S&P Global
Market Intelligence

Owens Corning NYSE:OC

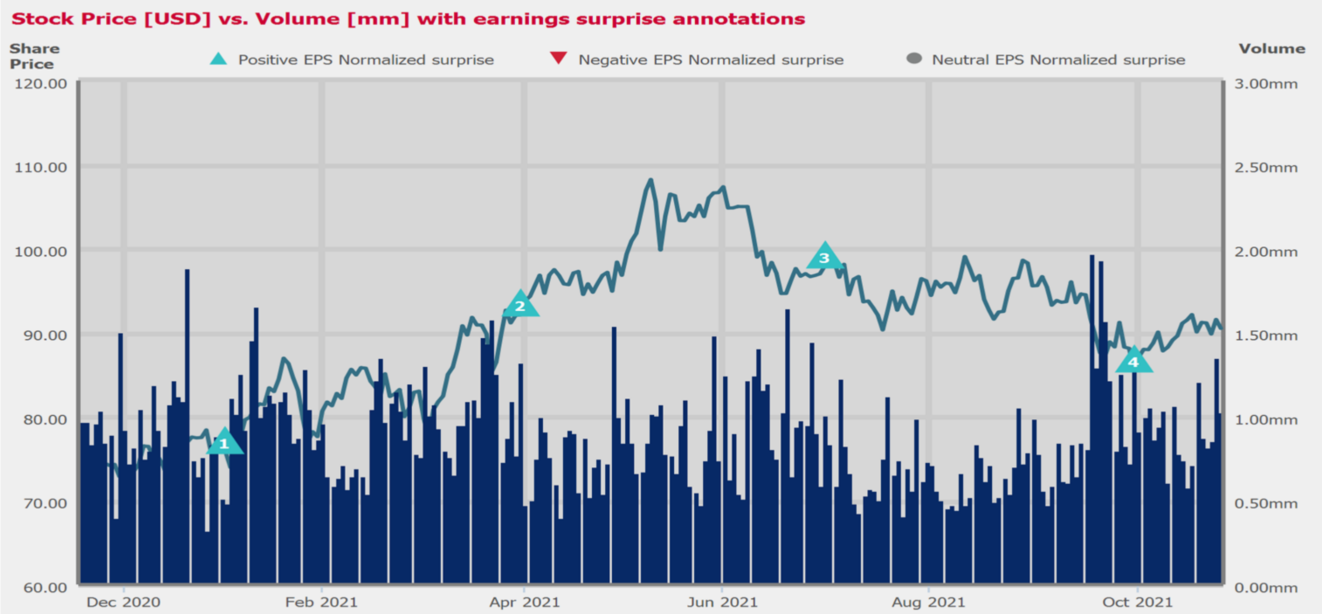
FQ3 2021 Earnings Call Transcripts

Wednesday, October 27, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.45	2.52	▲2.86	1.97	8.80	9.30
Revenue (mm)	2171.39	2213.00	▲1.92	2018.97	8363.85	8794.83

Currency: USD
Consensus as of Oct-27-2021 1:02 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	1.37	1.90	▲1 38.69 %
FQ1 2021	1.43	1.73	▲2 20.98 %
FQ2 2021	2.14	2.60	▲3 21.50 %
FQ3 2021	2.45	2.52	▲4 2.86 %

Table of Contents

Call Participants

EXECUTIVES

Amber Wohlfarth
Director of Investor Relations

Brian D. Chambers
President, CEO & Chairman of the Board

Kenneth S. Parks
Executive VP & CFO

ANALYSTS

Brian Biros
Thompson Research Group, LLC

Deepa Bhargavi Narasimhapuram Raghavan
Wells Fargo Securities, LLC, Research Division

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

Keith Brian Hughes
Truist Securities, Inc., Research Division

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

Michael Jason Rehaut
JPMorgan Chase & Co, Research Division

Philip H. Ng
Jefferies LLC, Research Division

Stephen Kim
Evercore ISI Institutional Equities, Research Division

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Truman Andrew Patterson
Wolfe Research, LLC

Yves Brian Felix Bromehead
Exane BNP Paribas, Research Division

Presentation

Operator

Good day and welcome to the Owens Corning Third Quarter 2021 Results Conference Call. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Amber Wohlfarth. Please go ahead.

Amber Wohlfarth
Director of Investor Relations

Thank you, and good morning, everyone. Thank you for taking the time to join us for today's conference call and review of our business results for the third quarter 2021. Joining us today are Brian Chambers, Owens Corning's Chair and Chief Executive Officer; and Ken Parks, our Chief Financial Officer. Following our presentation this morning, we will open this 1-hour call to your questions. [Operator Instructions]

Earlier this morning, we issued a news release and filed a 10-Q that detailed our financial results for the third quarter 2021. For the purposes of our discussion today, we have prepared presentation slides that summarize our performance and results, and we'll refer to these slides during this call. You can access the earnings press release, Form 10-Q and the presentation slides at our website, owenscorning.com. Refer to the Investors link under the Corporate section of our home page. A transcript and recording of this call and the supporting slides will be available on our website for future reference.

Please reference Slide 2 before we begin, where we offer a couple of reminders. First, today's remarks will include forward-looking statements based on our current forecasts and estimates of future events. These statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially. We undertake no obligation to update these statements beyond what is required under applicable securities laws. Please refer to the cautionary statements and the risk factors identified in our SEC filings for a more detailed explanation of the inherent risks and uncertainties affecting such forward-looking statements.

Second, the presentation slides and today's remarks contain non-GAAP financial measures. Explanations and reconciliations of non-GAAP to GAAP measures may be found in the text and financial tables of our earnings press release and presentation, both of which are available on owenscorning.com.

