S&P Global
Market Intelligence

Owens Corning NYSE:OC

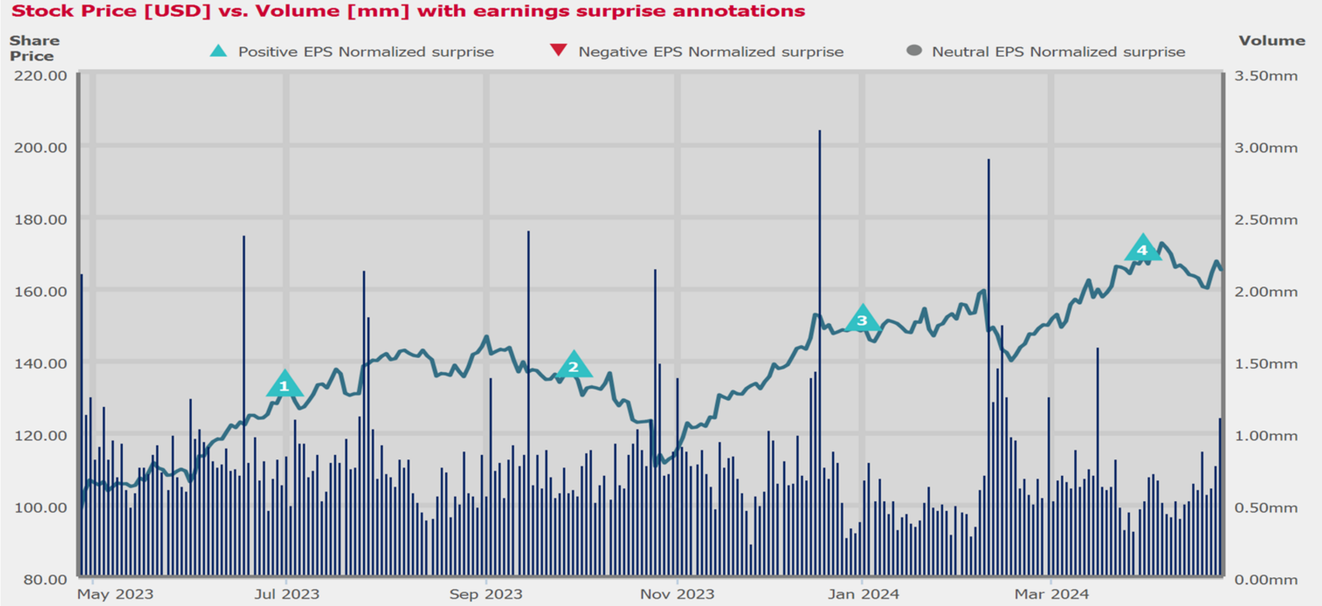
FQ1 2024 Earnings Call Transcripts

Wednesday, April 24, 2024 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-		-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE	CONSENSUS	CONSENSUS
EPS Normalized	3.09	3.59	▲16.18	3.96	-	14.08	14.79
Revenue (mm)	2278.04	2300.00	▲0.96	2537.51	2563.00	9630.21	9853.49

Currency: USD
Consensus as of Apr-24-2024 12:22 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	3.25	3.85	▲1 18.46 %
FQ3 2023	3.86	4.15	▲2 7.51 %
FQ4 2023	2.86	3.21	▲3 12.24 %
FQ1 2024	3.09	3.59	▲4 16.18 %

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EXECUTIVES

Amber Wohlfarth
Vice President of Corporate Affairs & Investor Relations

Brian D. Chambers
President, CEO & Chair

Todd W. Fister
Executive VP & CFO

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Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Hello all, and welcome to Owens Corning's First Quarter 2024 Earnings Call. My name is Lydia, and I will be your operator today. [Operator Instructions]

I'll now hand you over to Amber Wohlfarth, Vice President of Investor Relations, to begin. Please go ahead when you're ready.

Amber Wohlfarth
Vice President of Corporate Affairs & Investor Relations

Good morning. Thank you for taking the time to join us for today's conference call and review of our business results for the first quarter of 2024. Joining us today are Brian Chambers, Owens Corning's Chair and Chief Executive Officer; and Todd Fister, our Chief Financial Officer.

Following our presentation this morning, we will open this 1-hour call to your questions. In order to accommodate as many call participants as possible, please limit yourselves to one question only. Earlier this morning, we issued a news release and filed a 10-Q that detailed our financial results for the first quarter 2024.

For the purposes of our discussion today, we have prepared presentation slides summarizing 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 homepage. A transcript and recording of this call and the supporting slides will be available on our website for future reference. Please reference Slide 2 where we offer a couple of reminders.

First, today's remarks will include forward-looking statements that 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 more detail. Second, the presentation slides in today's remarks contain non-GAAP financial measures. Explanations and reconciliations of non-GAAP to GAAP measures may be found in our earnings press release and presentation available on the Investors section of our website, owenscorning.com. 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 & Chair

Thank you, Amber. Good morning, everyone, and thank you for joining us. During today's call, I will walk through highlights of our first quarter performance and provide an update on the Masonite acquisition and the review of strategic alternatives for our glass reinforcements business that we announced earlier in the year. After that, Todd will discuss our first quarter financial results in more detail, and I will come back to share our outlook for the second quarter.

Owens Corning delivered another great quarter to start the year, highlighting our strong execution and broad capability to deliver robust results within a very dynamic market environment. Our results continue to reflect the strength of our market-leading positions and enterprise focus to capitalize on key secular trends that accelerate our growth and strengthen the earnings power of the company.

Now I will begin a review of the quarter, as always, with our safety performance. At Owens Corning, our commitment to safety is unconditional. As part of this commitment, we continuously renew and refresh our approach to safety as we strive to eliminate injuries and work safer together. Through this work, I'm pleased to report that our recordable incident rate in the first quarter was 0.31, a more than 50% improvement from the same period last year and our best start to the year in over 2 decades.

