

LSEG STREETEVENTS

EDITED TRANSCRIPT

FUL.N - Q4 2025 H.B. Fuller Company Earnings Call

EVENT DATE/TIME: JANUARY 15, 2026 / 3:30PM GMT

CORPORATE PARTICIPANTS

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

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

Michael Harrison *Seaport Research Partners - Analyst*

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

Kevin McCarthy *Vertical Research Partners LLC - Analyst*

Jeffrey Zekauskas *JPMorgan Chase & Co - Analyst*

Patrick Cunningham *Citi Infrastructure Investments LLC - Analyst*

Lucas Beaumont *UBS AG - Analyst*

David Begleiter *Deutsche Bank AG - Analyst*

PRESENTATION

Operator

Hello, and thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the H.B. Fuller fourth-quarter 2025 earnings conference call. (Operator Instructions)

I would now like to turn the call over to Scott Jensen, Head of Investor Relations. Sir, please go ahead.

Scott Jensen - H.B. Fuller Company - Investor Relations

Thank you, operator. Welcome to H.B. Fuller's fourth-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?

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

Thank you, Scott, and welcome, everyone. Our execution and agility in the quarter and throughout the year, generated double-digit EPS growth and EBITDA at the top end of our full year guidance range amidst the unpredictable economic backdrop and challenging demand landscape.

During this time, we helped our customers navigate this environment successfully, providing them with material optionality and flexibility while ensuring consistent quality and reliable availability wherever in the world they chose to make their products. These efforts, which strengthened our partnerships and enhanced H.B. Fuller's competitive positioning are reflected in our improved profitability and sustained margin expansion.

As a result, we are exiting the fourth quarter with strong momentum heading into 2026 and are firmly on track to achieve our target of greater than 20% EBITDA margin. I am very proud of our team's resolve, resourcefulness and the meaningful progress we made in 2025 as we continue transforming H.B. Fuller into a higher-growth, higher-margin company.

Looking at our consolidated results in the fourth quarter, net revenue was down 3.1%, reflecting a continued weak economic backdrop and our strategic actions to reposition the portfolio. Net revenue was up about 1%, adjusting for the impact of the flooring divestiture, which was a key step in that repositioning.

Organic growth was down 1.3% year-on-year volume down 2.5% and pricing was up 1.2%, with positive pricing in all three GBUs. EBITDA for the fourth quarter was \$170 million, up 15% year-on-year and EBITDA margin was 19%, up 290 basis points year-on-year, driven by favorable pricing, raw material cost savings and restructuring actions, which more than offset lower volume.

Now let me move on to review the performance in each of our segments in the fourth quarter. In HHC, organic revenue was down 1.8% year-on-year, driven by lower volume. Strong growth in Hygiene was more than offset by continued softness in packaging-related end markets. Despite the weak market and lower volumes, EBITDA was up almost 30% year-on-year for HHC in the fourth quarter, and EBITDA margin improved 380 basis points to 17.5%, driven by favorable pricing, raw material savings and the impact of acquisitions, which more than offset lower volume.

In Engineering Adhesives, organic revenue increased 2.2% in the fourth quarter, driven by both favorable pricing and volumes. Automotive, Electronics and Aerospace showed continued strength. Excluding solar, which we continued to deemphasize EA delivered organic revenue growth of approximately 7%. As we progress through the year, EA continued to build momentum, reflecting our successful efforts to reposition the portfolio towards higher growth markets.

Adjusted EBITDA for EA increased 17% year-on-year in the fourth quarter, driven by favorable pricing and raw materials as well as restructuring savings. EBITDA margin increased by 260 basis points year-on-year to 23.5%.

In BAS, organic sales decreased 4.8% on broadly lower volume across the portfolio. Although the team is executing well, construction conditions remain muted. Additionally, BAS had a tough comparison in the fourth quarter of 2024 when the business delivered strong organic growth on new customer expansion. EBITDA for BAS decreased 7% versus the fourth quarter of last year as pricing gains and restructuring savings were more than offset by lower volume.

Geographically, Americas organic revenue was flat year-on-year in the fourth quarter. Solid growth in EA, particularly aerospace and general industries was offset by weaker results in packaging and construction-related end markets. In EIMEA, organic revenue was down 6% year-on-year, driven by lower volume in packaging and construction, which more than offset positive results in Hygiene.

