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H.B. Fuller Co. (FUL)

Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

Scott Jensen

Head-Investor Relations, H.B. Fuller Co.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

OTHER PARTICIPANTS

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Michael J. Harrison

Analyst, Seaport Research Partners

Lucas Beaumont

Analyst, UBS Securities LLC

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Emily Fusco

Analyst, Deutsche Bank Securities, Inc.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Rosemarie J. Morbelli

Portfolio Manager, Gabelli Funds LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the H.B. Fuller Second Quarter 2026 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

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

Scott Jensen

Head-Investor Relations, H.B. Fuller Co.

Thank you, operator. Welcome to H.B. Fuller's second 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 that these measures are useful to investors in understanding our operating performance and to compare our performance with other companies. Reconciliation of non-GAAP measures to the nearest GAAP measure are included in our earnings release. Unless otherwise noted, comments about revenue refer to organic revenue and comments about EPS, EBITDA, and profit margins refer to adjusted non-GAAP measures.

We will also be making forward-looking statements during this call. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially

from these expectations due to factors covered in our earnings release, comments made during this call, and the risk factors detailed in our filings with the SEC, all of which are available on our website at investors.hbfuller.com.

During this call, we will be referencing information from our second quarter earnings release, along with the press release related to our announced offer to acquire Advanced Medical Solutions.

I will now turn the call over to Celeste Mastin. Celeste?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thank you, Scott, and welcome to today's call. We executed very well in the second quarter, delivering strong year-on-year revenue, EBITDA, and EPS growth, with results above the midpoint of our EBITDA guidance range. Our global sourcing capabilities and swift pricing actions have enabled us to maintain supply continuity and reliably serve our customers through this market disruption. These efforts, combined with our Quantum Leap restructuring initiative, have strengthened our competitive position, and we remain confident in our ability to deliver superior financial results.

To start today's call, we'll cover our consolidated results for the second quarter. We will then spend time discussing our announced offer to acquire Advanced Medical Solutions or AMS.

AMS is a highly compelling strategic fit and represents a rare opportunity to advance our long-term strategic priorities. We have long been clear that medical is a core strategic growth market for H.B. Fuller, given its durable demand trends, high regulatory based entry barriers, and attractive margin profile. Advanced Medical Solutions has built an exceptional business as a differentiated formulator with an innovation-led platform and outstanding product suite, impressive R&D capabilities, and a global commercial footprint with supporting regulatory expertise.

The transaction is expected to result in significant revenue and cost synergies and accelerate our transformation into a higher growth, higher margin business. We remain committed to disciplined and balanced capital allocation, and believe that the continued up-tiering of our portfolio, as well as the other steps we're taking to improve our cost structure and cash flow profile, will allow for robust deleveraging post acquisition. We look forward to walking you through more details later in the call.

Turning back to our consolidated results in the second quarter, revenue was up 5.8% year-on-year. Adjusting for foreign exchange and acquisitions, organic growth was 2.6%, driven by pricing of 3%, partially offset by slightly lower volume year-on-year. From a profitability perspective, EBITDA of \$181 million increased 9% year-on-year and EBITDA margin expanded 70 basis points to 19.1% with EPS up 19% versus the same period last year. Our previously announced pricing initiatives are gaining traction, offsetting the anticipated impact of increasing raw material costs.

Now, let me move on to review the performance in each of our segments in the second quarter. In HHC, organic revenue increased 3% year-over-year, reflecting the impact of positive pricing. Strength in Medical, Tape & Label and End-of-Line Packaging was partially offset by weakness in Flexible Packaging. We saw improved volume performance compared to the first quarter, demonstrating our ability to reliably serve customers during widespread disruption. EBITDA margins were 17.9%, up 230 basis points versus last year, reflecting the impact of strong pricing execution.

EA organic revenue increased approximately 5% in the second quarter, excluding the impact of exiting the lower margin Solar business, driven by continued strength in Aerospace, Electronics, and General Industries. Organic

revenue declined 1% in the second quarter, including Solar. EBITDA margin of 22.4% was down slightly year-on-year as favorable pricing and restructuring savings were offset by higher variable compensation associated with higher profit.

BAS performed very well with organic sales up 6% year-on-year, underscoring our strong competitive position. Both pricing and volumes were positive, driven by strength in Glass and Infrastructure & Mechanical. EBITDA for BAS increased 10% year-on-year, driven by the impact of positive pricing and volume.

Geographically, Americas organic revenue was up 1% year-on-year. Strength in EA and BAS, which both achieved organic revenue growth of 4% year-on-year, more than offset declines in HHC. Positive organic growth was driven by strong performance in Aerospace, General Industries, and Infrastructure & Mechanical market segments.

In EIMEA, organic revenue increased 8% year-on-year, with positive price and volume growth in all three GBUs. Our strategic footprint and strong customer relationships allowed us to drive broad-based organic growth, given the significant supply dislocation in the region.

Asia-Pacific organic revenue was up 10% year-on-year, excluding Solar, driven by strength in HHC and EA, again reflecting our strong sourcing capabilities in the region. Total organic revenue was flat year-on-year, including Solar.