Adjusted EBIT is our primary measure of period-over-period comparisons, and we believe it is a meaningful measure for investors to compare our results. Consistent with our historical practice, we have excluded certain items that we believe are not representative of our ongoing operations when calculating adjusted EBIT and adjusted earnings. We adjust our effective tax rate to remove the effect of quarter-to-quarter fluctuations, which have the potential to be significant in arriving at adjusted earnings and adjusted earnings per share.

We also use free cash flow and free cash flow conversion of adjusted earnings as measures helpful to investors to evaluate the company's ability to generate cash and utilize that cash to pursue opportunities that enhance shareholder value.

The tables in today's news release and the Form 10-Q include more detailed financial information. For those of you following along with our slide presentation, we will begin on Slide 4.

And now opening remarks from our Chair and CEO, Brian Chambers. Brian?

Brian D. Chambers
President, CEO & Chairman of the Board

Thanks, Amber. Good morning, everyone, and thank you for joining us for today's call. I hope all of you are staying healthy and safe. Owens Corning posted strong third quarter results today, consistent with our July outlook and building on the momentum of an outstanding first half of the year. Our global team continued to execute extremely well in a very dynamic environment, overcoming higher inflation as well as some supply chain disruptions to deliver another great quarter. Our results continue to demonstrate the resiliency of our team, the strength of our commercial and operational execution and the durability of the earnings power of our company.

During the call this morning, I'll start with an overview of our third quarter performance before turning it over to Ken, who will provide additional details on our financial results. I'll then come back to talk about our business outlook for the remainder of the year.

As always, I will begin my review with safety. During the third quarter, our commitment to safety resulted in an RIR of 0.64, which is a significant improvement compared to the same period last year, with more than half of our facilities operating injury-free for more than a year. While we are generally encouraged by the recent decrease in COVID cases and gradual increase in vaccinations, it's clear the impacts of the pandemic will persist in the near term. We will continue to follow enhanced safety protocols and operate our facilities with a strong focus on working together to keep each other, our customers and our suppliers healthy and safe.

Financially, we delivered record third quarter revenue of $2.2 billion, an increase of 16% compared with the same period last year, and adjusted EBIT of $400 million. Our performance during the quarter was again a combination of strong market volumes and outstanding execution, with each business delivering a positive price/cost mix and great manufacturing performance. This resulted in an adjusted EBIT margin for the company of 18%, with all 3 of our businesses posting double-digit EBIT margins for a fifth consecutive quarter.

Demand for our U.S. residential products, which account for about half of our enterprise revenues, as well as our commercial and industrial products remained strong in Q3, and we continued to operate with extended lead times for many of our products. Within this tight supply chain environment, our global teams, especially in supply chain, manufacturing, customer service and sales, continue to work extremely hard to increase our production and meet the needs of our customers.

In addition to our focus to finish the year strong, we continue to make strategic choices to enhance the earnings power of the company and create additional growth opportunities by allocating resources to product lines where we can strengthen our market position and provide a sustainable solution.

I would like to take a few moments now to share more about the work we are doing with 2 of our product lines to position us for the future. As part of our focus to build market-leading positions, we continuously evaluate the strength of our products and position in the market. Based on this analysis, we have decided to explore strategic alternatives for one of our glass reinforcements product lines within our Composites business: thermoplastic dry-use chopped strands. The DUCS product line is primarily used in automotive and electronic applications and generates annual revenues of approximately $270 million. The focus of our evaluation will include divesting or repurposing these assets to manufacture other product line.

With its material science capabilities and relationships across a variety of core markets, applications and geographies, our Composites business is an integral part of our company and a key contributor to our growth strategy. The decision to explore alternatives for these production assets and product line is consistent with our approach to focus on high-value material solutions where we can develop market-leading positions such as in building and construction, renewable energy and infrastructure.

Product and process innovation continues to be key to how we drive growth, improve our operating performance and create value for our customers. A great example of this ongoing work is our PINK Next Gen Fiberglas insulation launched in August. This latest product innovation leverages advanced fiber technology to create a sustainable product that is faster and more comfortable to install compared to existing products in this space. This is particularly important given the performance expectations and tight time lines of today's contractors and builders.

Given our commitment to sustainability, I'm pleased to note that PINK Next Gen insulation is made with 100% wind-powered electricity and sets an industry standard for recycled content. Our launch of Next Gen Fiberglas insulation is the most recent example of how our industry leadership and innovation is expanding growth opportunities for our customers and Owens Corning.

We are also excited to see how our sustainability leadership and mission to build a sustainable future through material innovation is creating new growth opportunities across the enterprise as we engage with more and more customers to develop solutions, which achieve their key sustainability goals. The priority topics for collaboration focus on: decarbonization, including product-specific embodied carbon reduction; circular economy, which includes both recycled content and end-of-life recycling solutions; and product design transparency, specifically related to the impact of our products throughout their life cycle. We look forward to sharing more details about these exciting developments to help our customers and grow our company during our upcoming Investor Day.

With that, I will now turn it over to Ken to discuss the financial results in more detail. Ken?

Kenneth S. Parks
Executive VP & CFO

Thanks, Brian, and good morning, everyone. As Brian commented, Owens Corning delivered another outstanding quarter, with strong revenue and earnings growth across all 3 businesses. While demand conditions remain strong across the markets we serve, our ongoing execution was fundamental to driving this performance, allowing us to manage through supply chain challenges and accelerating inflation.

As we talked about in our second quarter call, inflation continues to impact almost all material input costs, especially asphalt and other petroleum-based materials, along with transportation and energy costs. Overall positive price realization more than offset the inflation headwind in all 3 businesses in the quarter and year-to-date.

As a result, third quarter operating margins reached 18%, nearly 300 basis points higher than the same period last year. The expanded earnings combined with focused working capital management and capital investments drove healthy free cash flow generation in the quarter and strong free cash flow conversion year-to-date.