Asia Pacific showed solid organic revenue growth in the quarter, up 3% year-on-year, driven by higher volume. Positive growth in EA and HHC, particularly in automotive, electronics and packaging more than offset lower year-on-year revenue in solar. Excluding solar, Asia Pacific organic revenue was up 10% year-on-year.

Reflecting on fiscal 2025, the economic backdrop for the manufacturing sector was weaker than expected and end user demand remained sluggish. However, we took proactive steps to overcome these headwinds in order to deliver on our profit commitments.

Specifically, we executed well on pricing and identified meaningful opportunities to reduce raw material costs and offset tariff impacts. We continued to reshape our portfolio by investing in higher margin, faster-growing market segments while selecting out a business that didn't meet our growth or profit criteria. We also launched our manufacturing footprint and warehouse consolidation initiative, now known as Quantum Leap, which significantly improves our cost structure. As a result, we are exiting the year with strong momentum, driven by the determination and outstanding execution of our team.

Looking ahead to 2026 we expect the economic environment to remain challenging, similar to 2025, marked by ongoing geopolitical tensions, tariff uncertainty, elevated inflation and interest rates and continued labor constraints, all of which are likely to weigh on manufacturing investment.

Despite these challenges, we anticipate delivering another year of profit growth and margin expansion in 2026 by building on the meaningful progress we made this year while staying firmly on track to achieve our target of greater than 20% EBITDA margin.

Now let me turn the call over to John Corkrean to review our fourth quarter results in more detail and our outlook for 2026.

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 fourth quarter. For the quarter, revenue was down 3.1% versus the same period last year. Currency acquisitions and the divestiture of the flooring business collectively had a negative impact of 1.8%. Adjusting for those items, organic revenue was down 1.3%, driven by lower volumes.

Pricing was up 1.2%, reflecting positive pricing in all three GBUs. Adjusted gross profit margin of 32.5% and increased 290 basis points year-on-year. The impact of pricing, raw material cost actions, acquisitions and divestitures and targeted cost reduction efforts drove the year-on-year increase in adjusted gross profit margin.

Adjusted selling, general and administrative expenses were down modestly year-on-year, driven by continued cost saving efforts and lower variable compensation. Adjusted EBITDA in the fourth quarter of fiscal 2025 was \$170 million, up 14.6% year-on-year, driven principally by the impact of pricing and raw material cost actions as well as restructuring savings.

Adjusted EBITDA margin increased 290 basis points year-on-year to 19%. Adjusted earnings per share of \$1.28 was up 39% versus the fourth quarter of 2024, driven by higher operating income and lower shares outstanding as a result of our repurchase of approximately 1 million shares in fiscal 2025.

Fourth quarter cash flow from operations of \$107 million was up 25% year-on-year, driven by higher net income. Net working capital as a percentage of annualized net revenue increased 130 basis points year-on-year to 15.8%. Net debt to adjusted EBITDA of 3.1 times was down sequentially from 3.3 times at the end of the third quarter and down from 3.5 times at the end of the first quarter, consistent with our plan to reduce leverage during the year.

With that, let me now turn to our guidance for the 2026 fiscal year. Despite a challenging economic backdrop, which we anticipate will be similar to 2025, we expect to deliver another year of profit growth and margin improvement.

We anticipate full year net revenue to be flat to up 2% versus 2025, with organic revenue expected to be approximately flat. We also expect foreign currency translation to positively impact revenue by about 1%. We expect adjusted EBITDA to be between \$630 million and \$660 million as pricing and raw material cost actions and Quantum Leap savings more than offset wage and other inflation.

We expect our 2026 core tax rate to be between 26% and 27% compared to our 2025 core tax rate of 25.9%. We expect full year net interest expense to be approximately \$120 million, depreciation and amortization to be approximately \$185 million, and the average diluted share count to be between 55 million and 56 million shares with share repurchases offsetting shares issued through compensation plans. These assumptions result in full year adjusted earnings per share in the range of \$4.35 to \$4.70.

Finally, we expect full year operating cash flow to be between \$275 million and \$300 million weighted to the back half of the year before approximately \$160 million of capital expenditures which includes approximately \$50 million of capital related to Project Quantum Leap. Taking into account the typical seasonality of our business and the later timing of Chinese New Year, we expect first quarter revenue to be down low single digits and adjusted EBITDA to be between \$110 million and \$120 million.