Looking now at our first quarter financial performance. We continue to execute our key strategic and operating priorities resulting in strong earnings to start the year. The company delivered an adjusted EBIT margin of 19% and an adjusted EBITDA margin of 25%, with net sales that were in line with prior year. This earnings performance marks the 15th consecutive quarter of mid-teens or better adjusted EBIT margins and 20% or better adjusted EBITDA margins for Owens Corning as we continue to execute our enterprise strategy leading to higher, more consistent earnings.

Our top line and margin performance generated adjusted diluted earnings per share of $3.59 in the first quarter. And consistent with our capital allocation strategy, the company returned $182 million to shareholders through dividends and share repurchases during the quarter. Market conditions for our North American residential and commercial businesses remain favorable to start the year, while our European businesses continue to face more challenging conditions. Within this dynamic environment, all 3 of our segments performed well, driven by our team's strong execution and highly valued product offering.

In Roofing, strong margins during the quarter were driven by continued good pricing and favorable product mix within shingles and components as contractors continue to recognize the value of selling our complete Roofing system.

In Insulation, we continue to see solid demand in North America for both our residential and technical insulation products, while Europe continued to be impacted by a weak macro environment. Positive price cost and favorable mix helped fuel our results.

And in Composites, while overall revenues were down as expected, demand trends within our glass reinforcements business have begun to stabilize in most of our end markets. Volumes in our nonwovens business remained solid in the first quarter due to the strength of the roofing market and continued demand for nonresidential building products.

Across the enterprise, we are leveraging our brand leadership, product innovations, focus on sustainable solutions and channel and customer knowledge to differentiate Owens Corning, strategically positioning us to continue driving results and delivering further growth.

Let me share a few of our latest updates on product innovation and sustainability. During the first quarter, we launched 13 new or improved products. In our Roofing business, we launched a new weather-resistant barrier house wrap under the PINKWRAP brand. We are excited about this new product and believe the combination of our manufacturing capabilities, service platforms and existing relationships with contractors and distributors, put us in a strong position to create additional value for our customers and grow this product category.

I would also like to share an update on our sustainability progress. In March, we issued our 18th Annual Sustainability Report. This report reflects the global impact of our people and our products in the many ways we work to make the world a better place. We are firm believers that sustainability is not just good for the environment. It's a good business. We are proud of the progress we've made toward our long-term goals. For example, waste to landfill has been a challenge for us over the years. But in 2023, we had a breakthrough, achieving a 14% absolute reduction compared to 2022.

Also highlighted in the report, in 2023, 59% of the company's revenue came from products that help customers save energy and lower emissions, with 14 of our products certified as being made with 100% renewable electricity. These are products that our customers want and need and our ability to deliver in a sustainable way creates a competitive advantage. In addition, we achieved a 28% reduction in Scope 1 and 2 emissions from a 2018 baseline, putting us more than halfway toward our goal of 50% by 2030.

To further reduce our emissions, I'm pleased to share that we are converting our Hällekis, Sweden insulation plant from coke-fired furnaces to electric melting. This will help reduce carbon emissions and lower the embodied carbon in the products produce, which brings us closer to reaching the greenhouse gas targets we have set for ourselves. This also strengthens our market-leading position and improves our manufacturing efficiency while ensuring we continue to meet our valued European customers' expectations.

I'm very proud of the commitment by our teams to deliver on our mission to build a sustainable future through material innovation, and the progress we continue to make in areas such as circular economy, waste reduction and employee safety. I encourage you to review our sustainability report if you haven't already done so.

Before turning it over to Todd, I want to provide an update on the 2 transformational moves we announced in early February. While we are very pleased with our strong and consistent financial results, we are excited about the opportunity to better align our business units with our overall enterprise strategy to focus on building and construction solutions and to create new opportunities for Owens Corning.

Let me start with the Masonite acquisition. As we shared during our call at the time of the acquisition announcement, the addition of Masonite helps us expand our leadership position in the branded residential building product space and as a product category that complements our current interior and exterior residential offerings. The acquisition also creates a scalable new growth platform, expanding our total addressable market to $75 billion.

Lastly, it enhances our attractive financial profile by growing our revenue and earnings, lowering ongoing capital intensity and increasing free cash flow generation. The proposed transaction has been well received by our customers. Our strong distribution partnerships, combined with our best-in-class contractor engagement model, position us well for further success within this new product category. Since the announcement, we've been working closely together on integration planning and regulatory procedures and continue to work toward a midyear close of the acquisition.

We look forward to welcoming the Masonite team to Owens Corning. Adding this market-leading provider of interior and exterior doors strategically fits into our company, expanding our offering of branded residential building material products with customers, channels and markets we know very well, while providing several opportunities to improve operating efficiencies as a combined entity, leading to cost synergies. Owens Corning is a recognized leader in the building and construction material space, and we believe that this acquisition strengthens our position in the near term while creating exciting opportunities for the future.

In February, we also announced the strategic review of our glass reinforcements business, which is part of our Composite segment. While the business is a market leader in several regions and applications, the industrial nature of the applications and customers does not fit with our strategic choice to invest in and grow our residential and commercial building materials offering. Given our disciplined capital allocation approach and best owner operating philosophy, we have initiated this process and engaged Morgan Stanley as our financial adviser. We will share more about our progress as new information is available.

In closing, I want to thank our global teams for their dedication and commitment to consistently delivering for our customers and shareholders. Our employees are the driving force that propel our company forward to continue executing on our growth strategy, while maintaining our high standards for delivering strong results and winning the right way.

