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## CORPORATE PARTICIPANTS

**Scott Jensen** *H.B. Fuller Company - Head - 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

**Patrick Cunningham** *Citi Investment Research (US) - Analyst*

**Michael Harrison** *Seaport Global Securities LLC - Analyst*

**Lucas Beaumont** *UBS Securities LLC - Analyst*

**Kevin McCarthy** *Vertical Research Partners LLC - Analyst*

**Jeffrey Zekauskas** *JPMorgan Chase & Co - Analyst*

**Emily Fusco** *Deutsche Bank AG - Analyst*

**Rosemarie Morbelli** *Gabelli International Gold Fund Ltd - Analyst*

## PRESENTATION

**Operator**

Thank you for standing by. My name is Kate, and I will be your conference operator today. At this time, I would like to welcome everyone to the H.B. Fuller Q1 2026 Earnings Conference Call. (Operator Instructions)

I would now like to turn the call over to Scott Jensen, Investor Relations. Please go ahead.

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

Thank you, operator. Welcome to H.B. Fuller's First Quarter 2026 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 these measures are useful to investors in understanding our operational 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 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 to today's call. In the first quarter, we delivered on our profit commitment and executed with discipline in a challenging operating environment. We continued to expand margins by leveraging our global sourcing strength and maintaining a focused approach to cost and portfolio management.

To start today's call, we will cover our consolidated results in the first quarter. We will also spend significant time discussing the impact on supply chains, resulting from the recent events in the Middle East and the actions we are taking to successfully navigate this new operating environment. In the first quarter, organic revenue decreased 6.6% year-on-year as positive pricing was offset by lower volume.

From a profitability perspective, EBITDA of $119 million, which was at the higher end of our guidance range increased 4% year-on-year and EBITDA margin expanded 90 basis points to 15.4%. This was primarily driven by continued restructuring savings from Quantum Leap and the positive impact from price and raw material cost actions that more than offset the impact from lower volumes.

Now let me move on to review the performance in each of our segments in the first quarter. EA organic revenue increased approximately 3% in the first quarter, excluding the impact of exiting the lower-margin solar business, driven by continued strength in electronics and aerospace. Organic revenue declined 2% in the first quarter, including solar. EBITDA increased 9% in EA and EBITDA margin increased 120 basis points year-on-year to 19.9%. Favorable net pricing and raw material cost actions and the benefit from restructuring drove the year-on-year margin expansion.

In HHC, organic revenue declined 10% year-over-year reflecting a challenging environment and a tough comparison to the first quarter of 2025 when the business delivered 4% organic growth. We saw customers maintain tighter inventory levels and consumers continue to shift away from premium products to lower-cost alternatives and smaller package sizes as they manage ongoing affordability pressures. Through disciplined cost management, EBITDA margins were 13.9%, up 120 basis points versus last year reflecting pricing and raw material cost actions as well as strong expense control.

In BAS, organic sales decreased 5.1% year-on-year, consistent with our expectations. The team executed well even under challenging weather conditions. EBITDA for BAS decreased 1% year-on-year, and EBITDA margins were flat as positive price and raw material actions as well as restructuring savings were offset by volume declines. Geographically, Americas organic revenue was down 4% year-on-year, declines in HHC were partially offset by EA, which achieved organic revenue growth of 8% year-on-year, driven by continued strength in the aerospace and general industries market segments.

In EIMEA, organic revenue decreased 11% year-on-year, primarily driven by tighter customer inventory management in HHC, a weak construction market in BAS and a tough comparison to the first quarter of 2025 when HHC revenue grew over 10%. Asia Pacific organic revenue was up 2%, excluding solar, lower than trend due to the timing of Chinese New Year. Total organic revenue decreased 6% year-on-year, including solar.

Now let's turn to the developing supply chain impact resulting from the conflict in the Middle East and its implication for our business. This is a critical development for our industry. This conflict is already creating significant constraints on raw material availability with impacts that extend across feedstocks, intermediates, logistics lanes, and energy inputs. We have received over 40 force majeure letters from suppliers in recent weeks, clear evidence that this is a major disruption.