Now beginning on Slide 5, we can take a closer look at our results. We reported consolidated net sales of $2.2 billion for the third quarter, that's up 16% over 2020, and produced double-digit revenue growth in all 3 segments. Our commercial and operational execution were instrumental in delivering these results as demand conditions remain strong in the markets we serve, and we overcame supply chain disruptions with limited inventories.

Adjusted EBIT for the third quarter of 2021 was $400 million, up $111 million compared to the prior year. Earnings grew year-over-year in all 3 businesses, resulting in double-digit EBIT margins for the fifth consecutive quarter. Adjusted earnings for the third quarter were $262 million or $2.52 per diluted share compared to $193 million or $1.76 per diluted share in the third quarter of 2020.

Depreciation and amortization expense for the quarter was $129 million, up $9 million compared to Q3 2020. Our capital additions for the third quarter were $90 million, up $22 million as compared to the third quarter of last year. We'll continue to be disciplined in our capital spending as we focus on delivering strong free cash flow and prioritizing investments that drive growth and productivity.

Slide 6 reconciles our third quarter adjusted EBIT of $400 million to our reported EBIT of $394 million. During the quarter, we recorded $20 million of restructuring costs associated with previously announced actions, which includes $19 million for the Santa Clara facility sale. Those charges were partially offset by a $15 million gain on the sale of land related to a previously announced facility closure. In addition, we had $1 million of acquisition-related charges for vliepa, which was acquired during the quarter. These items are excluded from our adjusted third quarter EBIT.

Slide 7 provides an overview of the changes in third quarter adjusted EBIT from 2020 to 2021. Q3 adjusted EBIT increased $111 million over the prior year, reaching $400 million. Despite supply chain challenges and accelerating inflation, all 3 segments delivered year-over-year EBIT growth.

Now turning to Slide 8. I'll provide more details on the performance of each of the businesses. The Insulation business continued to build on the strong performance demonstrated in Q2, delivering double-digit year-over-year EBIT growth and 400 basis points of EBIT margin expansion. Q3 revenues were $815 million, a 20% increase over the third quarter of 2020. We saw solid realization on announced pricing actions as well as volume growth across the business, reflecting continued strength in both U.S. new construction and the commercial end markets we serve globally.

In North America residential fiberglass insulation, we saw year-over-year growth, driven by positive pricing and stronger volumes benefiting from incremental capacity additions over the past year. In technical and global Insulation, demand remains strong for our highly specified products, with the most notable year-over-year growth coming again from North America and Europe, with growth in both FOAMGLAS and mineral wool. Pricing was positive versus prior year and more than double what we achieved in Q2.

For the Insulation business overall, positive price more than offset the impact of accelerating energy, material and transportation inflation. In residential insulation, we continue to maintain a positive price/cost mix in the face of accelerating inflation. While technical and global insulation price lagged inflation, the price/cost gap narrowed considerably versus Q2.

We continued to execute well in our manufacturing operations and benefited from the recovery of $18 million of fixed cost absorption on higher production. We delivered margins of 15% and EBIT of $124 million, a quarterly record and up from $73 million in the third quarter of 2020.

Now please turn to Slide 9 for a review of our Composites business. The Composites business produced another record earnings quarter. Sales for the third quarter were $591 million, up 13% compared to the prior year. The top line growth was driven by strong commercial performance with our ongoing strategy in the business to focus on higher-value applications driving favorable mix, which more than offset slightly lower volumes. We continue to see strength in demand for our higher-value applications as well as demand in key geographies where our local supply for local demand model is being valued by customers.

We also continued to see positive pricing in Composites resulting from contract negotiations as well as price increases for noncontractual business. In the quarter, positive price more than offset the inflation headwinds from materials, energy and higher transportation costs.

Operationally, we continued to execute well with solid manufacturing performance and recovery of $29 million of prior year curtailment costs. In the third quarter, Composites delivered record EBIT of $101 million, up $46 million over last year, and EBIT margins reached 17%.

Slide 10 provides an overview of our Roofing business. The Roofing business produced a strong third quarter. Sales in the quarter were $869 million, up 14% compared to the prior year. The U.S. asphalt shingle market was down 9% in Q3 as compared to the prior year, while our U.S. shingle volumes were up slightly year-over-year.

We continue to see good realization on our announced price increases, more than offsetting accelerating asphalt, other material and delivery inflation. Contribution margins remain strong. For the quarter, EBIT was $212 million, up $16 million from the prior year, achieving 24% EBIT margins.

Turning to Slide 11. I'll discuss significant financial highlights for the third quarter and full year 2021. Earnings expansion, along with continued discipline around management of working capital, operating expenses and capital investments, resulted in strong cash flow. Free cash flow for the third quarter of 2021 was $400 million, bringing year-to-date free cash flow to $925 million, up $411 million over the same period last year. Year-to-date free cash flow conversion remains strong.

With this cash flow performance, we further strengthened our already solid investment-grade balance sheet by repaying in the quarter the remaining $184 million due on our 2022 senior notes. At quarter end, the company had ample liquidity of approximately $2 billion, consisting of $920 million of cash and nearly $1.1 billion of combined availability on our bank debt facilities.

During the third quarter of 2021, the company repurchased 1.7 million shares of common stock for $160 million. Through September 30, 2021, the company returned $516 million to shareholders through share repurchases and dividends, equating to approximately 56% of year-to-date free cash flow. We remain focused on consistently generating strong free cash flow, returning at least 50% to investors over time, and maintaining an investment-grade balance sheet.

Now turning to our 2021 outlook for key financial items. General corporate expenses are expected to range between $150 million and $155 million. Capital additions are expected to be approximately $460 million, which is below expected depreciation and amortization of approximately $500 million. For interest expense, we've narrowed our estimated range to be between $125 million and $130 million. And finally, we expect our 2021 effective tax rate to be 26% to 28% of adjusted pretax earnings and our cash tax rate to be 18% to 20% of adjusted pretax earnings.