With that view of our performance and strategic initiatives, I will now turn it over to Todd to discuss our first quarter financial results in more detail. Todd?

Todd W. Fister
Executive VP & CFO

Thank you, Brian, and good morning, everyone. As Brian mentioned, we had a great start to the year. Our performance in the quarter demonstrates the value being generated by our enterprise strategy and operating model.

I'd now like to turn to Slide 5 to discuss the results for the quarter. We started the year growing enterprise earnings and margins with adjusted EBIT of $438 million, which was significantly above last year. Adjusted EBITDA was $565 million. Adjusted EBIT margins were 19%, and adjusted EBITDA margins were 25%.

Adjusted earnings for the first quarter were $316 million or $3.59 per diluted share, compared to $257 million or $2.80 per diluted share in the same quarter prior year.

Slide 6 shows the reconciliation between our adjusted and reported EBIT. For the quarter, adjusting items totaled approximately $35 million and are excluded from our adjusted EBIT. They primarily include $18 million of Masonite acquisition-related costs and $14 million of charges associated with our ongoing cost optimization and product line rationalization actions.

Turning to Slide 7, and moving on to our cash generation and capital deployment during the first quarter of 2024. Driven by our strong operational execution, we improved free cash flow for the quarter compared to the prior year. Free cash flow for the quarter was a net outflow of $128 million compared to a net outflow of $322 million in the same quarter last year, which was primarily driven by disciplined working capital management. Capital additions for the quarter were $152 million, down $6 million from the same quarter of prior year. Our return on capital was 17% for the 12 months ending March 31, 2024, using a simplified calculation. Additional details can be found in the table in our earnings presentation.

At quarter end, the company had liquidity of approximately $5.6 billion, consisting of $1.3 billion of cash and $4.3 billion of availability on our bank debt facilities, comprised of $3 billion of newly committed short-term financing related to our planned acquisition of Masonite, a $1 billion revolving credit facility, which was amended during the quarter, and a $300 million receivable securitization facility, which also was amended during the quarter.

During the first quarter of 2024, we returned $182 million to shareholders through share repurchases and dividends. We repurchased common stock for $130 million and paid a cash dividend totaling $52 million. In February, the Board declared a cash dividend of $0.60 per share. Our capital allocation strategy remains unchanged. We are focused on generating strong free cash flow, returning approximately 50% to investors over time and maintaining an investment-grade balance sheet, while executing on our business strategies to grow the company.

Now turning to Slide 8. I'll provide additional details on our segment results. The Roofing business started the year by delivering a great first quarter with revenue growth of 7% and year-over-year margin expansion. Sales in the quarter were $957 million. Revenues were positively impacted by carryover price realization and favorable mix within both shingles and components. Volumes for the quarter were relatively flat, with growth in shingles and roofing components largely offset by the impact of the strategic decision to exit our protective packaging business.

The U.S. asphalt shingle market on a volume basis was up 27% in the quarter compared to the prior year, driven by continued strength of the market and carryover storm demand. Our U.S. shingle volume growth trailed the market primarily due to our outperformance versus the market in Q1 2023 as distributors work to rebuild inventory of OC products.

EBIT was $286 million for the quarter, up $77 million versus last year. The increase was primarily due to positive price and favorable mix. Manufacturing costs were also favorable in the quarter as we produced more laminate shingles in the first quarter versus last year. Lower delivery cost was offset by cost inflation. All of this resulted in EBIT margins of 30% and EBITDA margins of 31%.

Now please turn to Slide 9 for a summary of our Insulation business. The Insulation business started the year with another solid quarter of greater than 20% EBITDA margins. Q1 revenues were $904 million, a 2% decrease from the first quarter last year. In technical and global, revenue was down slightly year-over-year. Positive price and favorable mix, primarily in Europe, largely offset lower volumes tied to the overall weaker macro environment in Europe.

North American residential Insulation revenue was down modestly on slightly lower volumes. Insulation EBIT for the first quarter was $161 million, up $5 million compared to prior year. The impact of positive price and favorable delivery costs more than offset the impact of lower volumes and slightly higher manufacturing costs. Overall, Insulation delivered EBIT margins of 18% and EBITDA margins of 23% in the first quarter.

Slide 10 provides an overview of our Composites business. In the first quarter, the Composites business performed well relative to the softer macro environment. Sales for the quarter were $523 million, down 11% compared to prior year. The decreased sales resulted primarily from lower glass reinforcement volumes and lower price as we continue to see spot price pressure and lower contract pricing. While overall revenues were down, we continue to see good performance in our nonwovens business.

EBIT for the quarter was $46 million, down $3 million from prior year. Lower selling prices and higher production downtime from lower demand as well as higher start-up costs impacted EBIT in the quarter. Deflation for both delivery and input costs, primarily related to energy and favorable manufacturing costs nearly offset EBIT headwinds in the quarter. Overall, Composites delivered 9% EBIT margins and 17% EBITDA margins for the quarter.

Moving on to Slide 11. I will discuss our full year 2024 outlook for key financial items, all of which remain unchanged from our guidance provided in February and which exclude the impacts of acquisitions and divestitures, which have not yet been completed. General corporate expenses are expected to range between $240 million and $250 million. Interest expense is estimated to range between $70 million and $80 million.

Our 2024 effective tax rate is expected to be 24% to 26% of adjusted pretax earnings. Finally, capital additions are expected to be approximately $550 million, which is anticipated to be in line with depreciation and amortization.

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

Brian D. Chambers
President, CEO & Chair

Thank you, Todd. Our first quarter results continue to highlight our strong and consistent enterprise performance, driven by the capability of our team and the actions we have taken over the last several years to generate higher, more resilient earnings.

