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CORPORATE PARTICIPANTS

Steven Brazones *H.B. Fuller Company - Vice President - Investor Relations*

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

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

CONFERENCE CALL PARTICIPANTS

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

Kevin McCarthy *Vertical Research Partners LLC - Analyst*

Mike Harrison *Seaport Global Securities LLC - Analyst*

David Begleiter *Deutsche Bank Securities Inc. - Analyst*

Jeff Zekauskas *J.P. Morgan Securities LLC - Analyst*

Matt Krueger *Robert W. Baird & Co., Inc. - Analyst*

PRESENTATION

Operator

Thank you for standing by, and welcome to the H.B. Fuller Third Quarter 2024 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the call over to Steven Brazones, Vice President of Investor Relations. Please go ahead.

Steven Brazones - H.B. Fuller Company - Vice President - Investor Relations

Thank you, operator. Welcome to H.B. Fuller's Third Quarter 2024 Investor Conference Call. Presenting today are Celeste Mastin, President and Chief Executive Officer; and John Corkrean, Executive Vice President and Chief Financial Officer. After our prepared remarks, we will have a question-and-answer session.

Before we begin, let me remind everyone that our comments today will include references to certain non-GAAP financial measures. These measures are supplemental to the results determined in accordance with GAAP. We believe that these measures are useful to investors in understanding our operating performance and to compare our performance with other companies. Reconciliations of non-GAAP measures to the nearest GAAP measure are included in our earnings release. Unless otherwise noted, comments about revenue refer to organic revenue and comments about EPS, EBITDA and profit margins refer to adjusted non-GAAP measures.

We will also be making forward-looking statements during this call. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from these expectations due to factors covered in our earnings release, comments made during this call and the risk factors detailed in our filings with the Securities and Exchange Commission, all of which are available on our website at investors.hbfuller.com.

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

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

Thank you, Steven, and welcome, everyone. In the third quarter, we continued to incrementally expand EBITDA margin year-on-year and realized positive organic growth. Several factors, including volume leverage, restructuring actions and benefits from acquisitions, drove the improvement in EBITDA margin and resulted in an EBITDA performance within the range we expected for the third quarter.

With that said, our volume growth came in at the low end of our expectations. Slowing market demand and certain durable goods related market segments in EA constrained consolidated volume during the quarter. While volume growth was relatively stable sequentially, we were anticipating incremental strengthening throughout the year.

Several market segments in EA, which had exhibited relatively strong market demand even during the rising interest rate environment over the past years began slowing during the third quarter. This was offset by continued strong volume growth in Construction Adhesives and improving volume trends across most of the HHC portfolio. While EA volume was below our expectations, we expect these volume dynamics to moderate and reverse over time as interest rates decline. We fully expect EA volume growth to accelerate and be more in line with our long-term expectations as macro conditions normalize. Additionally, we remain confident that our long-term strategy to disproportionately invest in higher-growth, higher-margin businesses while improving our operating efficiency and cost structure will drive strong EBITDA growth and result in an EBITDA margin of greater than 20%.

Looking at our consolidated results in the third quarter, our organic sales trend continued to improve against a weak economic backdrop, and we achieved positive organic sales growth of 0.4%. Volume increased 3% year-on-year and pricing declined 2.6%, index-based pricing adjustments moderated sequentially as expected, and we anticipate further moderation in the fourth quarter.

From a profitability perspective, we executed well and delivered strong results. We grew adjusted EBITDA 6% year-on-year to \$165 million and expanded adjusted EBITDA margin by 70 basis points year-on-year to 18%. Volume leverage, restructuring savings and benefits from recent acquisitions principally drove the increase in margin relative to the prior year.

Now let me move on to review the performance in each of our segments in the third quarter. In HHC, organic revenue development continued to improve significantly, improving volume performance across most of the portfolio and moderating index-based pricing adjustments led to the improved organic sales performance for HHC. Strength in bottle labeling, packaging and medical drove the improvement in organic sales performance. We would expect this trend to continue to improve as evidenced by the fact that nearly every market segment in HHC achieved positive volume growth during the quarter.