Now please turn to Slide 12, and I'll return the call to Brian to further discuss the outlook for our company. Brian?

Brian D. Chambers
President, CEO & Chairman of the Board

Thank you, Ken. During the third quarter, our company continued to perform well, giving us great momentum as we finish the year. In the fourth quarter, we expect U.S. residential repair and remodeling and new construction markets as well as our global commercial and industrial end markets to remain strong. Based on current trends we are seeing across the enterprise, we anticipate the impact of inflation to be at or slightly above what we experienced in Q3.

Given our pricing actions throughout the year, we expect each of the businesses to maintain a positive price/cost mix in Q4. Moving through the quarter, we will continue to closely monitor and manage inflation, supply chain disruptions and the regional impacts of COVID on our businesses. Through the first 3 quarters of the year, our commercial and operational execution has generated strong financial results, and we expect this to continue in Q4, delivering earnings in the quarter close to last year.

Now consistent with prior calls, I'll provide a more detailed business-specific outlook for the fourth quarter, starting with Insulation. We expect year-over-year growth in our North American residential fiberglass Insulation business and anticipate our volumes to be up mid- to high single digits versus prior year. We expect price realization similar to what we experienced in Q3, with the recently announced December increase having more impact as we get into the first quarter of next year.

In our technical and global Insulation businesses, volumes should grow low to mid-single digits, with ongoing demand for our products in global building and construction applications. Similar to residential insulation, we would expect price realization in these businesses to be similar to what we saw in Q3.

In terms of inflation, we expect material and energy cost increases in the fourth quarter to be higher than what we experienced in Q3 and anticipate that continued price realization will result in a positive price/cost mix in the quarter. Additionally, we expect our fixed cost absorption to improve by approximately $5 million versus prior year. Given all this, we expect to see strong earnings growth in Q4 versus prior year, with EBIT margins of approximately 15%.

Moving on to Composites. In the fourth quarter, we expect revenue to improve year-over-year, primarily driven by continued price realization and favorable mix, which we would expect to more than offset volume declines of mid-single digits for the quarter. We anticipate composites pricing will improve by mid-single digits, offsetting the impact of additional inflation, and that we should benefit from the recovery of $15 million to $20 million of curtailment costs versus fourth quarter 2020. Overall, we expect to realize strong earnings growth in the quarter versus prior year, with EBIT margins of approximately 14%.

And in Roofing, we anticipate the market to finish up for the year but expect a more difficult comparison to the fourth quarter of prior year, with market volumes down mid-teens, driven by the expectation for a more normal winter season, lower storm demand and the likelihood of ongoing supply chain disruptions. We would expect our volumes to track largely in line with the market. Roofing pricing is expected to be favorable in Q4 based on the continued realization of our previously announced price increases, although less than what we saw in Q3 due to the lower volumes.

Additionally, in terms of revenue, we expect a headwind from mix in the quarter, similar to what we saw in Q3. Overall, we anticipate fourth quarter Roofing EBIT margins of approximately 20% on lower volumes and a narrowing but positive price/cost mix.

With that view of our businesses, I'll close with a couple of enterprise items. Our team remains committed to generating strong operating and free cash flow. In terms of capital allocation, our priorities remain focused on reinvesting in our business, especially productivity and organic growth initiatives, returning at least 50% of free cash flow to shareholders over time through dividends and share repurchases and maintaining an investment-grade balance sheet. In addition, we continue to evaluate investments and acquisitions that leverage our commercial, operational and geographic strengths and expand our building and construction material product and system offering.

One last note before moving on to the Q&A session. I'd like to remind everyone, we will be hosting a virtual Investor Day on Wednesday, November 10. Ken and I will be joined by members of our executive leadership team to discuss the company's strategic priorities, financial objectives and initiatives to drive long-term stakeholder value. Please reference the earnings press release for more details around this important event. We hope you will join us in 2 weeks.

In closing, our team is proud of the outstanding operational and financial performance we delivered in the third quarter and are excited by the opportunities we have to grow our company, help our customers win in the market and deliver value to our shareholders.

With that, I will now turn the call back to Amber to open it up for questions. Amber?

Amber Wohlfarth
Director of Investor Relations
Thank you, Brian. We are now ready to begin the Q&A session.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Matthew Bouley with Barclays.

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

Congrats on the results here, operating in a pretty challenging environment. Just the question on the Roofing business and particularly price. You gave that comment about price in Q4 being a little less than Q3 due to lower volumes. I'm just curious if that's a comment that pricing is actually slipping a little bit sequentially alongside lower volumes. And really, the broader question is, if you do see volumes continue to normalize into '22, how should we think about pricing alongside that?

Brian D. Chambers
President, CEO & Chairman of the Board

Well, thanks, Matt, for the comments and the questions. Just let me clarify. Roofing pricing, we expect in Q4 to continue to see good realization of our price points. So we're not seeing things slip in the market. I think that was more a commentary around total price realization being a little less just based on lower volumes, not anything that would be a reflection on the strength of the pricing in the market today of our products. So we continue to see good realization. Expect that to continue into Q4.

So -- and overall, in terms of volumes, I think -- and we'll probably talk more about this. But we see that volumes are going to be up on a year-over-year basis. I think what we're seeing here in Q3, a little bit in Q4 is just a difficult comp comparison to last year, where if you look at last year, Q2 was very low with COVID shutdowns and uncertainty in demand and we saw distribution build and buy a lot more in the back half of the year. We saw contractor work really increase dramatically as homeowners invested in home. So I think we're still in a very strong roofing market overall. We're just seeing a little bit of comp comparisons in third quarter and then that we're guiding to in Q4.

So we think we're in a very strong market. Historically, in our Roofing business, we've been able to recover asphalt and other inflation through pricing actions over time. We've been able to demonstrate that for the last several quarters, and we expect in a good strong market, we'd be able to continue to operate in that fashion moving forward.