Chemical production capacity has decreased significantly and tanker routes have been disrupted and repositioned. Even if this conflict were resolved tomorrow, we would expect supply chain aftershocks to persist throughout the year as inventories rebalance, transportation and logistics normalize and plants work through restart cycles. As a result, there will likely be significant, broad-based inflationary pressure and raw material shortages.

While the magnitude will vary by region and technology, it is clear the system is under stress and volatility will remain elevated. We are taking swift and decisive action by deploying the full scope of our global sourcing and supply assurance infrastructure. Our global sourcing organization was an industry first mover leveraging our long-established strong relationships with suppliers and strategic category management.

Since the conflict began, they have taken mitigating actions and securing raw materials ahead of the broader market, reallocating volumes across regions and pursuing qualified substitutes where available. These are the same capabilities that differentiated H.B. Fuller in 2021 and 2022 when we navigated unprecedented volatility and successfully supported our customers.

We have already taken swift pricing action to reflect the increase in raw material prices announcing a minimum 10% price increase across all product lines globally effective April 1 with significantly higher price adjustments for certain technologies and regions where cost escalation is more acute. These steps are designed to offset supply shock inflation and protect customer service levels.

Importantly, the adhesive industry is traditionally one where gaining market share is a function of bringing solutions for new applications. It's more difficult to take share from established business allocation given the high-performance requirements of products and the natural customer aversion to change. In current conditions, many competitors are now confronting real supply uncertainty, creating an opening for H.B. Fuller. In summary, this disruption creates a unique opportunity to support existing customers and gain market share, positioning us for improved volume growth in the future.

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

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**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 down 6.6% year-on-year with pricing up 0.6% and volume down 7.2%. Currency had a positive impact of 3.6% and acquisitions increased revenue by 0.7%. Adjusted gross profit margin was 31.3%, up 170 basis points versus last year as positive pricing and raw material actions as well as restructuring savings more than offset volume declines.

Adjusted selling, general and administrative expense was up 4% year-over-year. Excluding the impact of acquisitions and foreign exchange, SG&A was down slightly year-on-year, reflecting diligent expense management. Adjusted EBITDA for the quarter was $119 million, up 4% versus last year as favorable pricing and raw material actions and restructuring savings more than offset the impact of lower volume. Adjusted earnings per share of $0.57 was up 6% versus the same quarter in 2025 driven by higher operating income and lower shares outstanding.

Cash flow from operations improved $49 million year-on-year. As previously communicated, operating cash flow for 2026 is expected to be weighted to the second half of the year. Net debt to adjusted EBITDA was 3.1 times, consistent with fiscal year-end 2025 and down from 3.5 times at the end of the first quarter of last year.

With that, let me now turn to our guidance for the 2026 fiscal year. As a result of our year-to-date performance and our response to the supply chain disruption Celeste outlined earlier, we are updating our previously communicated financial guidance for fiscal 2026. Net revenue is now expected to be up mid-single digits and organic revenue is now expected to be up low single digits versus fiscal 2025 and reflecting updated pricing actions and anticipated market share gains. We now expect foreign currency translation to positively impact revenue by 1% to 2%.

Adjusted EBITDA for fiscal 2026 is now expected to be in the range of $645 million to $675 million. And adjusted EPS is now expected to be in the range of $4.55 to $4.90. Net revenue for the second quarter is expected to be up low single digits and adjusted EBITDA is expected to be in the range of $175 million to $185 million.

We have updated our short-term capital allocation priorities given the current petrochemical market disruption and uncertainty. While M&A remains a cornerstone of our growth strategy, and we continue to evaluate strategic acquisitions, we will pause on closing deals in the near term, focusing more cash deployment on share repurchases, while we deliver on our commitment to achieve our target of 2.5 times to 3 times net debt to EBITDA.