Now, let me provide an update on the petrochemical supply chain disruption and what we're seeing as we enter into the back half of the year. Events are playing out in line with our expectations and consistent with what we shared on our first quarter call. Our execution continues to be strong. The pricing actions we announced in the second quarter are ramping as expected, and we're seeing that traction build across our business. Our global sourcing organization continues to lead the industry in maintaining supply continuity for our customers, and the same differentiated capabilities that set us apart in 2021 and 2022 are setting us apart again today. This environment is showcasing our competitive strengths as some companies struggle with availability and reliability.

Regardless of how or when the conflict in the Middle East resolves, we do not expect a rapid recovery of global supply chains. Even after activity normalizes in the Strait, we expect the aftershocks of this dislocation to persist and the risk of intermittent shortages remains real as we progress through the remainder of the year.

We also do not expect raw material costs to fully retrace to pre-disruption levels. The inflationary pressures introduced by this supply shock have reset the cost structure of our industry, and we are managing our business accordingly. At the same time, we're watching the demand environment carefully. We remain focused on what we can control, maintaining supply, executing on pricing, and continuing to serve our customers with the reliability that has always differentiated H.B. Fuller.

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

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

Thank you, Celeste. I'll begin with some additional financial details on the second quarter. For the quarter, revenue was up 5.8% year-on-year. Currency and acquisitions had a positive impact of 3.2%. Adjusting for those items, organic revenue was up 2.6%, with pricing [ph] of (00:10:08) 3% offset by slightly lower volume.

Adjusted gross profit margin was 34.2%, up 200 basis points versus last year, driven by pricing execution and restructuring savings. Adjusted selling, general and administrative expense was up 11% year-over-year. Excluding the impact of foreign exchange and higher variable compensation associated with higher projected income for the year, SG&A was up approximately 3% year-on-year. Adjusted EBITDA for the quarter was \$181 million, up 9% versus last year as pricing execution and restructuring savings more than offset slightly lower volume. Adjusted earnings per share of \$1.41 was up 19% versus the same quarter in 2025, driven by higher operating income.

Net working capital in the second quarter of fiscal 2026 was 16.4% as a percentage of annualized net revenue and decreased 260 basis points sequentially versus the first quarter. Cash flow from operations improved to \$121 million in the quarter, a record second quarter, driven primarily by higher income. As previously communicated, cash flow delivery for 2026 is expected to be weighted to the second half of the year. In the second quarter, we repurchased approximately 750,000 shares. Net debt-to-adjusted EBITDA was 3.1 times, down from 3.4 times at the end of the second 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, we are updating our previously communicated financial guidance for fiscal 2026. Net revenue is still expected to be up mid-single digits and organic revenue is still expected to be up low-single digits versus fiscal 2025, reflecting our planned pricing actions and our view on the macroeconomic environment, as described by Celeste. We still 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 \$650 million to \$675 million and adjusted EPS is now expected to be in the range of \$4.60 to \$4.90, reflecting an increase in the midpoint of our full year guidance for both. Cash flow from operations is now expected to be in the range of \$300 million to \$325 million.

Net revenue for the third quarter is expected to be up mid-single digits and adjusted EBITDA is expected to be in the range of \$180 million to \$190 million. This outlook does not reflect the impact of our proposed acquisition of Advanced Medical Solutions.

Now, let me turn the call back over to Celeste to discuss the recent announcement regarding AMS in more detail.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thank you, John. Before we shift to AMS, I want to ensure our second quarter execution and results are not lost in the significance of this announcement. In summary, we delivered strong year-on-year revenue, profit growth, and margin expansion. Volume trends improved sequentially from the first quarter, our pricing actions are gaining traction, and we are delivering on our restructuring savings targets, all giving us confidence as we move into the back half of the year.

Now, let me turn to our announced offer to acquire Advanced Medical Solutions. This is a key strategic addition to our portfolio that is fully aligned with the planned evolution of our business. As we detailed at our Investor Day, our near-term strategic goal for our Medical segment is clear. We are building this into a \$100-million-plus EBITDA business driven by organic growth in the strong portfolio we've already built and selective high-value M&A.

At its core, this transaction establishes a scaled global platform in one of the most attractive end markets in our industry. It accelerates our portfolio transformation by shifting our mix toward higher margin, faster growing and more resilient markets. AMS further builds on our core strengths in formulation expertise, materials science knowledge and deep customer relationships. Together, these elements create a compelling opportunity to drive

sustainable growth and margin expansion over time and accelerate our near-term path to greater than 20% EBITDA margins.

Before we walk through the strategic rationale, let me share a brief financial summary of the offer. We've announced an all-cash offer at £2.85 per share, implying a total enterprise value of approximately £715 million. On a pre-synergy basis, this represents a multiple of approximately 12.9 times, based on the 2026 AMS consensus EBITDA forecast. That multiple steps down to less than 8 times, including the identified run rate synergies that we'll discuss shortly. John will walk you through the full financial framework in more detail.

I'd like to begin by focusing on why the medical market is one of the most attractive spaces in our industry. First, it's supported by durable structural tailwinds. An aging population and rising chronic conditions continue to drive higher procedure volumes. At the same time, a shift towards minimally invasive techniques and a growing focus on patient outcomes are driving adoption of advanced performance-based solutions across surgical and device applications.