Operator

Our next question comes from Stephen Kim with Evercore ISI.

Stephen Kim
Evercore ISI Institutional Equities, Research Division

Good results. Wanted to ask a question about price/mix generally across your business. I guess could you comment on sort of what is driving the relative mix effects across -- and I mean, that kind of in terms -- in percentage terms, in Insulation, Roofing as well as, I think, Composites had some mix benefit. And then within the Composites, you also had some very nice price and historically, much of this segment has annual pricing contracts, which I think you alluded to. Just curious as to what we saw in 3Q, how much of that was due to sort of spot pricing, if you will, in the segment versus successful renegotiations?

Kenneth S. Parks
Executive VP & CFO

Thanks, Stephen. Thanks for the question. Let's talk about Composites first, and then maybe we can talk about price/mix across the business. You're correct, Composites has driven another very strong quarter, delivering well.

And I think before answering the specific question, what I would say is this is really the result of what we've been talking about for a couple of years, which is driving the business more towards higher-value solutions for our customers. And actually, kind of with the environment that we're operating in today, which is a pretty high-capacity utilization environment, we're able to focus a bit more on those higher-value applications because the market demand is so strong. As a result, what you're seeing is this mix benefit, which is as we deliver more of the higher-value solutions, that's falling out in our mix calculation and you're seeing shifting to those higher-value applications and therefore, driving positive mix.

I think that's something that's here to stay. I mean I think that as we continue to shift the business, that's really going to be a part of what we are continuing to focus on. You've seen it for the last couple of quarters, and we would expect that to continue.

On the price side, you're correct on that as well that we do have about 2/3 of our Composites business which is tied to contracts, and then I would say about 1/3 of it in general is tied to spot pricing. As we moved into 2021, when many of the contracts were in the process of being negotiated because some of them are annual contracts, we were moving into a strong demand environment, and that allowed us to build in some good pricing dynamics within those contracts. And then as we came into 2021, the situation even strengthened further.

So what I would tell you is that on the pricing side, we are seeing the carry-through of positive contract price negotiations that came through from our negotiations last year. We are also seeing equivalently good pricing on a spot basis. And I think that comes from the fact that we are benefiting from what we call our local production for local demand environment, where within this environment, customers are really looking for good quality solutions that are readily and closely achievable geographically. So I think that benefit from pricing comes both from the contract negotiations as well as from the spot pricing.

Brian D. Chambers
President, CEO & Chairman of the Board

And then maybe -- Stephen, this is Brian. I'll add. I guess if we look at price/cost across the enterprise, I think if you go through our third quarter results, you'd see we've probably maintained about positive $50 million price/cost mix across the enterprise. That's in each one of the businesses. And that, I think, is really attributable -- I believe our team has just done a fantastic job of seeing these inflation trends as they have emerged throughout the year. We've recognized the impact, and we've translated this into action, which delivered another positive price/cost mix for the enterprise and in each one of the businesses.

So in this inflationary environment, that's what we're going to continue to need to do as we continue to look forward in terms of the inflation headwinds that we're seeing in Q4 and that unfortunately, we think, will probably continue into the first part of 2022. So I think the teams are executing well in terms of identifying it, seeing it, getting this in pricing actions. And I think our price realization is reflective of the value of our products and services that we're bringing to our customers.

Operator

Our next question comes from Yves Bromehead with Exane BNP Paribas.

Yves Brian Felix Bromehead
Exane BNP Paribas, Research Division

I just wanted to get a bit of a better understanding on the inflation, especially on the energy side with what's happening in gas and other type of inputs in the U.S. and Europe. Could you maybe help us to understand what's the sort of Owens Corning exposure to that and if there's any hedging strategy? And if so, if that's more into Europe or more into the U.S.? Any color on that would be appreciated.

Kenneth S. Parks
Executive VP & CFO

Yes. Thanks, Yves. Great question. I mean I think we're all dealing with it. I think we're all talking through it. And I think at Owens Corning, we are obviously actively and proactively attempting to address it through what Brian just talked about, which is constantly looking ahead at what we see in the inflation area and making sure that we have the appropriate pricing mechanisms in place to offset that.

On energy specifically, the way that we are seeing it both -- I would say, primarily in Europe and North America. And we saw the third quarter, if I were to think about the first 3 quarters of the year, the third quarter, not surprisingly, was kind of where we have seen so far the most energy inflation impact. And we're kind of expecting that environment to continue through the fourth quarter. So second half of this year, for energy inflation is actually where we expect to see the biggest impact versus the first couple of quarters.

The way that we do manage it is we do have some hedges in place. Our hedges are primarily in Europe for energy. And I would say in Europe overall, we probably hedge a bit more than -- or probably the majority of the hedging -- or the anticipated energy needs, we don't hedge in the United States because we don't see that as quite a volatile market typically, but we do hedge in Europe, and it is kind of at the majority of the spend we are hedging.

Operator

Our next question comes from Phil Ng with Jefferies.

Philip H. Ng
Jefferies LLC, Research Division

Congrats on a really impressive quarter in tough backdrop. I guess with growth flattening out a little bit and lapping tougher comps in roofing, there is this fear that you'll see a big correction in your performance next year. Your comments on Roofing sounds pretty benign here, but any color on channel inventory and when you see that normalizing? Is products still on allocation? And just how are you thinking about growth when you look out to 2022?

Brian D. Chambers
President, CEO & Chairman of the Board

Yes. Thanks, Phil, for your comments. I think overall, again, I would characterize roofing demand is remaining very strong. I think when we think about some of the tough comps we're lapping, I think another comment I'd make about our Q4 guide, though -- that even though we think we're going to be stepping down quite a bit, mid-teens versus last year. To put that in perspective, last year was a historic high. And you really had the influence of really strong market demand, a lot of inventory that was trying to be rebuilt and strong storms and an unseasonably warm winter weather. So I think when we talk about a guide stepping down from that, if I just look back at fourth quarter averages for 2017, '18 and '19, it averages out about 28 million squares. So our guide in fourth quarter is about a mid-teens increase versus that kind of historic average.

