing quickly. So it's a true strategic focus area. It's high margin business and the team's done a great job of winning new business to really drive both take advantage of both the underlying macro trends but win new business on top of that.

Operator

(Operator Instructions)

Lydia Huang, JP Morgan.

Lydia Huang - *JPMorgan Chase & Co - Analyst*

Could you give some color on the pricing trends for your segments in the fourth quarter?

Thank you.

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

Sure. You probably noticed, Lydia, that the businesses all three GBUs were positive price year on year in Q3. There's a very supporting -- supportive pricing environment in the market given so much inflation, tariffs, et cetera. And in fact, speaking of the fourth quarter, I actually just was reading a survey that was done here in the US by the Adhesives and Sealants Council (sic - Adhesive and Sealant Council).

They had surveyed their memberships -- their members to understand amongst other things, how they were responding to tariffs and pricing was one question related to that. And 84% of the respondents to that survey that are all adhesives and sealants companies responded that they were raising price. So again, it's a very supportive pricing environment and I think you'll continue to see that throughout the fourth quarter.

Operator

There are no further questions at this time. I'll turn the call to Celeste Mastin, CEO, for closing remarks.

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

Thank you very much for joining the call today. We look forward to speaking with you next quarter. Have a great day.

Operator

This concludes today's conference call. Thank you for joining. You may not disconnect.

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