Now let me turn the call back over to Celeste.

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

Thank you, John. During 2025, the execution and determination of our team allowed us to deliver on our profit commitments for the year while continuing to make meaningful positive long-term changes to the portfolio as we build for the future, including manufacturing footprint consolidation, price and raw material management and portfolio mix shift.

M&A continues to be an important part of our value creation strategy as we shared during our October Investor Day. In 2023 and 2024, we acquired eight companies with a combined EBITDA of \$41 million. Those acquisitions delivered \$73 million of EBITDA in 2025 representing a post-synergy purchase price multiple of 6.7 times EBITDA.

During 2025, we executed on several acquisitions in medical adhesives and fastener coating systems. Early in the year, we completed the acquisition of GEM and Medifil formulators, manufacturers and marketers of state-of-the-art medical-grade adhesives for internal indications. These businesses have performed exceptionally well, with revenue up approximately 15% versus pre-acquisition 2024 and EBITDA up almost 30%, consistent with our deal model.

Recall, we acquired ND Industries in 2024 for its unique encapsulated adhesive technology, knowledgeable employees and the coding service to apply these unique adhesives to mechanical fasteners. And Industries expanded our product range for customers in high-growth markets like automotive and aerospace and puts us in a position to provide a service, further linking us to those customers.

We saw India as a platform from which we could expand this technology and service offering globally and in 2025, we did just that. We acquired three small fastener coating companies to aid our global expansion. Early in 2025, we acquired businesses in Taiwan and Shanghai giving us access to the fastener coating markets in Asia.

And in late 2025, we acquired a fastener coating business in Turkey, giving us access to the broader European and Middle Eastern markets. Collectively, we paid \$17 million for these three acquisitions, which are expected to generate \$3 million of EBITDA in 2026.

While the collective value sounds small, these three outposts give us access to a fast-growing \$0.5 billion market in Asia and Europe. This expanded platform features a differentiated technology offering, long-tenured customer relationships and a strong competitive position in the fastener coating market.

As we shared at our Investor Day, our M&A strategy is an EBITDA compounder. This is an excellent example of a platform business with a good organic growth profile that we expect to significantly expand through revenue and cost synergies as we rapidly build share in this technology-driven, fast-growing and expandable market.

Finally, I would like to take this time to acknowledge and thank all our employees for their dedication and hard work throughout the year. Your commitment and the strength of our culture have enabled us to make meaningful progress on all of our strategic initiatives. That same

culture has been recognized externally as well with Newsweek naming us one of America's most admired workplaces for 2026 and Forbes naming us one of America's best employers for engineers.

As we look ahead to 2026, we remain committed to advancing the long-term strategic plan we have set in place. While global conditions remain unpredictable, we're taking the necessary steps to manage costs responsibly execute our global initiatives with discipline and navigate through this period with focus and resilience.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mike Harrison, Seaport Research Partners.

Michael Harrison - Seaport Research Partners - Analyst

Good morning. Congrats on a nice finish to the year.

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

Thanks, Mike, and Happy New Year.

Michael Harrison - Seaport Research Partners - Analyst

Happy New Year to you. I was hoping we could start with the Q1 guidance. You mentioned a couple of times that you feel good about the momentum that you finished the year with. But for Q1, you're kind of pointing to a low single-digit top line decline. I think FX is a pretty good tailwind.

So maybe we're thinking more like mid-single-digit organic sales decline. Maybe just give us a little bit more color on what do you think would be driving that weakness? And I'm curious if you can comment at all on what December looked like and if that's informing some of the weaker outlook?

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

Yes. So what we'll see going into Q1 will be continued performance much like we saw in the fourth quarter of this year. I mean, if you look at volume progression throughout Q4, what you would see is that EA was strengthening throughout the quarter. BAS was improving, but it's still weak. And in Q4, we had a pretty tough comp there of plus 7% and it's going to be a continuing -- continually challenging environment for HHC.

What we saw at the end of the year was just step down the last couple of months, particularly by the CPG customers and their order patterns. So we'll probably get a little more of an uplift there. That said, the biggest impact in Q1, Mike, is going to be Chinese New Year. So the timing of Chinese New Year in Q1 will result in some of that revenue being pushed into Q2. I don't know, if you want to comment further, John?