As we move through Q2, we expect North American building and construction markets to remain favorable, with good demand for our products in the near term. We continue to expect repair and remodeling activity, along with storm carryover to drive demand for our roofing products. In the U.S., ongoing demand for housing and low existing home inventory are creating a positive sentiment for single-family new construction.

Outside North America, we anticipate macroeconomic trends and geopolitical tensions will continue to result in slow global economic growth. Overall, for the company, we expect second quarter results to be similar to prior year with relatively flat sales and EBIT margins of approximately 20%.

Now consistent with prior calls, I'll provide a more detailed business-specific outlook for the second quarter. Starting with our Roofing business. We anticipate our revenue to be up low to mid-single digits. While we continue to see good demand across several regions of the country as we enter into peak roofing season, we expect ARMA market shipments to be down this quarter given the historical high volume shipped in Q2 of last year. As you may recall, high-storm activity in the first half of 2023 resulted in record manufacturing shipments in Q2 of last year. Due to the tough comp, we anticipate ARMA market shipments to be down low double digits for the second quarter in 2024, with demand for our shingles relatively flat.

For the business overall, we anticipate volume to be negative, primarily due to the exit of our protective packaging business. As a reminder, this business had approximately $100 million in revenue annually. We expect realization of the April price increase and favorable mix to more than offset the impact of lower volumes from the exit of protective packaging. Compared to Q2 of last year, we anticipate cost to be slightly inflationary. Overall, for Roofing, we anticipate EBIT margins in the low 30% range.

Moving on to our Insulation business. We expect revenues to be up low to mid-single digits, with higher volumes and price that is slightly positive. In technical and global, we expect revenue to be up modestly versus prior year, driven primarily by higher volumes across most of our business in North America, while Europe continues to be challenged by the overall market environment.

In our North American residential Insulation business, we anticipate volumes to be up versus prior year, with additional realization on the price increase that was implemented during the first quarter. For the overall Insulation business, we anticipate input materials to be inflationary for the second quarter, but expect to maintain a positive but narrowing price cost. Also in the quarter, we expect to incur some incremental costs as we evaluate potential manufacturing investments to upgrade and modernize our U.S. fiberglass plants. Given all this, we expect to generate EBIT margins for Insulation similar to Q2 last year.

And in Composites for the second quarter, we anticipate overall revenues to be down low double digits as we continue to see pressure on the glass reinforcements market versus prior year. While we expect volumes and spot price to continue to stabilize sequentially within our glass reinforcements business, we expect overall pricing to step down year-over-year, similar to what we saw in the first quarter with both contract pricing and spot prices lower than last year.

In addition, we will continue to be proactive in adjusting our production to demand. During the quarter, we expect the nonwovens business to continue to perform well with solid demand. For the second quarter, we expect EBIT margins in Composites to be high single digits, similar to Q1.

With that view of our businesses, I'll turn to a few enterprise items. Over the past few years, we have made several strategic choices and operational investments to sharpen our focus, increase our capabilities and consistently deliver higher, more resilient earnings. As we look at additional opportunities, we will continue to be disciplined operators, focusing on markets and product lines where we can build leading positions through our customer and channel knowledge, material science and innovation capabilities and manufacturing and process expertise.

We believe our acquisition of Masonite, a leading provider of interior and exterior doors and door systems, and the review of strategic alternatives for our glass reinforcements business are the latest examples of how we are using this disciplined approach to reshape and grow the company.

Moving forward, we remain committed to a balanced capital allocation strategy, focused on organic growth and acquisitions that support our strategic priorities and leverage our unique operating capabilities, while returning approximately 50% of free cash flow to shareholders over time, through our consistently increasing dividend and ongoing share repurchases.

Our team delivered another outstanding quarter to start 2024. As we move through the year, we will continue to stay focused on delivering value for our customers and shareholders, while making significant strides to further strengthen Owens Corning's position as a market leader in residential and commercial building materials.
With that, we would like to open the call up for questions.

Question and Answer

Operator

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

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

I'll ask my question on the Insulation business and pricing. You guided to additional price realization here in the second quarter. Is that, I guess, a reflection of sort of the prior price increases building? And if so, kind of where around the business? And maybe if you can comment on some of the additional price increase announcements you've made for later in Q2 in that segment.

Todd W. Fister
Executive VP & CFO

Thanks, Matt. I appreciate the question. Yes, let me give a little bit of color on what we're seeing in Q1, Q2 and then a bit on what we expect here in the back half. So you're exactly right. The impact that we're seeing in Q2 is still largely the increase that we announced late in 2023, that got pushed a bit in the market, and we started to see really take effect in the first quarter. And we expect that to continue to build as we get into the second quarter of the year.

We just announced in market an increase to take effect in June of 2024. There's really not a whole lot of that in the second quarter results. But we certainly could see some momentum in Q3 and Q4 off of that increase, assuming we see the market continue to be tight and really good demand conditions. So that's what we were expecting in Q2 and beyond. I appreciate the question.

Operator

Our next question comes from Stephen Kim of Evercore ISI.

Stephen Kim
Evercore ISI Institutional Equities, Research Division

I appreciate all the information thus far. I wanted to ask about the Roofing business. Obviously, the packaging exit was an offset to the bottom. I'm just trying to get a sense of how much that was in the quarter? Was it about $25 million as you thought or as we thought?

And then secondly, with respect to the Roofing performance relative to ARMA, you warned us that you were going to underperform the industry and that you would likely do better than the industry in the second quarter and that sounds like it's still your plan. My question relates to the geographic mix there. My recollection is that you guys have a pretty strong share in the Mountain States and more to the West and kind of weaker in the Northeast to Florida, kind of the East Coast. I want to make sure that, that's still true. And if there's been any sort of changes to your geographic market shares, that's worth calling out relative to that general understanding that in the past, your Mountain and West were stronger and your East was weaker.