Adjusted EBITDA was down 7% year-on-year for HHC in the third quarter, and adjusted EBITDA margin decreased 70 basis points year-on-year to 16.5%. Positive volume leverage and restructuring savings were offset by unfavorable carryover impact of 2023 index-based pricing adjustments.

In Engineering Adhesives, organic revenue decreased 2% in the third quarter, driven by both slightly lower pricing and volumes as mentioned earlier. Automotive and Electronics had slower but solid organic growth, while Clean Energy generated significantly lower organic sales as a result of market dynamics, particularly in China and actions we've taken to reposition the portfolio. Overall, most of the market segments in EA saw positive volume growth during the third quarter.

Adjusted EBITDA increased 5% in EA and adjusted EBITDA margin expanded 40 basis points year-on-year to 19.7%. Net price and raw material cost management and acquisition benefits, offset partially by the impact of lower volume, drove the increase in adjusted EBITDA margin year-on-year.

In Construction Adhesives, organic sales increased 10% year-on-year on continued strength in roofing, which grew nearly 25% year-on-year. Demand in construction remains strong, and we expect a declining interest rate environment will benefit CA moving forward.

Adjusted EBITDA for CA increased 36% versus the third quarter of last year to \$25 million and adjusted EBITDA margin expanded 240 basis points to 16.4%. Net price and raw material cost management, volume leverage and restructuring savings drove the improvement in adjusted EBITDA margin year-on-year.

Geographically, Americas organic revenue was up 3% year-on-year in the third quarter. CA drove the increase for the region, achieving a double-digit increase in organic sales. HHC organic revenue was flat versus the prior year, representing a significant improvement from the first quarter when organic sales in the Americas region for HHC declined nearly 10% during destocking. EA organic revenue was down modestly.

In EIMEA, organic revenue declined 2% year-on-year, continuing its market improvement in organic revenue performance since the beginning of the year. The organic sales development for all three GBUs improved sequentially in the region. HHC was flat year-on-year, while EA and CA were both down modestly.

In Asia Pacific, organic revenue decreased 2% year-on-year, driven by the significant volume decline in clean energy. Excluding clean energy, organic sales for Asia Pacific increased approximately 6% year-on-year. HHC achieved a double-digit increase in organic sales in the region due to strong organic revenue growth in packaging-related end markets.

EA experienced a mid-single-digit decline in organic revenue. Excluding Clean Energy organic revenue for EA in the region was up 3.5% year-on-year driven by relatively strong results in insulated glass, automotive and electronics.

On the M&A front, we completed the acquisition of HS Butyl Limited in the third quarter. HS Butyl is the United Kingdom's largest manufacturer and distributor of high-quality butyl tapes servicing the building infrastructure and construction markets. This highly strategic acquisition further strengthens our butyl tape product portfolio and establishes an important beachhead in Europe where the waterproofing tape market is twice as large as that of the United States. The addition of HS Butyl represents a continuation of our efforts to globalize our Construction Adhesives business and greatly complements our 2022 acquisition of North American-based GSSI sealants. The acquisition will initially be included in Construction Adhesives. However, we expect growth opportunities to extend into engineering adhesives in markets such as automotive and other transportation. HS Butyl's 2024 annualized sales are expected to be approximately \$23 million.

Now let me turn the call over to John Corkrean to review our third quarter results in more detail and our updated outlook for 2024.

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

Thank you, Celeste. I'll begin with some additional financial details on the third quarter. For the quarter, revenue was up 1.9% versus the same period last year. Currency had a negative impact of 1.5% and acquisitions increased revenue by 3%. Adjusting for those items, organic revenue was up 0.4% with volume up 3% and pricing down 2.6% year-on-year in the quarter.

Adjusted gross profit margin was 30.4%, up 40 basis points versus last year. Volume leverage, restructuring savings and the benefit from acquisitions primarily drove the increase in adjusted gross profit. Adjusted selling, general and administrative expense was up 3% year-on-year, driven by acquisitions.

Adjusted EBITDA for the quarter of \$165 million was up 6% year-on-year, reflecting volume leverage, restructuring savings and the favorable contribution of acquisitions, which more than offset higher wage inflation and the net impact of pricing in raws. Adjusted earnings per share of \$1.13 was up 7% versus the third quarter of 2023, driven by operating income growth.