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

Sure. Yes. That's Sure, Mike. That's the big -- that's the primary reason Q1 looks a little weaker as the timing of Chinese New Year. In 2025, it was late January, early February. And in 2026, it's late February stretching into March. And revenue declines to almost nothing during Chinese New Year and then bounces back very strong after the holiday. So last year, we saw that bounce back in Q1. This year, it will happen in Q2. Because of this, we'll see one to two weeks of revenue move from Q1 to Q2.

And probably has a revenue impact of \$15 million to \$20 million and EBITDA impact of \$6 million to \$8 million. So it's really just a shift between Q1 and Q2. You had asked about December or how we're seeing revenue so far and whether that's a reason we have had a little softer guidance. No, I mean it's really Chinese New Year. I'd say the year started out basically as expected. Things are a little weird in December with the timing of the holidays.

But if we look at the first six weeks or so, it's tracking with what we'd expect. And what we -- and so the impact of Chinese New Year is to calm, but we believe that, that will push some revenue into Q2.

Michael Harrison - *Seaport Research Partners - Analyst*

Understood. And then just wanted to ask another one on raw materials. In fiscal '25, you started the year with a little bit of raw material versus pricing headwind and I think it got better as the year progressed. How are you thinking about raw materials and pricing in fiscal '26. And I'm just curious kind of what that means for the year-over-year comparison on margins.

Is the assumption that pricing versus raws is kind of slightly positive all year or is it maybe more of a tailwind in the first half and turning into more of a headwind or more neutral in the second half? Any kind of thoughts on that cadence would be helpful.

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

Yes. So in 2025, we delivered around \$30 million of combined price and raw material benefit. As we mentioned in the last quarter, we anticipate seeing a carryover benefit of around \$25 million into 2026, plus our continued efforts to reallocate sourcing to drive pricing to drive our business towards the highest margin, most differentiated spaces has led us to increase that benefit of price and rise in 2026 to about \$35 million. So that will be the year-over-year comparison you're going to see, Mike.

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

Yes. And I think in terms of timing, maybe slightly weighted to the first half of the year, but we will see, I'd say, a favorable spread for the entire year because we will get additional new pricing in 2026.

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

Yes, you'll see expanded margins in all GBUs in the second -- in 2026, much like we delivered this year.

Operator

Ghansham Panjabi, Baird.

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

Maybe we can focus on the BAS segment and -- and some of the drivers that impacted your 4Q and there was a lot going on in the quarter with obviously the government shutdown, et cetera. Just curious as to whether it had any impact on you? And -- and specific to that, if it did, was there any change in trajectory December onwards?

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

Yes. We had a tough comp in the fourth quarter for BAS Ghansham -- was plus 7% in Q4 of '24 for the overall BAS business. So there's a few things going on there. One is we're wrapping around some big customer win from 2024. So that's one thing you saw as an impact in Q4.

We continue to be successful serving data centers, also LNG. But overall, the construction environment continues to weaken. That said, there are some pretty exciting things going on in BAS. I'm really thrilled to be taking a bigger position in LNG. We just won a big project on CP2 with our Fosters product which is used for cryogenic insulation systems.

So we're going to continue to see as that capacity expansion happens around the globe, and it's growing at about 7% in LNG, we're going to continue to see wins there. Also, we just started shipping a data center, a big data center ultimately, that will be 4 million square feet at conclusion in Texas in fourth quarter. So more exciting stuff there.

And also, I mean, our glass business continues to succeed. Our 4SG product grew 18% and in 2025 despite a reduction of housing starts of 6%. So none of those businesses are really affected by the government shutdown. So I would take that off the table for us. I would just say tough comp wrap around on new customer business and a generally tough construction environment.

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

Got it. And then for packaging, as it relates to HHC, you called that out as weaker. Anything going on there relative to the recent trend line apart from customers, just managing inventory aggressively to year-end, et cetera?

And then also on fiscal year '26 guidance, I'm sorry, if I missed this, but -- can you give us a sense as to core sales by segment? I know you're guiding towards roughly flat for the year.

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

Sure. So packaging drivers, we're seeing really just -- in North America, in particular, weakness from our packaging and related CPG customers. So again, -- very similar trend to what we saw last year with just kind of ongoing slightly negative volume in that space. That really took a step down in P11 and P12 -- and I think that's a space that's just going to continue to be challenging for us throughout HHC in general throughout the course of the next year.