Brian D. Chambers
President, CEO & Chair

Thanks, Stephen. On the packaging piece, yes, you're right. The $100 million ratably kind of is about $25 million a quarter. That was a pretty steady business, and that's what we saw in Q1, roughly that amount and would expect that over the next couple of quarters. We announced that in the third quarter of last year or so we're going to kind of see that kind of a headwind here over the next few quarters going forward.

And then on the ARMA piece, yes, I'd say overall, the year has started very consistent with what we thought. So bigger shipments in Q1 relative to fairly weak manufacturing shipments in Q1 of last year, where there's a little more conservative posture. So that stepped up quite a bit. And then as we move into Q2, a reminder, Q2 of last year was a historic high for ARMA manufacturing shipments. So we did expect that, that was going to step back because a lot of that was serviced through inventory that was being carried that we don't think repeats because of the strength of the market over the last few quarters. So we expected this kind of a step down.

And I would say just kind of cutting through a lot of the volatility, maybe just 2 big takeaways overall for the Roofing business because we have seen the last couple of quarters some volatility year-on-year, pretty unusual in terms of the magnitude of that. But through all of that volatility, we finished up 2023 with a really good Roofing market. The first quarter started strong in Roofing. Our first half guide is a strong market.

So I think cutting through kind of the quarter-to-quarter volatility, the underlying demand trends for R&R work for storm repair work, for new construction growth, we expect to maintain into the second quarter into the back half, and we think we're going to have a good Roofing market again this year.

I think the other big takeaway from that is that our performance quarter-to-quarter in terms of what we're producing and what we're shipping, we've just seen a continued steady increase in the amount of lam capacity that we can service the market. So relative to the market, that's why we've seen some volatility because our performance has stayed pretty steady. And demand for our product remains very strong. I think that's why you saw some outperformance in a couple of quarters. When the ARMA shipments slowed down, we were still shipping to service contractor demand and distributor demand. We're expecting that in Q2. Even though ARMA shipments are stepping back, we expect good performance, and we would expect to outperform this quarter. And I think that's the other familiar theme as we see going forward in terms of the demand for our products.

In terms of the geographic mix, I mean, you're roughly right. I'd say we've good share positions, West Coast, Rocky Mountains, Midwest. I think we've seen improving demand conditions for our products in the Southwest, Southeast quite a bit and along the East Coast. So I think we've been able to continue to grow our contractor base. We've been able to grow our business in those other markets, but nothing that I'd call out to your question is a significant share shift region to region, but I'd say a good improvement and some growth across all those other regions. But the strength for us sits in kind of Midwest, Rocky Mountains into that West Coast, where we see good demand today, we're going to see a good share performance in those regions.

Operator

The next question comes from Kathryn Thompson of Thompson Research Group.

Kathryn Ingram Thompson
Thompson Research Group, LLC

As part of your release today, Masonite also came out with selling their architectural business segment. Could you comment just on kind of how we should think about the divestiture of that business in relation to the upcoming sale? And then in your prepared commentary, you had talked about capitalizing on some key secular trends that are driving growth in the U.S. broadly. Could you talk on 3 of your segments, just to highlight a few products that are capitalizing on the secular trends?

Brian D. Chambers
President, CEO & Chair

Yes. Thanks, Kathryn. And yes, we did see the release from Masonite on the announcement for the architectural sales. So this is something that they have been working on and talking about for the last several quarters in terms of looking for alternatives for their architectural business. When we looked at the business, and we're in discussions with them, we knew that this was something that they were looking at hard at. Our view is that the value of the business is primarily in that residential space. That's how we place the value. That's where we see the opportunity for us to continue to grow inside the interior and exterior space around residential and that part of the business is going to be a great fit as we go forward.

So strategically, the architectural business was not something that was key for us. And then from a financial standpoint, valuation standpoint, it's a business that hasn't generated a lot of earnings. I think that's why they were looking for alternatives in that space to maybe get that to a home that would be a better fit. So from a valuation standpoint, we don't see that as a big impact and supported this move and this continued decision to look at alternatives.

So as we -- the close date on that, they're trying to get done here sometime in Q2, and then we'll pick up the business when we're through our closing process, but very consistent with what we expected, and we're very supportive of that decision.

In terms of the key secular trends, I'd say, broadly, we continue to look at a few key areas. One, there's this continual investment in housing and living spaces, particularly in North America, we see that housing in the U.S. market has been underbuilt for many years. We think that's going to be a continued trend. We think home renovation, repair and remodeling is going to be a big trend as millennials now coming to the age of buying homes.

So this fundamental need for additional living units, living spaces and upgrading those living spaces, particularly in North America, but we're also seeing that in Europe, we think that's a big secular trend for many years to come that feeds into our product offering, our Roofing business, Insulation, our future doors business that we have coming in. So I think we're really set up well as people continue to invest in either new housing or remodeling and renovation our product offering fits inside of them.

The other big trend I'd say is around sustainable building materials. In terms of recycling content as part of building materials, in terms of lower greenhouse gas emissions and clearly in my prepared comments we talked about as part of our sustainability report, about 60% of the revenues of our company now are generated from products that either reduce energy or have lower carbon emissions. And that's something that we think from a consumer trend aspect is going to be really, really important. As consumers make buying decisions on building material products, they're going to look for a sustainable footprint, a circular footprint. They're going to look for lower emissions. And we think our overall product offering fits into that very, very well.

So those are 2 big themes that we think play forward for us in really all the product categories we have for the next several years.

Operator

The next question comes from John Lovallo of UBS.