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. Our operational focus is on controlling what we can, leveraging our global sourcing advantage, maintaining commercial discipline, and executing our strategy with consistency. The current disruption further reinforces the importance of a resilient supply chain and manufacturing network. Against this backdrop, Project Quantum Leap is progressing well and remains on track. Our redesigned plant and supply chain network will strengthen our long-term competitiveness and deliver improved profitability.

We've provided context today on what we expect from the developments in the Middle East. Most importantly, our primary focus remains on our employees, our customers and those affected by the ongoing conflict. I particularly want to thank and recognize our leaders in the region who have stepped up to ensure the continued safety and well-being of our employees. Our agility, decisiveness and collaborative approach ensure we will continue to serve customers reliably and differentiate ourselves from our competition while generating sustainable value for shareholders.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Patrick Cunningham, Citigroup.

**Patrick Cunningham** - *Citi Investment Research (US) - Analyst*

I just wanted to start off on the 10% price hike and the guidance raise, I guess, given this announcement and pretty sudden raw material constraints and pricing. I guess, does the -- does your price cost assumption still holds? Are you baking in additional benefits from price here? Just wondering how the cadence of net price translates to raising the full year guide here.

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

Yes. So Patrick, we're baking in additional price and raw material benefit, but also negative volume benefit. But I think it's important to take that question in the broader backdrop of what's happening in the industry. So there's a couple of things going on here that I think are really important. I tried to reference them in the script.

But the first thing is that as we look at the landscape that we're now in, this is a very different adhesive market environment and a one where the -- our ability to gain share is enhanced. I say that because when you think about how we usually win business, it is by winning new applications with customers that are introducing a new product or upgrading a product or maybe working with a customer that has a problem on their line or a performance problem in their existing adhesive. But those latter things don't happen very often.

So normally, our share gains happen through the winning innovation that we bring -- solutions for new products. Now what's happened today is that as it relates to the current adhesive allocation everything's changed, right? We have competitors that are unable to get raw materials, we have customers that are seeking those raw materials.

We are out aggressively doing everything we can to increase allocations, to go after raw material provisions with other suppliers. So that pricing comes in the context of an environment where the market's really squeezed. But on top of that, the opportunity to bring solutions to customers directly relates to share increase.

On top of that, we believe this market reset is a very sustainable place for us to be. I say that because, today, if you look at the overall raw material supply base, what you see is that our suppliers have really thin margins, they're below their reinvestment economics, there's capacity coming out of the system because their profitability is so low. So what we expect to see is those raw material suppliers to also use this as a market reset, raise the underlying, underpinning cost structure within our raw material environment. And thus, we felt the need to get out quickly with price, not only because we don't think that underpinning that raw material cost structure is going to go away. We don't think that's going to decline over time.

But also, we knew we had to be out paying suppliers to get more raw material share than anyone else. Because on this journey to greater market share, the most important part of that journey today is making sure we have raw materials to satisfy our customers with.

The second part of that journey that's also really important is that not only do we have those raw materials, which are going to remain scarce, but that we're choosing those customers to -- that want to work with us and innovate with us as partners to use those scarce raw materials with. So we're being very selective about where to gain share and how to use those precious resources.

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

A little more context as it relates to how we thought about the rest of this year. You're right. The impact of pricing as and volume is driving probably 2/3 of the change we're making to our guidance.

Just to put it in context, we are now expecting organic growth to be up low single digits, which is roughly high single-digit pricing because we'll be probably averaging roughly 10% or more pricing for the rest of this year. But we've taken our volume assumption down, we were assuming volume would be sort of flat to down 1%. Now we're assuming it will be down 5%. But I would say the way we expect to manage pricing and raws and the expectation that we'll get some market share gains. That's probably delivering maybe $10 million of additional favorable EBITDA impact this year.

The rest of the increase is a number of things. We're making more progress more quickly on our restructuring actions, FX is a little favorable. But hopefully, that gives you some context as to how we're thinking about the impact of pricing raws and volume.