So I think while the guide is down on a comp basis, the strength overall in the market for Roofing, we see continuing through Q4. And frankly, we think that's going to be setting up for a strong start to 2022 when we look at some of the fundamentals. We still see very strong contractor backlogs in our contractor network that we work with very closely. We continue to see investments in home remodeling and repairs. As consumers and homeowners continue to improve their home and their living spaces, we see that trend continuing. We see storm demand kind of comping down year-over-year, and you would see that in some of the market ARMA numbers like in the Midwest, Rocky Mountains. But in the Southeast, Southwest, other parts where storms have come through recently, that's going to be a carryover that moves into 2022.

And then as you said, I would characterize -- demand for our product is still very, very strong. We are still producing and shipping everything we can make. I think distributor inventory levels are starting to get a little better depending on geography. I think it is very now getting to a regional story where inventory levels are getting a little better. But I would say, overall, our inventory levels are very lean in our manufacturing facilities. The demand for our products are very strong. And I think in distribution, I think that inventory levels are being managed, but I think distributors are probably being more selective now on the products, brands, colors they're buying as we close out the year.

So I think some of that, more distributors kind of prioritizing inventory levels and making product line choices, are going to come through in some of the manufacturing shipments. But again, I think this is against a backdrop of strong repair and remodeling, good storm demand, still a good finish to the fourth quarter and then, we think, a good carryover that sets us up for a very good start to 2022.

And again, we're seeing good price realization in the business against the inflation we're seeing. We'll continue to monitor that, but we feel good given the demand environment, given the strength of our product line, that we'll be able to continue to react to any increases in inflation as we go forward into '22.

Operator

Our next question comes from Deepa Raghavan with Wells Fargo Securities.

Deepa Bhargavi Narasimhapuram Raghavan
Wells Fargo Securities, LLC, Research Division

Let me tag along that, Roofing, and just ask you if you have any thoughts on the ARMA data that came out that was down 10% in the quarter. Your Roofing pretty -- held up pretty nicely. That's one part of the question.

Second, can you talk to any benefit from Hurricane Ida and if you were able to quantify -- I do appreciate that it translates to revenues later on, but you're probably seeing some orders coming in based off of that. So that's my first question.

Brian D. Chambers
President, CEO & Chairman of the Board

Okay. Sure. Thanks. I think with regard to the third quarter performance, yes, ARMA down 10%. Again, some of this is a bit of a comp for the market and for us. I think in the third quarter, we did see in Roofing a little bit of variation regionally, with some regions that saw some declines. I think tied to that -- my comments around kind of some lower storm demand and lower storm volumes on a year-over-year basis, I think we've seen that in kind of the Midwest region, some of the Rocky Mountain region in that space.

I think we've also seen some supply chain disruptions. We've been able to minimize that, but we've seen transportation bottlenecks. We saw a major transportation carrier that transports asphalt materials that exited and went out of business in the quarter that I know impacted us and, we think, would have impacted others. We continue to hear about mats supply tightness, and we see that in our own business and our own order book. So I think there are some of those things that are impacting some of the manufacturing shipments relative to, again, a very strong market environment.

I think for our performance, a couple of aspects to that. One is we were comping over last year. We would have lost a little bit of share. We talked about that last year that we think other manufacturers had a little more inventory in Q3 shipped from last year that did not occur this year. So we were comping to that. And we expected, and I said at the time last year, that we thought this was going to be just a bit of a timing issue on orders, and we certainly saw that come through our order book this year as we maintain our share positions and good contract relationships. So I think we benefit from that.

I think second thing is we benefit from a vertically integrated supply chain. So we produce our own fibers, mat. We process our own asphalt so -- on many of our sites. So I think we have a bit of an advantage there in terms of our vertically integrated supply chain that kind of came through in our ability to produce and ship in the quarter. So again, that, I think, was more on Q3 on the market and our performance against the backdrop of good demand.

I think in terms of the impact of Ida, we certainly have seen that repair work beginning to take place. It was a very sizable storm. I've seen some estimates out there of an impact of maybe 2 million to 3 million squares in total. We would think it's probably more to the high side of that. But because of the size and scale of the repairs, we'd expect to see the majority of this demand kind of get pushed into next year. So we -- the work is beginning, but I think that's going to be a continuation into the first half of 2022 to get that work complete.

Operator

Our next question comes from Kathryn Thompson with Thompson Research Group.

Brian Biros
Thompson Research Group, LLC

This is actually Brian Biros on for Kathryn. Can you talk about how you came to the decision around looking at the alternatives for the glass asset and, I guess, if this is just driven by market position or certain metrics like margins or ROI? And I guess maybe why now for this decision, like did something happen to trigger the decision now versus decisions from a year or 2 ago?

Brian D. Chambers
President, CEO & Chairman of the Board

Sure. Thanks for the question. It is absolutely a market positioning decision. So I think over the past few years, you've heard me talk a lot about our focus within Composites to build out a very flexible, cost-effective manufacturing network investments in automation. We've made investments in process controls and productivity, and we see that coming through in our results that Ken talked about.

I think the other aspect commercially is we've been focused on growing in higher-value material solutions, where we can differentiate with our innovation and specification work, and we've talked about areas of focus for us in Composites around building and construction applications, renewable energy infrastructure. These are applications that we're doing very well and continue to invest and grow.