John Lovallo
UBS Investment Bank, Research Division

So it looks like you repurchased about $130 million of shares in the first quarter. The communication had been though, I think the capital allocation will be focused on sort of reducing debt to EBITDA to that low 2% to 3% target range. So I mean I guess the question is, as we move forward here into the second quarter into the back half, I mean, should we expect you to kind of back off on the repurchases? Or should we still think that you can continue as you've been doing?

Todd W. Fister
Executive VP & CFO

Sure. Thanks, John. Appreciate the question. So I'd say overall, we remain committed to the capital allocation framework that we've talked about for a number of years here, around a really balanced agenda of maintaining an investment-grade rating, maintaining debt in this 2 to 3x leverage area as well as returning approximately 50% of cash to shareholders over time, while we invest in the business. And that remains our focus. We have an ongoing share repurchase program. We've got authorization for a little over 8 million shares remaining from our Board on that program.

And to your point, we did act on that program at the start of this year. We have shared once we close the transaction, we are going to be focused on repaying the short-term bank debt that we take on as a part of the transaction. Nothing really has changed around our thinking on financing for the Masonite transaction in terms of financing approximately half of the original purchase price with permanent debt after we close.

But we would focus on getting to the low end of that 2 to 3x leverage as we think about our capital allocation priorities in the short run. But in the medium to long run, nothing at all has changed in our posture around our framework or our strategy. And in fact, we view both the Masonite acquisition and the divestiture -- potential divestiture of our glass reinforcements business as being positive in terms of our ability to return cash to shareholders.

Operator

Our next question comes from Susan Maklari of Goldman Sachs.

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

My question is on the more discretionary elements within roofing demand. Have you seen any changes there as rates have moved higher? Or any expectations of implications on that? And you're also seeing anything in terms of the pricing, the price elasticity in that category? And any plans for future price increases? Or how we should be thinking about that going forward?

Brian D. Chambers
President, CEO & Chair

Sorry, I didn't have a mic on, I apologize. On the roofing demand side...

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

Can you hear me?

Brian D. Chambers
President, CEO & Chair

Yes, I did. Yes, that was on my end, not yours.

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

Okay. You are never sure....

Brian D. Chambers
President, CEO & Chair

So on the roofing demand side -- on the elasticity on any kind of interest rates or anything like that, primarily, our Roofing business is more an R&R business. So the elasticity around interest rates, we really have not seen that play in our Roofing business because it's a needs-based purchase. If the roof is damaged or needs repair or replaced is generally done kind of -- and we haven't seen that kind of volatility through different economic cycles. Now some people may choose to repair parts of the roof, not replace all of it. But it's tough to put off that replacement because it's protecting the value of most people's largest investment around their home.

So we don't see a lot of interest rate movement variations that drive to demand. And then a small part of our business less than 20% is tied to new construction, which generally has been a little bit more interest rate sensitive. But it doesn't have a big play in there. So in terms of overall pricing as we go forward, we announced the April increase, that's in market. We're seeing good realization there.

In terms of future price increases, we look at pricing through the frame of inflationary trends, demand trends, and we make decisions on those 2 factors as we go forward. And we'll look at that through that in the Roofing business and across our company as we make any future pricing moves.

Operator

Our next question today comes from Mike Dahl of RBC Capital Markets.

Michael Glaser Dahl
RBC Capital Markets, Research Division

I'm going to stick with Roofing. Obviously, very strong performance from a profitability standpoint in 1Q and then even stronger in terms of the guide for the low 30s in EBIT margins for 2Q. You recently increased your long-term thoughts around where you could take that business. But I think this year, I still thought that maybe you'd be in kind of the high 20s, obviously the first half starting out 30. It seems like price is going through in the market. The volumes have been remarkably resilient. So how is -- what you're seeing changing at least in kind of a 2024 framework, how you see that potential margin profile as you kind of work through the year?

Brian D. Chambers
President, CEO & Chair

Yes. Thanks, Mike. I mean you've outlined all the things that we're seeing that has really been driving the Roofing performance, and the team just continues to do a great job in execution in terms of our contractor expansion and focus there to drive demand, in terms of our components growth and expansion, in terms of our manufacturing performance, our lam additions and lam mix moving up. So all of these things, I think, are contributing to a margin step-up in the business. A big part of that, we talked about in moving the long-term guide up approximately 500 basis points because we thought all of those were incredibly durable in terms of as we move the business forward.

I think on top of that, what we've seen here over the last several quarters now. So yes, this is the last 4 quarters, the business running at 30% or better operating margins. We're guiding to that in Q2. And I think the step up from there has been strong volumes in the market. So I think that contributes in a couple of ways. One is it's given us the ability to significantly shift up our lam mix and accelerate that, which gives us a better margin profile. It's accelerated our Roofing, components business because we get great attachment rates when we sell a square of shingles. We sell the accommodating starter and hip and ridge and underlayments and all of that is high-margin business.

So that volume growth that we're seeing inside a strong market also contributes to margin expansion for us with our components. And we're getting great operating leverage across the network and that's contributing. I think the other thing that's contributed is a very positive price cost. So we've been able to manage price, to your point, relative to any inflationary trends.

So in the near term, I'd say that we see these trends continuing forward into Q2, and I think continuing into the back half of the year. We expect to see strong markets continuing. We've got the price increase in place. We are starting to see some asphalt inflation come through. So I think we are going to see a little more inflationary trends as we move through Q2 and into the back half of the year, but we still feel good about our price cost mix there.

And then we expect to continue to produce more laminates as we have talked about over the last few quarters, we've invested in manufacturing capability to increase our laminate production to service our customers. That's an important part of us servicing our customers, growing with our contractor base. It also gives us a nice margin profile of that part of the business.

So I think all those are contributing to the strength of the margin performance over the last few quarters, and I'd see that continuing here in Q2 and into the back half in the near term.