It's a -- given the issues with affordability and the lack of mobility, people aren't really moving. There's not a lot of household formation, that is weighing on that business. But we continue to introduce some exciting innovations there. The HHC business grew very well in not Europe, but in EIMEA. So in our EIMEA sector, we took a lot of share in places like Algeria and Turkey, because we're being able to -- we're more able to produced successfully out of our new Cairo facility. So that's been exciting.

We're growing in India in that business. So HHC is migrating to growth in higher growth developing nations. And again, our plant strategy revolves around making sure we can produce cost effectively in places like that to take advantage of the trend.

Also in Asia Pacific, we had growth in our packaging business. This is related to just this recurrence and the bounce back in China that we're seeing, and we've introduced some new innovations in packaging related to anti-slip coatings. -- in Asia that helped support and grow our business there. The business in HHC was pretty strong in packaging in Asia.

And so it's a balanced story, if you look around the globe, and we're migrating the business to really focus on the places where we know we can be successful and building the supporting infrastructure within the company to do that.

Now your second question was I think it was core sales by segment.

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

Yes, and I can take that, Ghansham, just we'll try to unpack our revenue guidance here just a little bit. So we said that we expect revenue to be flat to up 2% organic revenue will be flattish. So the difference there really being FX. So we do expect about a point of favorability for the full year from FX, if rates stay where they are. Acquisitions really won't have a meaningful impact at least not the ones we've done so far because the carryover is very small.

So what it implies is organic revenue might be up slightly, down slightly. We expect pricing to be positive in all three GBUs, probably 0.5% to 1% positive. And then if you look at the GBUs in terms of kind of volume, we'd expect EA to deliver positive volume growth despite the headwind from solar. We'd expect HHC and BAS probably to be down slightly year-on-year. So does that help?

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

Yes, it does. That's very comprehensive.

Operator

Kevin McCarthy, Vertical Research Partners.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Yes. Thank you, and good morning. Happy New Year to you all.

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

Thanks, Kevin.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

John, I was wondering if you could speak to your free cash flow outlook for 2026. Your capital expenditure budget looked to be on par with what we would have expected, but the cash flow from operations maybe a little bit lighter than we would have thought.

So is there anything in particular you would call out that might be weighing on the free cash flow conversion in terms of working capital or any other extraordinary cash needs ?

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

Yes. So I'd say if I look at cash flow from operations, Kevin, we've guided to \$275 million to \$300 million versus \$263 million this year. So at the midpoint, roughly \$25 million increase, which is driven almost entirely by higher income. Working capital, we would expect to be similar. So I would say if you look at kind of the last couple of years, operating cash flow has been weighed down a little bit by working capital. And you mentioned at the Investor Day that we are going to carry higher inventory as we get through quantum leap.

So I would say that's the primary picture if you think about free cash flow, it's CapEx sort of in line with what we have been talking to and operating cash flow, driven by income and working capital remaining a little higher in the near term.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Very good. And then on your EBITDA outlook, I heard the comps on the Chinese New Year timing, which was very helpful. But sort of -- just expand on the key assumptions that you're baking into the annual guide and just trying to get a feel for what sort of macro help, if any, you might need to achieve the earnings targets?

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

So on the -- I'll take the first question about the macro help, Kevin, we're expecting no macro help. We've built in a strong self-help approach to the year, much like we had to do last year. So while we think we'll be positive pricing in all of our GBUs and there's clearly a focus on that as we are -- continue to refine and select which parts of the business we want to operate in.

But also on the volume side, we're not expecting any positive macro to be supportive there, where going to have to get there a different way or we're prepared to get there a different way. Maybe there'll be positive surprises around volume that will help.

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

And just to maybe give you the key building blocks of kind of the guidance for EBITDA for 2026 relative to 2025. So Celeste mentioned the impact of net impact of pricing in raws, we expect to get about a \$35 million improvement year-on-year. FX, again, based on where exchange rates are today, would be a \$5 million to \$10 million benefit. Quantum Leap as we talked about, we'll continue to ramp up. We expect about \$10 million of incremental savings in 2026 versus 2025.