From an economic standpoint, demand is largely non-dictionary and uncorrelated with economic cycles. In terms of market structure, this is a fragmented, highly specialized market with meaningful barriers to entry, including regulatory approvals, clinical validation, and rigorous customer qualification. As a result, it offers both attractive growth and strong margin profiles.

For these reasons, we have been very intentional about increasing our exposure to medical over the last several years through both focused acquisitions and organic investment. Today, we serve both medical professionals and device manufacturers across a \$6 billion addressable market, growing at approximately 8% per year. Our current portfolio spans topical and internal adhesive applications, medical device assembly, medical tapes and wearables, and surgical drapes and gowns.

The addition of AMS represents a step change in the scale and impact of our platform. We've been evaluating AMS for the last three years as part of our strategic planning process, and our assessment became more focused in the second half of 2025 until we approached AMS in 2026.

Advanced Medical Solutions is a leading medical solutions provider employing more than 1,800 people across 16 sites and selling into more than 100 countries globally with fiscal 2025 revenue of approximately \$302 million and adjusted EBITDA of approximately \$54 million after adjusting for the IFRS to GAAP conversion. AMS has delivered organic revenue growth of approximately 8% from 2023 to 2025, underscoring the consistent, strong organic growth profile of this business. AMS' portfolio spans surgical adhesives, tapes and dressings, mechanical closures, and formulated biosurgicals, all durable end markets with secular growth drivers. AMS brings a global commercial network, world-class operations, scaled entry into regulated medical markets, and a proven innovation engine.

When we combine H.B. Fuller's existing cyanoacrylate medical platform with AMS, there is a compelling strategic fit. There is strong alignment in surgical adhesives, where the combination deepens our participation in high-growth surgical applications and topical skin bonding. In tapes and dressings, H.B. Fuller brings upstream materials that integrate directly into AMS' end products where adhesives are the primary drivers of performance and value, creating a more vertically integrated value chain and capturing both margin and supply chain benefits. In formulated biosurgicals, AMS enables us to leverage and scale our formulation expertise into this high-margin category.

In mechanical closures, AMS enhances our ability to deliver a more complete suite of solutions for providers, further strengthening our surgical product offering. In fact, adhesives are often used in combination with sutures in some applications. Notably, when you add these complementary applications together, the combination of H.B. Fuller and AMS increases our total addressable market to \$95 billion. Going after this expanded market is expected to increase our growth potential moving forward.

Equally important is how complementary these two organizations are beyond our respective product portfolios. H.B. Fuller brings a direct sales force in the US and Italy along with deep OEM relationships in medical devices. AMS brings a direct sales force in nine European countries and India and strong OEM relationships in medical tapes and dressings. Both H.B. Fuller and AMS are in the early stages of introducing medical products into the developing markets of India and China, markets where H.B. Fuller has extensive infrastructure, deep operating expertise, and a long-established track record of success.

Regarding R&D and regulatory capabilities, H.B. Fuller contributes a global innovation network and strong customer-led development capabilities. AMS brings a highly specialized medical R&D team with deep expertise in medical device regulatory pathways, supported by a strong record in clinical, quality, and certification processes. This combination improves our ability to navigate approvals and accelerates time to market.

In manufacturing, H.B. Fuller brings well-positioned assets across the US, Ireland, and Italy, while AMS adds a specialized medical manufacturing network with facilities in the UK, Germany, France, Thailand, and India. This complementary global manufacturing footprint enables scaled raw material sourcing capabilities and vertical integration of H.B. Fuller materials into AMS' finished products.

The impact on our medical platform is substantial. AMS expands the scale of our medical adhesives business by more than four times from \$68 million in revenue to approximately \$370 million on a pro forma basis based on 2025 reported results. After incorporating expected synergies, we will nearly double the profitability of the acquired business on a pro forma basis, establishing a sizable, fast-growing global business unit with expected EBITDA margins above 30% by 2030.

The plan for AMS is consistent with our playbook and our track record for creating long-term value for our shareholders through M&A. The addition of Medical as a fourth segment further distinguishes our portfolio mix and provides investors with additional transparency into our financial profile moving forward. This new combined segment represents approximately 10% of combined revenue on a 2025 pro forma basis.

We've identified a set of clear and actionable synergy opportunities. Across the combined business, we expect approximately \$55 million in total run rate synergies. This includes roughly \$20 million in commercial synergies and \$35 million in cost synergies from the rationalization of overlapping back office functions, vertical integration of key raw materials and adhesives, and the application of our indirect sourcing capabilities across AMS' broader spend base. These synergies include the benefit of the in-flight Peters Surgical integration synergies already underway. This effort will be managed with dedicated workstreams as part of the overall AMS integration framework.

We are confident in our ability to execute the AMS integration alongside Project Quantum Leap, which remains a critically important component of our value creation story. We have structured the organization to ensure successful execution of both these programs simultaneously. These are fully independent workstreams with dedicated teams, separate leadership, and no operational overlap.