Operator

Our next question comes from Keith Hughes of Truist.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Just wanted to dig into your statement in the insulation guidance about evaluating manufacturing investments. Are you talking about capacity adds or more operational-type investments?

Todd W. Fister
Executive VP & CFO

Thanks, Keith. I'll take that one today. So yes, I mean, if you look at what we've done over time in our Insulation business, last few years, we've really been focused on how do we build the right network for that business, that's lean, that's more flexible, that's in the right locations to really serve our customers effectively. We made a lot of investments to unlock as you indicated, both productivity and throughput and those existing assets. And those are really cost and capital-efficient projects that we've done to date.

We're also always looking at the supply-demand balance in the industry and evaluating opportunities to add capacity and drive productivity at the same time, again, to better serve our customers in the market. So right now, I mean, we are evaluating capital and cost-efficient options that we've got to really support the market strength that we would expect to see in the coming years in North America housing. So more to come here in coming quarters as we finalize our thinking.

Operator

The next question comes from Garik Shmois of Loop Capital.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

Just wanted to ask about Composites pricing and just to get a little more clarity on how you're thinking about it in the second quarter. I think you mentioned overall pricing to be down, but similar to 1Q, does that mean that the pricing is effectively flat sequentially? Or is it down a similar degree as 1Q was? And maybe if you could speak to what you're seeing on the spot market in particular.

Brian D. Chambers
President, CEO & Chair

Sure. Thanks, Garik. Yes, overall, I'd say our Composites team did very well. The business performed well in the first quarter and some pretty tough economic conditions. But the positives in the bright spots, I think we're starting to see is a couple of points. One is we are seeing some demand stabilization and that's really broadly across all the regions we operate in. So that's good that we've seen that kind of Q4, Q1 stabilization from a demand front, and then that's -- we expect that to continue here into Q2. So I think that's now leading to some pricing stability to your question, in the spot market that we've seen. We start to see that firm up and again, broadly speaking, across all the regions.

So that's helping to see kind of -- we might be at a trough here where we see the opportunity as demand conditions improve, as we go through the back half of '24 into '25, we get better volume growth. We can limit the amount of production curtailments. That's also impacting the profitability of the business. We can start to run more assets and produce more. And then we see that as a positive on future pricing as we go forward on that piece.

So to your question on kind of how the pricing is rolling through the P&L now, you're absolutely correct. So we're seeing pricing declines on a year-over-year basis, driven by both the contract of work we've reset. So again, as a reminder, about 2/3 of the business is contract, about 1/3 is spot. So all the contracts that we've put in place now by the end of the year and in the first quarter, those have reset, and that was contributing to lower year-on-year. And then we did see a spot price step down as well on a year-over-year basis.

So sequentially, we're seeing stability on a year-over-year basis down. And you're right, pricing was down Q1 overall about 4%. And so we're expecting that, that kind of trend continues here very similar in terms of Q2. So again, spot price stability, that's good. We're still going to see the year-over-year, but it gives us some green shoots of some potential opportunities as we move in the back half of the year and into '24 just to see that demand environment start to improve and potentially that spot pricing environment improved with better economic conditions.

Operator

Our next question comes from Rafe Jadrosich of Bank of America.

Rafe Jason Jadrosich
BofA Securities, Research Division

So Home Depot announced the potential acquisition of SRS. Both are large customers for you. I just wanted to ask, how do you guys think about the potential consolidation of those 2 customers? And then broadly, longer term, if consolidation continues in the distribution channel, what does that mean for you? How does that impact Owens Corning? How could that potentially impact Masonite?

Brian D. Chambers
President, CEO & Chair

Yes. Thanks for the question there. Yes, certainly a big move by Home Depot to solidify their position in servicing the pro contractor. But in terms of your question with -- on consolidation within the building material distribution space, consolidation is not a new theme. This is something we've seen for the past several years, a lot of consolidation, big consolidation on the one-step side.

If you look at the number of distributors on the one-step distribution side, a decade ago to today, very consolidated, very concentrated. We've talked about that a lot. We've seen that in lumber dealers approaching -- lumber dealers starting on the two-step side. So the consolidation is not new in the space. And so part of our distribution strategy has been that we're one of the few manufacturers that actually play in all 4 of the big channels of distribution.

So as you said, both Home Depot and SRS are big customers and great customers. We've got a long history with both and a great partnership. So we don't see this acquisition or this consolidation impacting our strategy in the business, which is we're going to continue to keep a broad distribution strategy with servicing distributors across the channels. We think that gives our contractors the broadest opportunity to buy our products and get service through our products.

And our focus and what's really been driving our Roofing performance has been our contractor engagement model, where our commercial efforts are primarily focused on how we can help contractors win and grow in the market with our products, our brand, our commercial resources. So that model has really been a key driver of our performance. And so even with the ongoing consolidation that we've seen, you've seen us be able to improve the margin performance of the business.

And so as consolidation occurs, we think that our model in terms of contractor focused and then being a great service partner to distributors on a broad base is the right way to go, and we think that continues to drive our performance going forward. So we don't expect a big impact there.

In terms of the Masonite piece, yes, the Home Depot, the home centers are a big part of their business. We've got a great core capability inside Owens Corning. Masonite has a great core capability that they've created to service the home centers. And so we think the combination is just going be a great fit for our ability to merchandise, bring new innovations in and to support the growth inside the home center. So we think that capability and track continues to give us opportunities inside the home center channel.

Operator

The next question comes from Philip Ng of Jefferies.

Philip H. Ng
Jefferies LLC, Research Division

Good to see the inflection in sales in your North American Insulation business, but sales were a bit weaker in Europe and C&I. How do you see that business -- those 2 business progressing this year? And then separately, you're calling for flattish margins in Insulation in 2Q and price cost narrowing. Does that widen out a bit in 3Q and perhaps even the back half as you announced some of the price increases out there for whether it's fiberglass or mineral wall?