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**Patrick Cunningham** - *Citi Investment Research (US) - Analyst*

No, that's very helpful. And maybe just topical with the lower volume outlook. I think HHC previous quarter, you called out some inventory positioning in December, some tighter inventory management. Did that get worse in January and February? Did it start to trend better? I'm just wondering, I think the organic growth was maybe a bit sharper decline than we expected. So any additional color on what's going on in HHC and maybe (inaudible) within that?

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

Yes. In the HHC business, we are seeing a lot of pressure on the consumer, so a few things are happening there. To your point, the inventory management is real. It's occurring at big customers, but also we really see it in distributors as well. And when you think about it, they're serving the smaller customers, those smaller customers are really being impacted by tariffs and other inflationary measures. So we're seeing that inventory control for sure.

The other thing we're seeing is that the consumer is switching away from, I'll call it, more premium products. And with a premium product, you usually have more adhesive usage. There's more features and benefits on those products. So when the consumer switches down then we're selling less adhesive for the end goods that they're buying, and they're buying smaller package sizes. Again, smaller packages mean less glue. And you see all of that in the HHC space.

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**Operator**

Mike Harrison, Seaport Research Partners.

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**Michael Harrison** - *Seaport Global Securities LLC - Analyst*

Congrats on a nice start to the year. Was hoping that you could talk a little bit, I feel like on the fourth quarter call and when you initially gave guidance, there was an expectation that the timing of Lunar New Year was going to be a headwind in Q1 and a tailwind in Q2. And so I was wondering if you could help us quantify how much that Lunar New Year timing played into the 7% year-on-year volume decline?

And then maybe also just talk about how you've seen activity in China and other parts of Asia coming out of the Lunar New Year. And curious how they responded to kind of the initial impacts of the Middle East conflict?

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

Yes. So we experienced about a $15 million to $20 million revenue impact from Chinese New Year in Q1. You will see that that's already in our guide for Q2, so that ended up just getting pushed out into the second quarter. And as we looked at overall Asia's performance, we had seen China bounce back to double-digit growth if we extract that impact of Chinese New Year, we would have had another double-digit quarter in Asia in Q1.

I was just there in January for a couple of weeks. So to answer your question about what we -- what I saw when I was there and in the region, I see a very motivated population base. In fact, I think the tariff impact in Q2 and Q3 of last year really caused a pause. But the country was able to quickly reassert new export markets for their goods. And in fact, in Q1, our HHC business did very well in Asia Pacific. It was the best performing region.

And part of that was because there's been such an increase in the exportation of a lot of these hygiene products out of China. So we have focused our business in China in HHC away from the lower cost baby diapers, as I've mentioned before. But we've also, at the same time, redirected that capacity to more higher-end fem care and adult incontinence products. And that's where we saw a lot of a lot of growth in China in Q1.

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

And Mike, I can just give -- and just to maybe build on that because you had, I think, asked kind of are we seeing this flow through in Q2 as expected. I'd say, yes, the impact to Q1, and I think the impact to Q2 will be as expected, which is roughly $20 million of revenue.

So as we look at the first few weeks of our -- what is our period for, we certainly see an increase in activity and volume in China. We actually see a little bit of a step up in all regions. I think this is in part customers trying to get out ahead of some of these supply challenges. And I do think we're also getting some additional share because we've been able to secure material. So I'd say Q2 in China is certainly playing out as we expected. And we saw a little bit of a step up here that is probably related to concerns over supply availability.

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**Michael Harrison** - *Seaport Global Securities LLC - Analyst*

All right. Very helpful. And then just in terms of the raw material slate, I know that your slate skews towards specialty chemicals and a lot of those are several steps removed from oil and gas. But just curious if you can talk about any specific materials or buckets or regions where you're starting to see some concerns about supply availability. And maybe help us understand a little bit better the timing of some of this inflationary impact on the P&L.