We have significant experience in successfully integrating and scaling strategic acquisitions. Since 2023, we've delivered consistent value creation across 11 acquisitions through disciplined integration and execution. EBITDA has grown by approximately 55% and margins have expanded by more than 1,000 basis points for these businesses since acquisition. For the four businesses we've acquired in the UK specifically, we have more than doubled EBITDA and also expanded margins by nearly 1,000 basis points. For the three acquisitions we have recently completed in the medical space, we've achieved significant organic revenue growth and EBITDA compounding over the short period of ownership. We look forward to leveraging this proven integration playbook to drive value at AMS.

Let me now turn it over to John to walk through additional financial details of the transaction.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

Thank you, Celeste. As Celeste already indicated, we have announced an all-cash offer to acquire 100% of AMS shares at £2.85 per share, implying a total enterprise value of approximately £715 million. AMS generated fiscal 2025 revenue of approximately \$302 million and adjusted EBITDA of approximately \$54 million, representing an EBITDA margin of 18%. This reflects a non-cash adjustment to EBITDA of approximately £8.7 million in the conversion from IFRS to GAAP. We have identified run rate synergies of approximately \$55 million in three actionable synergy categories as outlined by Celeste. We expect to achieve approximately 50% of these synergies by 2028, with full run rate cost synergies expected by 2030.

From a financial profile perspective, the transaction is expected to add approximately 100 basis points to consolidated EBITDA margin within 24 months. The transaction has been unanimously approved by H.B. Fuller's board of directors and is expected to close by the end of calendar year 2026, subject to regulatory and AMS shareholder approval.

Turning to financing and leverage, the transaction will be funded through incremental debt financing, with approximately \$1 billion of committed acquisition financing. Our current net leverage stands at 3.1 times, and we expect to exit fiscal 2026 at approximately 2.8 to 2.9 times prior to close. Pro forma net leverage at close is expected to be approximately 4 times, excluding run rate synergies. We are confident in our ability to rapidly deleverage with a clear path to returning to our target range of 2.5 to 3 times within two years of closing, supported by the strong cash flow generation of the combined business, as well as the cash flow improvement initiatives associated with Quantum Leap.

With that, let me now turn it back to Celeste for closing remarks.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thank you, John. We entered this year with a clear set of priorities focused on continuing to upgrade the portfolio, while consistently delivering strong financial results. Our performance in the second quarter demonstrates that we are executing very well against the latter, and we have taken a meaningful step forward on our portfolio transformation with our offer to acquire Advanced Medical Solutions. Although this transaction temporarily puts us above our target leverage range, AMS represents a unique time-sensitive opportunity to significantly transform the composition of our portfolio and is fully aligned to our stated long-term strategy. Our success in integrating acquisitions and our track record on deleveraging gives us a high level of confidence that this transaction will result in significant shareholder value creation.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Your first question comes from Ghansham Panjabi with Baird. Your line is open.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Thank you, operator.

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Good morning, Ghansham.

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Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Good morning, everybody. I guess, Celeste, first off, in the press releases in the past, including this morning, you referred to the company as a pure-play adhesives company or some version of that. Will that characterization change after AMS given the additional product verticals the company has in its portfolio? And then on the strategic review, what exactly does that encompass and could that include divestitures as well? Thank you.

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Sure. So we will continue to characterize ourself as a pure-play adhesive company. In fact, the majority of AMS' business is in adhesives and tapes, which strongly utilized adhesives, of course. And when you look at the rest of the portfolio is very consistent with our business as a differentiated formulator.

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On the strategic review, we are always considering our entire portfolio and evaluating fit, performance, best value to shareholders based on our very specific capital allocation requirements. And so, yes, we'll continue to evaluate the portfolio much like we did when we divested a Flooring business which didn't meet our objectives earlier last year.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Got it. And then in terms of the cost synergies as a percentage of the acquired sales, it seems quite high at 10%-plus, if we did the rough math correctly. How does that compare to the previous acquisitions in terms of synergy realization purely from cost? And can you give us the pathway towards that specific to AMS?

Q

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

Sure, Ghansham. I'll try to fill that question. So it is higher than probably other deals we've done. So, for instance, if you looked at Royal, my recollection is that synergies were 7% to 8% of revenue. This is closer to 11% or 12%. And I'd say the primary differences are two things. One is public company costs that exist within AMS that didn't exist in any of the other deals we did. And the second is the fact that the Peters Surgical synergies, which are well

A

underway, are included in those cost synergies. So about \$14 million of Peters Surgical synergies in addition to the other synergies will bring both public company costs and other savings – make that number higher than you would normally see.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Okay. Terrific. In the interest of time, I'll turn it over. Thank you, again.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

Thanks, Ghansham.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thanks, Ghansham.

Operator: Your next question comes from Mike Harrison with Seaport Research Partners. Your line is open.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Good morning, Mike.

Michael J. Harrison

Analyst, Seaport Research Partners

Hi. Good morning. Wanted to ask a couple fundamental questions and then one on AMS. In terms of the 3% pricing number in the quarter, was that pretty even across segments, or were one or two of the segments delivering stronger pricing than the others? And kind of how should we be thinking about price trajectory in Q3 and Q4, maybe both overall and as we think about any variability by segment?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Yeah. So the pricing contribution was very consistent across GBUs. And that 3% number, keep in mind, we announced our price increases in April. And so if you look at where we're run rating, it's right around 6% for the quarter, but also when I look at the month of May, we're at about 6% price. When we look out at the rest of the year, we are projecting high-single digit pricing performance, very consistent with the announcement we made early April, late May – oh, sorry, late March, effective early April.