And then going the other way, -- we have about \$10 million of variable comp rebuild based on where we finished 2025. So we'll have about \$10 million of incremental variable comp expense of 2026 and about \$20 million of wage and other inflation. So I think those are the key building blocks. And as Celeste said, volume we've expected to be relatively neutral that could be the swing item one way or the other.

Operator

Jeff Zekauskas, JPMorgan.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

When I look at your other income adjusted in the fourth quarter, it looked like it's a little bit more than \$10 million -- and we spoke of an insurance payment. How much was that? Or what's going on in other income and other income for the year adjusted was a little bit more than \$30 million. And last year, it was \$17 million. Can you talk about those numbers?

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

Yes, Jeff. So there's two items that are kind of driving that. The primary ones are higher pension income year-on-year. So that's probably half of that difference. So the pension assets earning higher returns generate more pension income.

Second -- the second part of it is FX hedging gains or losses. I think we've done a really good job this year in managing that and reduce that impact significantly through, I'd say both. Part of its cooperation in the market, cost of hedging come down a little bit, but I think we've managed it well and reduced any potential leakage from a hedging standpoint. So those are the two main items driving that year-on-year improvement.

Jeffrey Zekauskas - JPMorgan Chase & Co - Analyst

Your deferred taxes were use of \$50 million versus \$36 million last year. Can you talk about what's going on there? And your accounts payable was down about \$20 million year-over-year. What's going on there? .

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

Yes. So on deferred taxes, the biggest impact there is we did pull a pretty big dividend from China in 2024 that comes withholding tax. So we were able to bring a little over \$100 million of cash back from China. Has about a 15% withholding tax. So that -- although we declared the dividend 2024, the withholding tax was paid in 2025. So that was the impact on the deferred tax line.

On the trade payables side, it is -- it does have a big year-on-year swing. I think this is kind of a reflection also of timing on inventory, but it's -- I would say, overall, our level of payables, our payables as a percentage of revenue are very similar year-on-year. I think what we saw in 2024 is a big improvement, and then it leveled off and maybe DPO came down a little bit in 2025.

Jeffrey Zekauskas - JPMorgan Chase & Co - Analyst

And then lastly, -- is there an incremental penalty because of weakness in the solar market in 2026? And do you expect 2026 to be a meaningful acquisition year?

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

Yes. I'll take that one. So as far as solar goes, Jeff in 2025, we had about \$80 million of revenue in the solar business. What we're going to see is that's going to ramp down to around \$50 million by the conclusion of this year. Over the course of the year, you're going to see predominantly in the first three quarters, a reduction of about \$30 million of revenue related to that exit of the one particular product in solar that we are deemphasizing.

As far as 2026 being a meaningful acquisition year, we definitely have a very full pipeline as we curtailed acquisitions for the last three quarters of 2025 in order to bring our leverage down. We ended the year at 3.1 times. As you saw, we're still not quite in our \$2.5 million to \$3 million or 2.5 times to 3 times levered range.

So we're still being cautious. But again, the pipeline is full, and we are very selectively working through it at this point in time. So you should expect the acquisition cadence in 2026 to be more like a normal year for us. So back up to that roughly \$200 million to \$250 million of purchase price spend.

Operator

Patrick Cunningham, Citigroup.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

I was hoping you could just dig into sort of the level of confidence in the volume growth in EA in 2026, maybe ex solar. I guess do you expect any normalization of what has been pretty consistently strong outperformance in autos and electronics in '25? Or do you feel like you have a good line of sight in terms of both market growth and new business?

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

I do feel like we have a good line of sight there. And this EA team has just been unleashed. So as you saw, excluding solar, about 7% organic growth in the fourth quarter, 5% volume growth. And I anticipate we're going to be able to continue to drive that excluding solar over time. I mean, look at our ND acquisition, ND Industries acquisition, for example. We brought that business in, in 2024. If you look at 2025, we added operating at 8% organic growth. So -- that is a team that understands how to grow the business.

We do have this overhang of the solar business that we're deemphasizing that they're going to have to contend with a \$30 million hit over the course of 2026. But aside from that, the electronics, the aerospace and especially the automotive market are growing very successfully. I mean just looking at the automotive business that we have in Asia, we continue to grow our position in interior trim significantly. But also, we grew our position in Exterior Trim well over 100% last year.