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

Sure. So as I mentioned in the script, we've already received over 40 force majeure notices. Now a lot of those, Mike, are coming from the Asia Pacific region, reason for that is because so much of the crude in use in Asia Pacific and in China comes from the Middle Eastern region.

So the materials that are impacted -- when I mentioned that we had -- we were quick to raise price to try to get on top of these material increases. I'll tell you, it's because we're already experiencing higher raw material costs. And in some cases, those price increases that I mentioned, they extend from the base level of 10% on up to 40%, 50% on some of our finished goods. So there's examples that abound on different material categories and increases.

VAM is a good example. The spot market in Europe for VAM was up 300% just recently. We have relationships in that particular material class where we have negotiated caps negotiated extended availability, et cetera. And it goes like that in all materials. We do buy specialty chemicals, mostly 87% of what we buy as a specialty chemical.

Normally, prices are influenced by the supply-demand balance within any one of those material classes. But this is a case where everything is impacted. And it is because so much of the crude feedstocks and even LNG availability has been impacted by this event.

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**Operator**

Lucas Beaumont, UBS.

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**Lucas Beaumont** - *UBS Securities LLC - Analyst*

All right. I just wanted to follow up on the raw materials to start. I mean, kind of the way we've been looking at this sort of high level is we sort of see oil up 25% to 50% on an annualized basis. Eventually, that's going to flow back down to kind of those petchem intermediates. And so you guys raws at 50% of your sales. So directionally, that would sort of seem to point to needing to get kind of 10% to 20% of pricing over time to kind of fully offset that. So I mean it's great you guys kind of gone out proactively with the first sort of 10%. So I was just wondering, is the right way to frame this, that, that is kind of a first step in the process. And then as we get further into this year, you will look to kind of go again as you may do?

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

Yes, that's absolutely right, Lucas. So we knew we need to get out early, get raw materials. Our team has been working on material acquisition for this -- the last three weeks very aggressively. They saw everything was inflating. And it's not just raw materials.

It's also energy, it's also freight costs. And so what we knew was that 10% was a minimum that we needed to do across all materials. The team is also, as we speak, negotiating supplements for various raw material classes on top of that today.

Now again, we want to be responsible in our pricing. We want to make sure we can acquire material for our customers. That's what it's all about right now is their supply security. And so we will likely have other instances throughout the year when we need to reconsider our pricing and look at these underlying material categories and see where we need to do more. But we are right now just at the first step.

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**Lucas Beaumont** - *UBS Securities LLC - Analyst*

Great. And then, I guess, just as we look at the updated outlook for the year, I mean, it seems like it's kind of implying pricing up 7% to 8% and sort of volumes down sort of 5% to 6% as you guys talked about. Could you give us a bit more kind of detail on what you're expecting across the segments on that front? Any areas where you're seeing more or less pressure on the volume side and more or less benefit on the pricing side?

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

Yes. So let me just talk about volume really quickly because I think that's the most -- that's going to be the most difficult part of this equation. So when we think about volume, on the plus side, we know we are going to be taking share. In fact, we've already just last week, had three large global customers, existing customers come to us and ask us if we could if we could supply another application in their end product because they were unable to get their other supplier to supply them. So that share gain is real. And it's -- like I said, it's an unusual time for us because we get to have a chance to see the existing market reallocated. So that's on the plus side.

But certainly, the challenging thing on the volume side to -- on the negative side will be, hey, what's going to happen as it relates to overall demand as this inflationary environment persists? And secondly, what we are considering is how much impact will there be from customers that can't get other substrates or other raw materials that go into their end product. They may have the adhesive from us, but they're going to have to get films and other components. And so that's the uncertain part of the equation.

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

Yes. And I think, Lucas, just to build on that a little bit. I think the impact going to be relatively similar across the GBUs in terms of the impact on volume. And certainly, if we look at our pricing actions, they're very consistent. Celeste mentioned in her remarks and at the beginning that the similarities to 2021 and 2022.