So in looking at our DUCS product line, and this is a chopped fiber that gets mixed with resins and used in automotive applications and electronics, small appliances. It's a good business for us, but we don't believe that we have a market-leading position in the business, and it would require significant investment to build that. So it's not a reflection of our talent or teams or our product positions or manufacturing capabilities. It's really a strategic decision we've made to focus our investments in other areas of Composites where we see higher growth opportunities for us. And that fits within our enterprise strategy to build and expand our building and construction material offering.

So we made the decision. We thought now is the right time to do it. Our evaluation and process will really focus on either divesting the business or repurposing those manufacturing assets to produce other composite products that we see fitting into our strategy going forward and give us better growth and margin opportunity going forward. So we'll be working through that process over the next several months, but that was really a driver of being -- just evaluating where we're at as a market leader.

And I'd say -- I'd probably add, that's consistent with kind of how we look at things continuously within the company. And we assess our product positions. We assess our market positions. We assess the investments to build and grow and make these choices. And we just felt now was the right time to make this decision around the DUCS product line and moving forward with the Composites and the company strategy.

Operator

Our next question comes from Garik Shmois with Loop Capital.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

Great. You announced another Insulation price increase as you mentioned for December. Just wondering if you could speak to your confidence in pushing even more pricing next year, just given the number and magnitude of price increases in Insulation you had secured this year.

Brian D. Chambers
President, CEO & Chairman of the Board

Yes. Thanks, Garik. I mean, as we've been talking about, we are certainly operating in an inflationary environment, and we continue to monitor these inflation headwinds and evaluate impact and make these decisions in terms of how we offset these increasing costs, that, and looking at the Insulation business and our other businesses is a pretty consistent process. But in Insulation, that led us to a need to announce another increase first part of December, which will come out.

We think it is needed relative to the input costs we're carrying. And we think that given the demand strength and the market conditions that are going forward, we believe it's the right time to announce this to give our customers enough visibility so that they can start building that into their plans for '22 as they sell and service builders in the market.

So I think the market in Insulation remains very strong. We continue to see good strength in the housing construction market. We think that's going to continue. We think our demand for our products are going to continue to service the growing housing construction marketplace. So we feel like we've delivered good realization of the previously announced price increases throughout this year and feel, given the demand environment, given the strength of our product offering, that -- we feel like we're in a good position to see realization from this increase.

Operator

Our next question comes from Michael Rehaut with JPMorgan.

Michael Jason Rehaut
JPMorgan Chase & Co, Research Division

I was hoping if you could give us a sense across each of your businesses, kind of an update on where inventory levels are in their respective channels. Obviously, through most of this year, inventory has been pretty tight, and many product categories have been on allocation, I believe, in particular, insulation. If you could give us any update in terms of, again, just where inventory levels are, if you're still rebuilding them, if they've started to increase on their own. We've heard, for example, in Roofing that inventory started to come up in the channel. And how are lead times and if anything is still on allocation?

Brian D. Chambers
President, CEO & Chairman of the Board

Yes. Thanks, Mike. I mean my general question is going to be we continue to see very lean inventories and low inventories across many of our customers and most of our product lines. And I then would add that inventory levels that we carry as a company across most of our product lines are also very lean historically. So I think we are in process of just getting started about seeing some rebuild in both our inventory levels and distribution level inventory level. So I think that would be a very broad statement.

I think within -- if I just kind of walk through the businesses. Within Roofing, you talked about, our inventory levels in our roofing materials remains very lean. We continue to produce as much as we can, and we're shipping everything we can produce then at that point to service the customer demand. So I think broadly speaking, in the roofing markets and channels, we're probably seeing a little bit of inventory build, but again, I think it's very geographic specific relative to end market and out-the-door sales, and it's very specific to product lines and colors. So I think certain product lines, certain brands, certain colors are probably starting to see a little bit of rebuild. We are not seeing that in our product line.

I think in Insulation and res, again, I think we continue to see -- we run with very lean inventories. So any kind of supply disruption kind of comes through in our ability to service our customers, unfortunately. But we are committed to continuing to produce as much as we can. We've talked about some of the capacity adds that we brought on and the changes we're making going into next year. So we continue to try to produce more quarter-over-quarter to service that business, but our inventory levels remain lean. And we think customer channel inventories for the most part for res insulation products are also historically low.

I think on the technical insulation side, again, a mixed bag, but generally, the main theme would be the same, which is out-the-door sales strong, inventory levels light and certainly inventory levels for us, very low historically.

And I think then moving to Composites, maybe I'll have Ken kind of comment on the Composites side.

Kenneth S. Parks
Executive VP & CFO

Sure. Yes. And the story is not going to be that much different. In fact, what I would tell you is that as we -- if you think about year-over-year, as we kind of move from the second quarter to the third quarter of last year on the Composite side of the portfolio, we moved into a quarter with a pretty good amount of inventory on hand. And then the end market started to step up pretty significantly in the second half of 2020. So what we saw is actually the ability to produce and deliver all of that product as well as to deliver product from on-hand inventory.

Then as we move through 2021, we're kind of working at a pretty high capacity utilization level with good production levels and delivering products. But we are in the same situation as Brian is talking about on Roofing and Insulation, which is we're pretty much delivering everything that we are producing within a quarter. And so our inventory levels remain relatively low. And I would say that overall, Composites inventory levels at the end of the third quarter are probably actually -- still continue to be net lower than they were at the end of 2020. So we still have the ability as we move through 2020 -- the rest of 2021 into 2022 to have the opportunity to kind of start to replenish those inventory levels, but running pretty lean still just like we are in Insulation and Roofing.

Operator

Our next question comes from Truman Patterson with Wolfe Research.

Truman Andrew Patterson
Wolfe Research, LLC

Just wanted to touch a little bit further on the U.S. residential insulation business. It sounds like you all are still running at full capacity. Inventories are pretty lean. But you all have some moving parts with your capacity coming online and off-line over the next year or 2. Builders have a pretty large backlog of homes. And assuming that starts continue moving north in 2022, just wanting to understand [your overall] capacity to actually service some of that demand?