Michael J. Harrison

Analyst, Seaport Research Partners

All right. And then I was hoping we could dig in a little bit on the Engineering Adhesives business. Just curious if you can help us understand kind of how much did volumes decline, how much of that decline was related to Solar? And I guess, maybe walk us through what's going on in some other end markets within that business? I think specifically in Electronics, the prior year comp was fairly easy, but not sure if maybe Iran war or memory chip pricing was starting to drag on that business a little bit this year?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

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Sure. So, yes, EA grew about 5% organically, excluding Solar. So the number you see there, the negative 1%, you can attribute a lot of that impact to the Solar business. There were really some bright spots in EA. Aerospace is just growing like crazy, greater than 30% organic growth in Aerospace. Our Electronics business and our General Industries business also both growing double-digits. Automotive was slower this quarter. In fact, we saw mid-single digit declines in Automotive in all three regions. Most of that is market decline. There is still share take going on in Automotive. But again, it's a sector that is really feeling the pain of these increased inflationary interest rates.

Michael J. Harrison

Analyst, Seaport Research Partners

Q

All right. And then my question on AMS is, how should we think about the difference in margin between your Medical business? I think you've said that's kind of a 40-ish percent EBITDA margin, at least in some of the key areas that you participate. And the AMS business you mentioned on a GAAP basis is more like 18% margin. I understand part of it is public company overhead and maybe a scale issue. But do you see pockets within AMS that are near that 40% level? And I guess, like, how should we think about the portfolio mix there compared to your current business from a margin perspective? Thanks.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

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Yeah. What you will see and should see as we capture these synergies is the combined business that we have will be in excess of 30% margin. Now, keep in mind, right now, burdening AMS is the fact that it's a smaller company with public company costs layered on. The most challenging segment for them is the Wound Care segment, which is like a Tape segment. There is significant amount of our synergies that we think we can bring to improve that business given that we're experts in adhesives, and adhesives are the primary performance and cost driver in that segment. So that will improve. And also you'll see improvements just with operating leverage that comes through scale, that sales organization having more products to sell, their distributors having a broader base will be an improvement as well.

[indiscernible] (00:37:25)

And I think one more thing to add to that, Mike, as I'm thinking about it is, they also have these synergies underway that John referenced related to a prior acquisition they did of Peters Surgical. So they're in the process right now of consolidating five plants down to one in the suture space and two plants to one in the collagen space. And that is also going to help that margin level. And again, you do see that in the synergy number that we quoted. Those will, because they're in-flight, come sooner.

Michael J. Harrison

Analyst, Seaport Research Partners

Q

All right. Sounds good. Thanks very much.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

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Thanks, Mike.

Operator: Your next question comes from Lucas Beaumont with UBS. Your line is open.

Lucas Beaumont

Analyst, UBS Securities LLC

Q

Thanks. Good morning. Just wanted to continue kind of on the AMS deal track. So, I guess, there's been both some public and some private sort of opposition from at least a portion of the investor base regarding the deal here across kind of a range of factors. I mean, your stock is down sort of 8% today. Absolute is down 10% to 12% kind of on a relative basis, I guess, at least. Supporting that some of them have concerns [ph] if they're, I guess not (00:38:49) – whether they're well-founded or not. So, I guess, just talk us through where you think kind of the investor base is sort of missing here and why you think sort of going ahead with the deal is the best move for H.B. Fuller strategically in the medium term. Thanks.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Thanks and good morning, Lucas. So we are doing exactly what we told you we would do. The opportunity here allows us to expand our Medical business to now become 10% of our portfolio and establish that portion of the portfolio at a high-single digit growth rate. And this is consistent with our desire to continue migrating this portfolio into the faster growing, higher margin spaces. We believe there is no better space for expansion than the medical industry.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

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Lucas, the other thing I would say is, we really haven't been able to talk to shareholders about the specifics of this deal because of the constraints of the UK Takeover Code and now we're at [ph] our point (00:39:59). So I think we're feeling like this is a great opportunity to give them a much better view of the strategic fit of this business. And we just really haven't been able to do that until now.

Lucas Beaumont

Analyst, UBS Securities LLC

Q

Great. And then maybe just one on sort of the outlook for the second half. I mean, you sort of kept your organic growth targets for the year in a similar range. I think sort of previously that was probably implying that sort of second half pricing would be up about 10% and volumes would be down sort of low- to mid-single digits. I mean, it seems like maybe now the pricing expectations, they're sort of a couple of points lower there, maybe the 7% range or so. And it looks like the volume outlook might be a bit better and you're expecting less of a sort of deceleration in the second half against those easy comps than you were previously. If you could kind of just talk us through the moving parts there, please.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

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Yeah. We still – we believe second half will be, I said, high-single digit, approaching double-digit performance in the second half, consistent with what we had previously said. Volumes were down slightly in Q2. We're still – our outlook continues to include volumes down mid-single digit in the second half. We're very cautiously watching volumes and anticipating that, in this inflationary environment, we are going to see those lower than they were in Q2.