And I think it would be really helpful for people to go back and look at that period. And if you look at the results during that period, we were delivering kind of mid-teens organic growth, about 2/3 of the pricing and 1/3 of that volume. And it was very consistent across all three GBUs in terms of seeing improved volume and improved pricing in this environment, we're not counting on that improvement in volume. We know we'll pick up some market share, but we're assuming that, that will be offset by sort of overall demand destruction. But we -- but definitely the pricing actions being taken by all three GBUs sort of support a similar outcome.

**Operator**

Kevin McCarthy, Vertical Research Partners.

**Kevin McCarthy** - *Vertical Research Partners LLC - Analyst*

Celeste, can you elaborate on where you see the greatest opportunities to gain share either by product line, SBU or region of the world, I guess, would be one question. And maybe related to that, as you suggested a lot of these [FM] declarations are coming out of Asia, which tends to be more of a spot market. And so I was wondering if you could talk through how you can achieve these share gains on a more durable basis rather than a transitory basis?

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

Absolutely. So let's start with that last part. The way our sourcing organization works is at the beginning of every year, we more heavily contract our raw materials and leave a less -- a lower portion of our raw material sourcing to spot buying. So we have very durable relationships, long-term relationships with the supply base, including -- and especially the supply base in China.

And in fact, interesting enough, while the US and Europe have very strict rules on how materials are allocated in force majeure situations, that's not the case in other countries like China. And so as we have gone forward, we are committing long term to these suppliers that are able to supplement our needs today. And these are suppliers that over the long haul, whether we're talking about the US or Europe or Asia that we work closely with. And we have very strong relationships with. And so I see this as an opportunity to continue to partner with those suppliers, to continue to partner with our customers, and we will experience an environment where we're going to have a more healthy industry going forward.

So if you look at the different business units and where the opportunities are, again, we buy specialty chemicals, but this impact has occurred across the board. And so I do see quite a number of opportunities to gain share in HHC, certainly, particularly because a lot of the raw material base for HHC comes out of China and as being highly and directly impacted. But we've also been very selective and thoughtful about how we use this opportunity to increase our position in those faster-growing, higher-margin spaces. The more opportunity where we have a greater opportunity to differentiate ourselves like in EA or in BAS. And so the team does have targets as it relates to how they're thinking about this as an opportunity to grow their business and they're doing it quite intentionally.

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

Okay. Kevin, I'll just add one thing because your question around how do you make the share gains more durable? So we as Celeste said, we have situations where new customers and a lot of times, previous customers have come to us and asked us to help out during this period of supply shortage. And we're happy to have old customers back. We are asking them to sign longer-term agreements, right? Because I think that's only fair therefore helping them out in the situation that they're signing up.

The other thing is that it really does -- as Celeste alluded, it really does change the playing field, right? Because with this supply shortage, it's hard to be the low-cost supplier in this market because you can't get the materials. And so it kind of collapses the playing field a little bit, which helps us out those companies like us that compete based on quality and innovation and premium service. So those are the two things that I think or keys around making these share gains more durable.

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

I would think of it, Kevin, like a window an opportunity, a window in time, right? Because right now, while there are unmet needs, right? Unfilled capacity customers need material, all the barriers are down to getting share in the existing market. Now what will happen over time is material will -- the Middle East conflict will end, material will be more available again. And however, at the same time, that barrier wall goes back up because once a customer chooses an adhesive it works online, they're likely not to change it unless there's a performance problem or a manufacturing problem because it's just not worth the risk.

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**Kevin McCarthy** - *Vertical Research Partners LLC - Analyst*

That's very helpful. As a second question, John, I was wondering if you could provide some updated thoughts on your cash flow prospects for 2026, given everything that we've talked about imagine you've got some upward tension from earnings, but possibly some downward tension from working capital. So maybe you could just kind of talk through how you see the basket shaping up.