Year-to-date, operating cash flow was flat year-on-year as improved profitability was offset by working capital investments related to higher volume. The 13% year-on-year growth in trailing 12-month EBITDA resulted in net debt to adjusted EBITDA of 3.1 times at the end of the third quarter, flat on a sequential basis versus Q2, and down from 3.3 times at the end of the third quarter of last year.

During the third quarter, we made continued progress on our share repurchase program and acquired 225,000 shares, bringing the total shares repurchased so far this year to 407,000.

With that, let me now turn to our guidance for the 2024 fiscal year. As a result of our year-to-date performance and current macroeconomic conditions, we are updating our previously communicated financial guidance for fiscal 2024 as follows: Net revenue growth is now expected to

be up approximately 2% with organic revenue flat year-on-year. Adjusted EBITDA is now expected to be in the range of \$610 million to \$620 million, equating to growth of between 5% and 7% year-on-year. This compares to our original full year guidance range of \$610 million to \$640 million.

Net interest expense is still expected to be approximately \$130 million, our adjusted effective tax rate is still expected to be between 26.5% and 27.5%. Full year depreciation and amortization expense is still expected to be approximately \$170 million, and our fully diluted share count is still expected to be approximately 56.5 million shares. Combined, these assumptions result in full year adjusted diluted EPS in the range of \$4.10 to \$4.20, equating to year-on-year growth of 6% to 9%. Operating cash flow is now expected to be between \$325 million and \$350 million.

Now let me turn the call back over to Celeste.

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

Thank you, John. One of our most important strategic priorities is to be a talent magnet and the employer of choice in the adhesives industry. We do this through building upon our rich history, leveraging our winning spirit and fostering our entrepreneurial culture. We set high expectations for ourselves and track our effectiveness and progress regularly through frequent internal engagement surveys, internal promotion rates and by monitoring which companies our job applicants are working for when they apply for positions at H.B. Fuller.

I am very proud to announce that we were recently recognized by Newsweek as one of America's most admired workplaces. Newsweek surveyed more than 250,000 US employees and collected over 1.5 million company reviews. One of the key questions they asked all survey respondents was a very simple yet powerful question, for which employer would you love to work. We know from tracking our own internal measures that we are doing well on this key strategic priority but it is also wonderful to receive external recognition to independently corroborate our internal assessment.

We are honored to be amongst the top 400 companies who foster innovation and professional growth, champion work life balance and set the standard for what it means to be an admired employer. We have a great culture and a fantastic team that embodies it. Congratulations and thank you to all of our team members.

To wrap up, we are pleased with the progress we continue to make in improving our portfolio, streamlining our operations and driving EBITDA margin expansion. While this quarter's volume growth was at the low end of our expectations, we have a clear and focused strategy and a highly engaged team that is well equipped to execute and drive business success. We remain on track to deliver upon our long-term EBITDA margin and growth targets.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Patrick Cunningham, Citi.

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

On the EA volume decline, just a couple of questions. Can you frame what was driving the significantly lower clean energy sales and maybe expectations for the next several quarters there? And do you expect any further deceleration in the autos and electronics growth rate?

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

Yes. So as it relates to solar, our solar business saw volumes down in all global regions. And that's really a function of the overcapacity of solar panels that's just plaguing that industry. But it is still an exciting industry for us, particularly as it relates to the new technology with HJT, but it's going to be a little bumpy.

We're expanding with new customers, which is exciting. We're expanding into new regions. We have a very unique leading technology that allows us to succeed in that HJT, which is an offset of our [PBS 101] product, which really helps reduce moisture sensitivity of the panels. And so we see that as an opportunity to really transform an industry and to grow in it. but it is definitely a week space today given just a macro environment for solar.

As it relates to some of the other durable goods markets, if you look at the EA business, actually 10 of our 15 market segments showed positive volume growth in Q3. So solar clearly did not. We did see positive growth in autos and electronics. It was solid. It was good single-digit growth, but it wasn't the double-digit growth that we've seen in previous quarters. So I anticipate we're going to continue to hold steady there. We've taken a lot of share in that market. And I just think that what's happening in durable goods is this fatigue around multiple years of higher interest rates is starting to catch up with those markets. And we're just now starting to see the front end of that.