Lucas Beaumont

Analyst, UBS Securities LLC

Great. Thanks very much.

Q

Operator: Your next question comes from Patrick Cunningham with Citigroup. Your line is open.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Hi. Good morning.

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Good morning.

A

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

I was hoping you could speak a little bit more to potential commercial synergies and cross-selling opportunities. I guess, is this primarily geographic expansion in areas where you have different sales and distribution capabilities? What are the sort of regulatory and customer barriers there? And then, small one, are there any areas of significant product overlap on the adhesive side such that there may be some modest cannibalization or dis-synergies related to this?

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thanks, Patrick. Yeah. So these organizations are such an amazing complementary market and channel fit. So, we have some products that we've been successful with, including our SecurePortIV catheter attachment product. That is a product that AMS has been in the process of trying to develop. They believe there's an immediate market for that product, for example, in the channels that they serve. And similarly, they have the first FDA approved hernia mesh attachment that's been qualified here in the United States. Again, we have a nice US infrastructure as well that can support sales of these new products.

A

So there's really a great complement as it relates to both the channels, but also the technologies as well. Their success with formulated biosurgicals is something we're also very excited about and that we can add to our sales basket as well.

So you also asked about overlap or cannibalization. Again, very complementary market approach. And so we do not expect that there will be much overlap, if any, frankly. So, no cannibalization expected.

The other nice thing is both of us have been working to get our products approved in China. We're both at similar part of the process. One of the things that they bring in China is extensive distribution. One of the things that we have in China is a large infrastructure over 1,000 employees, understanding of and relationships with various government entities. So we're really seeing that as a way to catalyze growth in China as well as in India, where they have a strong and large team. We have infrastructure. We have back office there to support. So we're really excited about that opportunity. Normally, John and I don't underwrite commercial synergies, but in this case, they were significant and very credible.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Q

Understood. Very helpful. And then maybe just back to sort of the current state, HHC was quite strong in the quarter, particularly the drop through to the bottom line. I guess, on that point, was this primarily driven by pricing in real time or some of the raw material costs not having flowed through yet or were there additional drivers of sort of the strong margin performance here?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah. The success in HHC was really the pricing strength that they demonstrated. That's a team that got out widely and very quickly worked to address what will be high raw material costs flowing through in that business. Yes, they had a little lower cost inventory in place that did make the flow through a little more advanced. But we've done a good job and HHC has done a good job really performing well for customers in the supply constrained regions like Europe and Asia. Their organic growth in both of those regions was very, very strong. High-single digit and double-digit growth in those regions. And again, I attribute that to our success early on securing supply, knowing that others would have reliability challenges and that we would be able to deliver to our customers. And they really did that this quarter.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you so much.

Operator: Your next question comes from David Begleiter with Deutsche Bank. Your line is open.

Emily Fusco

Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. This is Emily Fusco on for Dave. Maybe just one quick one on AMS and then one on volumes. How much of the business is non-medical adhesives? Or if you could just give some color on that. And then maybe on volumes, they came in better than expected. Could you maybe talk about what drove that, if it was even across the businesses or how we should think about volumes in the back half, or any differences that there might be by business? Thanks.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

So if you look at the AMS portfolio, a very large portion of it, call it, the surgical adhesives and the tapes and dressings are adhesive based, both similar to our cyanoacrylate technology, as well as using pressure sensitive adhesives in those tapes. Therefore, that combined is a little over half of the business.

The formulated biosurgicals space, again, is very consistent with the type of products we make from – that we formulate. And even the production of those materials is similar to the production of adhesives, small batch production. So very consistent with what we already do and an amazing extension for us to continue to deploy our formulating experience to new materials and to learn from them in that space.

The mechanical closures, the sutures are less like the rest of our adhesive portfolio. However, there are some real consistencies with our own experience in that space. Oftentimes, as a solution provider, we're selling customers not just adhesives, but other materials as well in support of it to really solve a problem. And in this

case, oftentimes, adhesives and sutures are used together. That sutures business is a great way to expand and access channels for us. And it actually, we do have a business we call ACS, which stands for adhesive coated strings, which is similar in nature to what they're doing there in the production of sutures.

And the suture business that AMS has is highly differentiated. In fact, they have a very strong position in cardiovascular sutures, which, as you can imagine, are highly specialized and actually is one of the fastest growing parts of the suture industry.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

And I can answer your question on volumes, Emily. I wouldn't say that that was better than expected per se. I think we saw an improvement due to the fact that we were able to get materials that competitors weren't. If we look at the back half of the year, our guidance to sort of mid-single digit volume decline would imply low- to mid-single digit volume decline in the back half of the year. Thus far, order patterns in Q3 have remained pretty consistent with Q2. But as Celeste indicated, to the extent that there is volume demand related to the consumer, that would obviously impact us in the back half of the year. So that's an assumption that we have baked in and as Celeste said, we'll continue to monitor that very closely.

Emily Fusco

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Your next question comes from Jeff Zekauskas with JPMorgan. Your line is open.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. You described the AMS business as roughly half adhesives and you view the Wound Care as being more of a Tape's business. So with the suture business and the hemostat business, and the diagnostics business, are those areas of acquisition interest for you over a longer period of time? Or these are businesses that are in some sense ancillary to what you're acquiring and they're not areas that you wish to grow by M&A? [ph] Thank you (00:52:17).