Our lighting business grew about 50%, our EV powertrain business grew over 40% in that region in 2025. And they're really in a position where they have taken a strong share position in the market, and we are strong partners generating innovation along with our customers and an important part of their new product development pipeline. So yes, we're very confident about EA.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. That's very helpful. And I wanted to come back to free cash flow. Obviously, conversions, another year below historic averages. I guess, how should we think about long-term free cash flow conversion? And then maybe what should we expect in terms of peak working capital drag and peak CapEx drag associated with Quantum Leap?

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

Sure. So Patrick, I would say, if we think about kind of what we talked about at Investor Day, we would expect that operating cash flow will remain a little muted here in the next couple of years, primarily due to higher working capital associated with quantum leap. I think we finished this year at -- working capital of 15.8% as a percentage of revenue. Our goal is to be below 15%. I would expect that we'll be above 15% this year and possibly in 2027. But our ultimate goal is to get below that.

The other benefits we'll see from a working capital standpoint as we complete quantum leap by reducing the number of facilities we have we should be able to take out CapEx related to maintenance capital. So we expected, as we said at Investor Day, maintenance capital, which is roughly \$50 million annually. We expect we could eliminate as much as a third of that.

We'll also be completing our SAP implementation at the end of this year. And so that's roughly \$20 million of capital that we spend every year that should be reduced dramatically.

From a working capital standpoint as it relates to these initiatives, we talked about the Quantum Leap initiative and how we see that improving inventory management and days on hand by roughly five days. which I think is about \$15 million.

So I do think we'll probably be a little bit lighter from a free cash flow standpoint, the next couple of years as we have slightly elevated CapEx and slightly higher working capital related to Quantum Leap, we get through Quantum Leap and the SAP implementation. I think we should see a nice step up.

Operator

Lucas Beaumont, UBS.

Lucas Beaumont - UBS AG - Analyst

I just wanted to go back to the organic growth outlook, if I could. So I mean it looks like first quarter is going to kind of be down low single digits. I assume maybe second quarter is potentially flattish with the benefit of the shift there on Chinese New Year.

So I mean, to get to kind of flat for the year, you probably need the second half to kind of be up low single digits there. So I was just wondering if you could kind of walk us through kind of where you see the acceleration coming from across the portfolio to drive that?

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

Yes. When -- if you look at -- maybe I'll start, and John, you might want to jump in here, too. But if you look at it from the perspective of 2026 overall, Lucas -- and by the way, welcome. If you look at it from the perspective of 2026 overall, what you should expect will be EA performing organically kind of mid-single digits, excluding solar, low single digits, up low single digits including the solar business.

Meanwhile, the BAS and the HHC business are going to be slightly down. Now all of our businesses, all our GBUs will be positive price 2026. So that means correspondingly, that's going to be largely a volume impact.

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

And I think your question, Lucas, around second half versus first half. I think the biggest driver is probably the fact we'll have mostly annualized against the solar decline by the second half, right? So we're kind of up against that, the first half, particularly the first quarter, becomes less of a headwind, almost no headwind by the second half, fourth quarter. So that's the primary difference.

Lucas Beaumont - UBS AG - Analyst

Great. And then I guess, just on the pricing side, I mean, you mentioned that's going to kind of be in the 50 to 100 basis points range. I mean, you're exiting 4Q at a bit over 1%, and I mean, it's continued to increase. We're going to kind of have some tougher comps there as we sort of get through the year. And I know there's the continued sort of backdrop of raw materials deflation.

So, I guess just kind of walk us through how you sort of see that slowing. I mean you mentioned that you were going to kind of potentially go out with some more price too. So I guess, as we move through the year, I guess how much do you think you can kind of hold that in there with the new initiatives that you've made undertaking?

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

Yes. So the pricing cadence is it is influenced by our pricing actions that we'll be taking throughout the course of the year. And those vary depending on the business unit, the market segment and actually, ultimately, what's happening in a region or a segment at any given point in time. But you do see more of those happen historically earlier in the year.

The biggest impact on just our ability to retain pricing and drive pricing throughout the year is just a couple -- it's twofold. One is portfolio mix. So we do continue to optimize the business to be operating in the more differentiated, more solution-oriented spaces in our markets and the companies we're acquiring are just that.