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

Sure. Yes, so we did have a good start to the year from a cash flow standpoint in terms of kind of performance relative to last year, obviously, higher income. We are seeing better working capital performance in the first quarter than we did last year. So that's positive, and we're taking some very intentional actions. So we're comfortable with our guidance, right?

It is something we will watch. I think managing inventory will be a little trickier in this environment. And I think we're willing to be -- to live with a little higher inventory if it means helping secure supply assurance. But -- so right now, I feel comfortable with it, but it is something we're monitoring. And I would say that -- the biggest question will probably be around inventory management. We're doing a good job. I think we'll continue to do a good job, but we'll need to be a little flexible.

**Operator**

Jeff Zekauskas, JPMorgan.

**Jeffrey Zekauskas** - *JPMorgan Chase & Co - Analyst*

It sounds like you're doing very well with your price initiatives. You did change your volume expectations for the year, I think, from something like negative 1 to negative 5. Can you expand on the meaning of that change? That is -- is it global economies slowing down? Is it something specific to the Health and Hygiene and Consumables segment? Why is your volume outlook change so much?

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

Yes. It is a balance, Jeff, of three things. So one is the positive impact of gaining share. The second is the negative impact of our customers potentially not being able to get other materials, other substrates to produce their product with. And then the third is some erosion in global demand because of this inflationary environment. And so we believe the three of those things are likely more net negative than what we felt like coming into the year given this -- and also given this uncertainty, I think we would -- we need to be cautious as it relates to volume.

**Jeffrey Zekauskas** - *JPMorgan Chase & Co - Analyst*

So obviously, Europe has been the geography where natural gas prices have really risen. And fuel prices have lifted. Is Europe the area of particular concern? Or is it more broad-based?

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

It is broad-based. I would say it's broad-based. I do think that given the strides that the US has made in becoming more energy independent, that it may not be as bad here as it will be in certainly Europe. And Asia is still a question. Again, getting the feedstocks in Asia is the most difficult right now.

**Jeffrey Zekauskas** - *JPMorgan Chase & Co - Analyst*

Okay. And then --

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

So Jeff, one other thing -- so Jeff, one other thing to keep in mind, when I say this, again, on average, we produce 97% of what we sell in a region for the region. And in the US, that's 99%. So again, I feel like the US is going to be a little more self-sufficient than some other parts of the world. But I don't -- I wouldn't say that any part of the world looks very good right now.

**Jeffrey Zekauskas** - *JPMorgan Chase & Co - Analyst*

And then lastly, can you comment on two more issues. Which are your overall cost reduction aspirations, both what you achieved in the first quarter and what you expect for the end of the year? And then secondly, can you comment on your solar-related revenues and what the decrements are there, if that's the right way to describe.

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

I'll take the cost reduction question. And John, maybe you can address solar. So on the cost reduction question. So we came into the year anticipating $10 million of benefit from Quantum Leap. We're increasing that to $15 million this year given this reduction in volume and our decisions that are underway right now to continue to reduce cost to offset that.

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

Yes. And Jeff, you'd asked about the impact of solar, which was about $12.5 million of revenue in the quarter, and that compares -- and that's probably down 40%. So I think the impact from an overall company standpoint is about 1% and for engineering adhesives, it was about 4% impact. And then I apologize, I forgot what the other item was you asked about.

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

I answered it.

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

Okay. You got it. Okay.

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**Operator**

David Begleiter, Deutsche Bank.

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**Emily Fusco** - *Deutsche Bank AG - Analyst*

This is Emily Fusco on for Dave Begleiter. Could you maybe just give some more color on order trends exiting FQ1 into March and kind of what you're seeing in terms of visibility given the uncertainty? I know you mentioned some uptick in China, but have you observed any pull forward in demand or prebuying in other regions? Or anything to call out by segment?

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

Sure, Emily. So in March, what we're seeing is an improved -- higher revenue. So we have a good start on March, and we're also seeing improved margins in March. Now of course, some of that is related to Chinese New Year and the bounce back that happens afterwards.