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

At this point, we consider them ancillary and supportive. We also have not been deep into the business running it yet. So I think we got to really get in there and figure that out along the way, Jeff.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Okay. And in terms of the mid-single digit volume decrease for the second half, which is your base case, I guess, you're running better than that. When you look at your three segments, if you had to rank the volume vulnerability, is it highest in HHC? [ph] Then it's a little (00:53:05) difficult to know about EA and Building Adhesives. Could you describe that?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

So, let me start with the positive side. So BAS...

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Sure.

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

...I expect to continue to have a good second half. We're seeing a real construction season playing out there. And as you probably noted, they had posted the strongest organic growth in the portfolio this quarter. I think they'll continue to perform. There's a lot going on as it relates to innovation in that space where we've been successful and again, successful in specific markets like data centers as well as our Foster's product for LNG expansion has really been a big seller.

On the HHC side, I think we really have to see what happens with the consumer. That is the space where we could see softness and where I would expect the mid-single digit volume decline to happen in the second half, just as consumer are paring back on consumables.

And then, finally, in EA, it was a good quarter for most of those segments, but slow in Auto. I think with the ongoing high interest rates and affordability challenges, Auto is going to continue to be a challenging space. Now, we do wrap around the Solar weakness in Q3, so that'll help EA get back to a more normal kind of mid-single digit positive growth based on what we have been consistently seeing when we exclude the Solar business out of there. But both EA and HHC are potentially going to see that weakness that we're referring to on the volume side.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

I can squeeze in one more.

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Sure.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Given that petrochemical prices are falling, do you see customers as delaying their purchases in order to reduce their inventories in expectation also of price weakness in adhesives maybe going into 2027 from where we are today? And then for John, how many shares were issued or what's the share issuance that's being offset by the share repurchase this year?

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah. So I'll start with the raw material question, Jeff. So, as we monitor 4,000 different raw material categories, what we're still seeing versus Q1 is that almost 90% of our raw materials are higher than they were in Q1. So we're not seeing – now, again, remember, 87% of what we buy are specialty chemicals, we're not seeing a turn in raw material pricing. And in fact, we still have 52 force majeures that are in place.

So, this quarter, we were pretty neutral on raws year-over-year, but we're sequentially cost – cost was higher from the first quarter. We are going to see raw materials cost flow – those benefits – those increases flowing through even more in the second half.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

Yeah. Jeff, on your question regarding share repurchase, I believe there were about 0.5 million shares that have been issued that net out against our share repurchase. So we repurchased 750,000 shares in the second quarter. And as you know, that's a weighted average impact that you see in the share count in the quarter. So we don't fully benefit on a year-to-date basis from that right away. So I think shares are down 200,000 between last year's second quarter and this year's second quarter. So roughly 750,000 shares repurchased offsetting about 0.5 million shares issued.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Sure.

Operator: Your next question comes from Kevin McCarthy with Vertical Research Partners. Your line is open.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes. Thank you and good morning. Celeste, in the release this morning, you talked about establishing goals of 5% constant currency sales growth and an EBITDA margin goal of 20%. My question would be, can you speak to the timing of achieving those goals? If you're able to achieve 100 basis points of margin accretion from the AMS deal, it would seem that you'd be knocking on the door of that 20% level by maybe late 2028 or so. Is that the right timeframe to think about or would you advise differently?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

That is correct, Kevin.

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

[ph] All right (00:59:16). Kevin, I just also just those two numbers you quoted, they were in our materials for Investor Day and we talked about the objective of 5% constant currency growth. In our materials, we talked about achieving the 20% margin target by 2028, but it's arguable this could improve that a little bit. I'm not sure would move us earlier than 2028, though, maybe earlier in the year, but.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Okay. So the deal doesn't necessarily accelerate. It's sort of contemplated in a sense of baked into those prior goals. Okay. I wanted to peel the onion a little bit on the synergies and a couple of other kind of mechanical

questions on the deal. How much is Peters Surgical within the \$20 million – sorry, \$35 million cost synergy goal, John? And of the remaining portion that's not Peters Surgical, how might we disaggregate that among procurement, SG&A and manufacturing and other sources?

John J. Corkrean

Executive Vice President & Chief Financial Officer, H.B. Fuller Co.

A

Sure. So of the \$55 million, roughly \$14 million is related to the Peters Surgical synergies. So – and that's of the \$35 million of total cost synergies. So you're talking about another roughly \$21 million of other cost synergies. And we'll provide more information as we get further down the road on this, but it certainly includes the public company cost elimination that we would have. We view there's going to be synergies through overlapping back office functions, which is normally the case when we do acquisitions. And we also believe we'll get some wage arbitrage as we move these into more cost effective locations. There will be sourcing synergies and direct sourcing synergies related to our ability to buy adhesives at an advantaged level. And then, we believe there'll be meaningful indirect sourcing synergies as well as we can utilize H.B. Fuller's leverage across the AMS cost structure.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Okay. And then, lastly, if I may, Celeste, can you talk a little bit about the genesis of the deal? It's, obviously, consistent with the comments that you made at Investor Day. I think you commented you'd been looking at it for maybe three years or so, but maybe why now? What catalyzed the discussion and any other details you can offer on things like break fee and threshold for shareholder approvals, that sort of thing would be helpful.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Sure, sure. Yeah. As you know, Kevin, we have a very rigorous strategic planning process. We identified AMS as long ago as 2023 as a company that we were highly interested in. We acquired the GEM and Medifill companies in January of 2025. And as we got further into the market, we really realized what a great opportunity we would have to pursue AMS, like their capabilities were just so remarkable. But we had no plans to proceed forward, particularly given that they're a public company.