So there's a portfolio mix impact that you also see that does filter down to pricing and also just a cultural shift as we at H.B. Fuller recognize more frequently now, how much -- how enabling our technologies are for our customers? And how much of a very small part of the end product cost we are so that we can enable them to achieve total system cost or total end product cost reductions by bringing them better, higher performing, higher priced products of our own.

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

And Lucas, just to tie that back to the comment you made around potential for raw material weakness and how does that impact pricing? That's really the primary reason we look at the two together, right? So we believe that we're better forecasters of the two combined than each one individually. Because if the economy were to weaken further and pricing were harder to come by.

I think that would create a raw material upside or if raw materials were, let's say, we saw some economic pickup in raw material prices started to move up. I think we can be more aggressive on pricing. So I think we feel good about the pricing in raws together. We feel good about our pricing strategy, but feel particularly good about our ability to predict pricing in raws.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank AG - Analyst*

Just in construction, you mentioned the environment is weakening. Is it more a US comment or European comments?

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

David, it is both. The construction market has been particularly weak in Europe. And I'm not saying that's not the case here in the US, but with the construction of data centers here in the US and our success penetrating that market, we're able to offset some of that commercial construction weakness here that I think others may be feeling.

David Begleiter - *Deutsche Bank AG - Analyst*

Understood. And just on the packaging weakness. Can you discuss the competitive intensity in that market as volumes decline and do you think you've maintained your share, i.e., not lost share in this downward trend?

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

Sure. So it is a competitive market. It always has been a competitive market. I do think that is becoming more and more intense. And it actually coincides with our portfolio review and our interest in making sure that we are working with the best customers where we can bring the most value where we can bring innovation and they're seeking solutions whereas there are parts of that market where we have deemphasized them kind of organically selected out of some of those spaces.

And so yes, it's competitive, but I still feel like we're bringing a lot to the table for those customers, and our service delivery is what makes a difference. That and innovation.

Operator

Jeff Zekauskas, JPMorgan.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Thank. I guess, just two final questions. When you look at your overall geographic markets, if you exclude the places where you're gaining market share, do you see an acceleration in demand growth in any of your three major regions? Are there green shoots?

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

Excluding places where we're gaining share, and I'd like to say that we're creating our own green shoots, Jeff, right? But the greatest acceleration that I saw in Q4 was China. China was really exciting because we finally saw a bounce back there that took it to a level that it had historically operated at 2024, Q1 of 2025, et cetera, double-digit organic growth.

And what we had seen in Q2 and Q3 was really a pause there right? While with all of the tariff chaos that occurred, we saw the Chinese manufacturers pull back a little bit. But I don't know if you saw this, China just reported a \$1 trillion trade surplus for 2025, which is the record. So they're back on track and shipping to other parts of the world. I think that's why our packaging business did well in China in Q4 and if I had to point to any green shoots, I would say that would be the one.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Okay. And then finally, why do you expect as a base case for your HHC volumes to be down a little bit in 2027?

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

I expect really continued constraint in the packaging space, Jeff. -- our CPG customers, the packaging customers are struggling with affordability in our bigger economies, which are Europe and the US for that business. So I think that in Asia and Latin America, we may see something different. But in the bigger economies, we continue to see that constraint.

Operator

Kevin McCarthy, Vertical Research Partners.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Just had a housekeeping question for you. In your Reg G reconciliation. I think there's a \$37.4 million special item related to, as I understood it, two issues, litigation and product claims and also an insurance gain partially offsetting that. Can you unpack that a little bit and help us understand what's going on as well as comment on whether it's a cash item or noncash?

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

Sure. So it's predominantly the legal claim that's driving that number and it's a noncash item in the quarter. But it's associated with the product liability legal claim related to the divested flooring business. Amount was about \$35 million pretax, about \$25 million after tax, so we reported a reserve in the fourth quarter. Reserve doesn't consider any insurance recovery and we have recoveries that we believe will cover a substantial portion, but it's predominantly a product liability claim related to the divested flooring business.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank AG - Analyst*

Just in BAS in Q1, what do you expect volumes to be down?

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

So I'd say we probably won't get into that level of detail, but I would say it's probably not dissimilar to Q4. I think we see some of the macro headwinds. We have some of the impact of having the customer gains last year that we sort of annualized again. So I'd say similar to Q4, David.

Operator

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

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

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

Operator

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

DISCLAIMER

LSEG reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES LSEG OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2026, LSEG. All Rights Reserved.