Brian D. Chambers
President, CEO & Chairman of the Board

Yes. Thanks for the question, Truman. I think we feel overall in a very good spot to service the demand environment that we have in front of us today and with some of the consensus estimates for housing starts are as we go into 2022. We've said the moves we are making, we continue to focus on just building a very flexible, cost-efficient network. That gives us the opportunity to continue to bring additional capacity to the market cost effectively but also gives us the flexibility in any kind of cycle turns to operate a very cost-efficient network. So I think we continue to balance that.

I think all the moves we've made though, as I've talked about, we're going to produce significantly more insulation volumes this year than last. We expect to be able to produce more insulation volumes next year than this year with the capacity moves and changes. And all those are moving forward in line with what I talked about last quarter in terms of -- we've got the Eloy manufacturing facility that we expect to bring up here in the first quarter. We've got the work with Nephi coming up kind of third quarter-ish next year. So we feel like we're in a good spot with those capacity adds coming on. We are in a very good spot on our productivity and process improvements and investments in automation that continues to give us more throughput through our existing footprint, which is a key part of our strategy. So I think all of that work, I think, kind of services a market in this up to 1.6 million housing starts environment we're operating in today.

I think we also do have the ability to bring on some step change capacity adds, that we could do that very cost effectively. We can do that very timely. I think what we would need to see is probably a step change, though, in housing starts beyond the 1.6 million as we think about additional capacity. But right now, I think we continue to feel good about our production increases quarter-over-quarter, and we think that is going to continue going forward. So we feel like we can get caught up with servicing this kind of market environment, get back to more traditional lead times in our product categories. But again, this is something we assess continuously. And if we feel like we're in a position where we need to bring on some additional capacity, we certainly have the leverage to pull to do that.

Kenneth S. Parks
Executive VP & CFO

And I think I would just add to that, I think it's worth making the point, after we made the announcement about Santa Clara in the last call, that the team and the local employees of Santa Clara have done an incredible job at continuing to operate the business. As we all know, decisions like this are tough, and they're tough on the people that are going to ultimately be impacted. But it's a great opportunity to give a shout-out to the team for the good work that they continue to do there.

Operator

Our next question comes from Keith Hughes with Truist.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Question in Roofing. You called out mix as a negative in the third and heading into the fourth, and we talked a lot about mix in this call. Can you just give some more details, specifically what's happening there that's turning into a headwind?

Brian D. Chambers
President, CEO & Chairman of the Board

Sure, Keith. Thanks for the question. The mix impact we saw in Q3 is really within our components segment. So as we've talked about in the past, we continue to grow and build around the roofing components that go into the system to build out the roof. So these are going to be underlayments and ventilation products and hip and ridge and starter, all those pieces and parts that go into installing the roof.

And in our components business, we had 2 particular product lines, hip and ridge and starter, that are more attributed to our Owens Corning shingle. So the rest of our components offering can be used under other shingle manufacturers or other types of roofing products. Hip and ridge and starter is a little bit more specific to matching with the Owens Corning product line.

So I think in the first part of the year, we saw a distribution just buying a lot of both shingles and component materials to kind of try to service the market. I think what we're seeing in Q3, what we saw in Q3 was, again, distributors just kind of rebalancing inventory levels of our hip and ridge and starter products relative to our shingle inventories. And we saw that create a bit of a mixed headwind with those inventory decisions. And we would expect that, that is going to be kind of similar next -- in Q4, if we look at the year-over-year comps in terms of how much hip and ridge and starter was bought last year in the fourth quarter versus what we think is going to be bought this year relative to our shingle shipments.

So I don't think there's any -- there's no structural issues around our mix or around our components offering. I think it's just a bit of a timing issue and a rebalancing of our hip and ridge and starter products relative to our shingle products and the distribution inventory that impacted Q3 and we expect to impact in Q4.

Operator

Our final question today comes from Susan Maklari with Goldman Sachs.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

As you look across the 3 segments and you think about 2022, can you talk about where you see the best opportunity to kind of expand profitability? And any areas that we should think about potentially kind of staying flat or maybe even down a bit next year?

Brian D. Chambers
President, CEO & Chairman of the Board

Yes. Thanks, Susan. I think, again, we'll get more into our '22 outlook when we get on our next quarterly call. But I'd say overall, we feel like we're set up to start 2022 in a very strong position across the enterprise. We've talked about roofing demand and the strength of the markets and some carryovers that we think move into '22. We talked about insulation on the res side, housing starts continuing to stay strong. On the technical and global insulation businesses, we see growing commercial demand and project work that's increasing volumes, and we're starting to get some good price realization. And then in Composites, I think our focus in these higher-value kind of multi-material systems and solutions around building construction, renewable energy, infrastructure, I think we see great secular growth trends that impact housing, that impact the need for more sustainable solutions, a focus on energy efficiency, a focus on infrastructure investments. So I think all of those kind of big secular trends, I think, set up very well relative to our product offering today and where we're investing to grow going forward.

So I think right now, we'd say we're set up as a company very well to continue to be able to grow our revenues and continue to generate really good earnings and cash flow. So I think we're pretty optimistic as we sit here today in terms of how we're positioned in the company going forward and the market trends and key secular growth trends we're seeing, that's set up very well for us.

Operator

This concludes our question-and-answer session. I'd like to hand the call back over to Brian Chambers for any closing remarks.

Brian D. Chambers
President, CEO & Chairman of the Board

Well, thank you very much, and thanks, everyone, for your time today and your questions. In closing, I'd say we're very pleased with our execution and performance over the first 3 quarters of the year. We look forward to building on this momentum as we close 2021 strong. And then we hope to connect with many of you again in 2 weeks at our virtual Investor Day event on November 10. So until then, I hope you and your families remain healthy and safe. Thank you for joining us today.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.