Todd W. Fister

Executive VP & CFO

Phil, I appreciate the questions. So let me start with a little bit of the Europe versus North America context within technical and global. So you'll recall, technical and global is about 2/3 of our revenue within the Insulation segment. And again there's really 4 geo regions we sell into. There's North America and Europe is the 2 big ones. And in Latin America, primarily Mexico and then Asia, primarily China, is 2 smaller ones.

Right now, we're seeing fairly weak conditions as we have for a while in Europe and in Asia. And in fact, we were down in revenue in both of those regions on a year-over-year basis. And it's really macro driven. I mean it's driven by the interest rate environment that we're in. It's driven by the construction markets in those geographies. And really neither region has recovered quite the same way we've seen the U.S. bounce back from the impacts of inflation and interest rates.

I'd say in contrast, we're seeing good market conditions in North America, inclusive of Mexico. And that's a strength that I think if you look at consensus estimates for the year, you'd say there's some optimism around the parts of technical and global that serve the residential business as well as some of the construction end markets in North America. I think the rebound in Europe is a little more complicated in terms of when we would see that rebound occur. There isn't as much underlying economic momentum right now in Europe. We've done a great job of managing through this in a way that has delivered really stable margins and good pricing and mix as well as productivity improvements in regions. So I think we're navigating a challenging macro environment well in Europe, but we likely need to see some interest rate relief and stability in Europe to really see construction rebound in the back part of this year or into next year.

Operator

Our next question comes from David MacGregor of Longbow Research.

David Sutherland MacGregor
Longbow Research LLC

I wanted to ask about Roofing and really maybe digging a little on the mix and understand, I guess, you talked a little bit about sort of the strength in laminate shingles and components. And can you talk about how much of this is growth in market demand versus maybe share gains from debottlenecking and freeing up stranded capacity? And I guess on the latter, how much further do you think that those incremental capacity additions could support growth?

Brian D. Chambers
President, CEO & Chair

Yes, thanks. Let me try to hit both sides of that. So on the mix side, I'd say you're hitting it right. In terms of when we talk about mix shifts, where we're producing more laminate shingles versus strip shingles, our duration product, particularly as we can produce more of that and get that into the market that carries a different margin profile, and that's helping. And then our components business overall, we continue to add products. I talked in my prepared comments around house wrap product. We've got a full line of underlayment, starter, hip and ridge products, all of those continue to be pulled through at a higher rate, frankly, as we see contractors selling more systems in the home. So they want to package our complete offering when they go into the home. So it's all an Owens Corning roof.

But also we're seeing through our component strength the ability to sell products now under other kind of roofing materials. So we've developed products that go under metals and tiles and other kind of components. So those products generally carry very high margins as well. So as we're growing the Components business and getting more of that product true, that's also improving our mix overall. So those are the 2 pieces that you're hitting on.

On the lam capacity piece, this is something that's been an ongoing effort of the team over the last couple of years to really debottleneck and improve the line speeds and efficiencies within our existing footprint. So we are unique, in that we've got a great footprint, 13 manufacturing facilities across the U.S. So where we can go in, debottleneck or add a new laminator, like we're doing at our Medina, Ohio facility.

That increases capacity inside an existing infrastructure and an existing workforce. And that means that when we turn these lines on, we get great productivity and great line speeds really quickly. And that's been helpful and then the steady cadence of the ability to produce that and ship more laminate products quarter-over-quarter.

And so part of this when we started was, we had a target to increase lam capacity by about 6 million squares. That's the equivalent of kind of a brand-new four way today across our network. So we put that volume closer to customers by spreading that out over our network, and we're on track to do that by the end of next year. So that's going to be a continued, I think, opportunity for us to improve our laminate mix, improve our duration mix and provide our contractors and distributors with great product going forward. And then from a financial standpoint, that gives us a better margin profile, and we'll continue to be, I think, a tailwind in our mix story as we go forward.

Operator

And our next question is from Reuben Garner of the Benchmark Company.

Reuben Garner
The Benchmark Company, LLC, Research Division

I wanted to ask, you referenced fiberglass in your kind of investments or looking at investments and upgrading and potentially adding capacity. Where does spray foam fit in your longer-term plans? Can you update us on your acquisition from a couple of years ago? How that's been performing and kind of what your thoughts are for spray foam versus fiberglass on a go-forward basis?

Todd W. Fister
Executive VP & CFO

Sure, Reuben. I appreciate the question. Thank you. Yes, I mean, spray foam, we continue to grow the volume of our spray foam business that we acquired Natural Polymers, which had some really nice differentiation in the market for spray foam around how they're positioned. I'd say over a long period of time, we've seen spray foam grow for really specific building applications, where it's a good product. And we see those building practices increasing over time, and particularly the growth in the Southeast with unvented attics where spray foam over a long period of time has taken share from some other materials.

So we're going to participate in that growth. I mean we're going to participate in the overall shifts that we see in some regions for some application where spray foam is a really good product. We also remain really bullish around fiberglass and the value proposition we offer with our fiberglass materials, with our mineral wool materials with our XPS foam materials. We're really uniquely positioned in the market as participating in multiple materials. And we're able to serve our customers with the best materials for the best building applications. And that really remains our focus with spray foam and all the other products that we've got in the portfolio.

Operator

We have no further questions. So I'll turn the call back over to Brian Chambers for any closing remarks.

Brian D. Chambers
President, CEO & Chair

Thanks, Lydia. I'd like to thank everyone for making time to join us on today's call and for your ongoing interest in Owens Corning. We look forward to speaking to you again on our second quarter call. Have a good rest of the day. Thanks.

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