Anyway, on April 18, we saw that there was a leak that TA Associates had made an offer for the company and was pursuing it and that really set us in motion. That was a very high priority asset in our pipeline of tremendous interest. And so, on April 30, we put forward an LOI establishing our interest, which was accepted a couple of weeks later, and we kicked off our diligence team on April or on May 26. Keeping in mind, of course, that this is a business that was public and in the pipeline. We've been watching it for quite some time, so we've been doing bench diligence on it for consistently over time.

Now, you asked about breakup fee. There are no breakup fees in the UK under UK public company takeover law. When we submitted our [ph] Rule 2.7 filing (01:04:29) today, that is a binding offer to acquire the company. The remaining steps, of course, are that AMS shareholders have to approve the transaction and that we have to go through regulatory approvals as well. That's why we anticipate closing would be later in 2026, likely the end of the calendar year.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Understood. Very helpful. Thank you.

Operator: Your next question comes from Rosemarie Morbelli with Gabelli Funds. Your line is open.

Rosemarie J. Morbelli

Portfolio Manager, Gabelli Funds LLC

Thank. Good morning, everyone.

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Good morning. How are you, Rosemarie?

A

Rosemarie J. Morbelli

Portfolio Manager, Gabelli Funds LLC

All right. Most of my questions were answered, but I was wondering if I could ask one in a different way. The market is, obviously, upset with higher leverage. That will result not as high as Royal. I'm totally with that program. But I was just wondering would you consider selling any assets in order to deliver faster than by the end of 2028? And did I understand properly that it is by the end of 2028 and actually, it could be 2030 and not 2031? Can you give us a little better understanding on the game plan in terms of deleveraging?

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Oh, absolutely, yes. So you're asking if we can deleverage by 2028. And, yes, that's the plan. Just to be very specific, the 2030, 2031 is the amount of time it will take to get the full synergy capture. So, yes, we do have a deleveraging plan. We anticipate being able to deleverage down from what will roughly be 4 times to our target range of 2.5 to 3 times within two years.

A

And would we sell assets? We are always looking at whether we have – our market segments are meeting our stated requirements, performing financially, continue to have the right tailwinds. And so we are constantly assessing whether they are performing and whether we are the best owner for them. And we'll continue that effort. As you know, we sold the Flooring business in January of 2025 because it was a space where it didn't meet our requirements. And we felt that there was a better owner for it.

Rosemarie J. Morbelli

Portfolio Manager, Gabelli Funds LLC

So while you cannot give us any details, I was just wondering if there are other categories that could generate some free cash flow that [ph] would go to de-lever (01:07:47) faster than anticipated?

Q

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

The reality of our structure, Rosemarie, is that our plants are assigned to GBUs for management purposes, but they're really technology based. And so it's very hard to extract a segment out of the overall broader business and not have a lot of dis-synergies because of plant loading and capacity utilization.

A

Now, we continue to evaluate this, but I don't think that's going to change with Quantum Leap. In fact, Quantum Leap is going to further rationalize our footprint. And so that operating leverage becomes even more attractive

across the broader revenue base. So it's a challenge. Again, we do evaluate it consistently, but it is – typically, the dis-synergies of extracting a business are even higher than you might imagine.

Rosemarie J. Morbelli

Portfolio Manager, Gabelli Funds LLC

Q

Okay. Thanks. And if I may, so some of the product lines or businesses that are acquiring as part of AMS are not pure adhesives. Is the management of AMS in charge of those particular categories staying on in order to make sure that there is no market share loss, that everyone understands and keeps working on the strategy?

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Yeah. I'm not allowed to talk about people. That's the one category I can't – still can't get into. But what I would say is we are so impressed broadly with the talent that we met during the due diligence process. Part of our process is to have expert sessions. We had a dozen expert sessions that go fairly deep in the organization. And we're excited about this business. It's very complementary to our own. And when we acquire businesses, an important part of that exercise is also acquiring the talent. And so we're very bullish on being able to have the right talent in the business and not lose a step there.

Rosemarie J. Morbelli

Portfolio Manager, Gabelli Funds LLC

Q

All right. Thank you very much.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

A

Thanks, Rosemarie.

Operator: [Operator Instructions] There are no further questions at this time. I will turn the call over to CEO, Celeste Mastin, for closing remarks.

Celeste Beeks Mastin

President, Chief Executive Officer & Director, H.B. Fuller Co.

Thanks, everyone, for joining the call today. We're now allowed to disclose the details about AMS that we're previously restricted from talking about by the UK Takeover Code. So we look forward to talking to many of you further. Thanks.

Operator: This concludes today's conference call. Thank you for joining. You may now disconnect.

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