I'd say we're seeing customers that are anxious to get their orders in. We are avoiding filling orders far in excess of prior year's demand. So the team then really judicious about ensuring that we're not facilitating any hoarding. So I don't think we're seeing that yet, but it has been a robust month.

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**Operator**

Ghansham Panjabi, Baird.

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**Unidentified Participant**

This is actually [Josh Wesley] on for Ghansham. Maybe if I could just ask one quick one here. I think in response to Jeff's question, you talked about some of your customers not being able to procure raws to build some of their products. Can you just give some color on what specific GBUs might be seeing an impact there, more so relative to others? And just any color there would be great.

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

So Josh, we're not seeing it yet. We're anticipating it. And I say that because when you think about polyethylene, polypropylene, they're in so many just such a variety of goods. And so we haven't -- I haven't heard yet of an instance where we have a customer that's unable to get their substrates but we're anticipating that there will be some impact of that. And again, that's an environment where we work very closely with our customers because the likelihood when they change their substrate is that they're going to need a different adhesive because adhesives are really so substrate specific. So we're anticipating that we will see that and that we will be working closely with customers to reformulate our products or support them by introducing new products to be able to enable them to get a finished good to market.

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**Operator**

Rosemarie Morbelli, Gabelli.

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**Rosemarie Morbelli** - *Gabelli International Gold Fund Ltd - Analyst*

Thank you. Good morning, everyone. So one area we haven't touched on is your latest acquisitions. So if we look -- well, could you give us an update on the medical-grade adhesives performance of the last acquisitions. And then this is a category that you are adding to previous acquisitions. So could we also have a ballpark number for the size of this entire entity?

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

So for the -- so I'll speak just to the medical business, Rosemarie in Europe, in particular, this quarter was a good -- another good strong quarter. Our medical business in Europe was up almost 20%, again, organically. So we continue to see performance out of that business. We don't identify the size of any one of our market segments. And admittedly, the medical business is still small, but you can see it's growing rapidly with performance like that.

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**Rosemarie Morbelli** - *Gabelli International Gold Fund Ltd - Analyst*

Expect that particular category to be affected by the price of oil or it is so specific that it won't make a difference?

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

The amount of material used in those goods is really small. So that it's a lot of cyanoacrylate, raw material base is significantly comprised of cyanoacetates. And it's just compared to the industrial use of those products, the medical use is much smaller. So that's one area where we're going to see less of an impact.

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**Rosemarie Morbelli** - *Gabelli International Gold Fund Ltd - Analyst*

Okay. And then if I may follow up on a couple of questions. The solar comparison. When are you going to be at the level where it doesn't make any difference? So you have reached the bottom of that particular business?

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

Yes. We'll be wrapping that around by third quarter.

**Rosemarie Morbelli** - *Gabelli International Gold Fund Ltd - Analyst*

Okay. And should we expect similar impact in the next two quarters in?

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

Yes. We're already at the trough revenue we expect there. So it will run rate at about this level.

**Rosemarie Morbelli** - *Gabelli International Gold Fund Ltd - Analyst*

Okay. And if I may, that 20% EBITDA margin that you are targeting in this environment, can you still get to it by 2029 or maybe it has been pushed out another year?

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

We can still get there.

**Rosemarie Morbelli** - *Gabelli International Gold Fund Ltd - Analyst*

But no timing. Okay. Thank you.

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

No, we're really right on track Rosemarie. And our objective for this year is to maintain margin. So we got out really early to make sure we were not going to see a big raw material margin lag impact. So we're really working hard to deliver on that 20% commitment over time.

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

Yes. I think we said by 2028, and I think that's still our target.

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

Yes, it was 2028, Rosemarie, not 2029.

**Rosemarie Morbelli** - *Gabelli International Gold Fund Ltd - Analyst*

See, I was already giving you a year.

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

I know. I should have run with that, but no.

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**Operator**

I will now turn the call back to Celeste Mastin, President and CEO, for closing remarks.

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

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

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**Operator**

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

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