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

Got it. That's very helpful. And then a similar follow-up on the prepared comments for EA, you mentioned some actions to reposition the portfolio. Is there some business that you're walking away from there? Just any additional color there would be helpful.

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

Yes. Clearly, as we look at that solar industry, we are definitely picking where we play. We've had wins in a lot of new geographies. And as I mentioned, we've got great new technology. We're in the process of determining, where do we best place that technology that we can drive value for it. And there clearly are parts of that industry where we look at it and we say, there's probably no short-term solution to the overcapacity it is experiencing. So there are some places where we're going to retrench, walk back, where we can't generate real value.

Meanwhile, we're going to really double down on the parts of the industry that believe in the value we're bringing that are bringing new great technology to the market. You might have noticed with our customer innovation awards that one of the customers we recognized was Anhui Huasun. They have really increased the efficiency of solar panels. And we're part of helping them achieve that. So we have customers like that. We have new customers in India where we're expanding, the IRA in North America is going to be beneficial to us, we're taking a leading position there. But it is a matter of rebalancing our efforts and moving away from some of the customer base that's really playing in the old technology passe market.

Operator

Kevin McCarthy, Vertical Research Partners.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Celeste, to think about your volume trends on a regional basis. Can you talk a little bit about what you saw in China versus other regions? And you mentioned the solar weakness, I assume that a large chunk of that may be in China. Can you talk about the recent stimulus efforts in China? It's only been a few days, but would welcome any comments you have on China's efforts to reinvigorate and how you see that playing out?

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

Yes. So our China business this quarter was down low single digits. But if you extract the impact of the solar market, they were actually -- it was actually up high single digits. So we showed really strong growth in automotive in China, really good performance in HHC. In fact, interestingly, in our HHC market we're really revising our portfolio strategy in Asia. We actually grew volume in 10 of the 13 market segments where we participate in Asia, and that's because we are adjusting away from markets like baby diapers, and focusing more on higher-value markets like beverage labeling, packaging, fem care, adult incontinence. And really, the team there has done a remarkable job.

When I look at where we were in the first quarter in Asia, we were down -- organic growth was down high single digits. They shifted that business to up high single-digit organic growth in Q2. And now it is double-digit organic growth in Q3. So the HHC team in Asia has done a remarkable job in repositioning. And in EA, we've really done a tremendous job in automotive. In fact, we just signed a strategic alliance with a Chinese Tier 1 supplier to transform together exterior trim in ways that increase vehicle intelligence comfort and environmental sustainability. And we continue to have success with Chinese EV producers.

So we're in the right spaces there. Solar really overshoots to the good performance we're seeing in China, the growth, again, high mid-single digits, if not for the solar business.

Now you asked about the stimulus, what's going to happen with that? I'm very optimistic. I think we'll see some impact. We are not in the housing space in construction in China, but still, it should build for a more robust economic environment.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

That's very helpful. And then I wanted to ask you about margins. Your adjusted gross margin, notwithstanding maybe a little pressure on the top line was still north of 30% in the quarter at 30.4%. As you look ahead, what's your level of confidence that you'll be able to sustain that adjusted gross margin north of 30%, and might you be able to grow it?

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

Yes. So a big part of achieving our 20% EBITDA margin target is to continue to grow those gross margins into mid 30s. And so that's a major emphasis for the company. We're doing things like restructuring programs and footprint optimization to help reduce our conversion costs. We've really enhanced our pricing process and continue to be successful there. And as you look at how we're thinking about growing the business and acquiring, we have focused on selectively targeting our top 20 opportunities, which are higher margin, faster-growing spaces.

So the mix shift to higher-margin products is part of this, but also our own self-help around restructuring and conversion cost optimization will help us continue to expand those.

Operator

Mike Harrison, Seaport Research Partners.

Mike Harrison - *Seaport Global Securities LLC - Analyst*

I was hoping we could dig in a little bit on the construction business. Is some of the growth that you're seeing right now related to restocking or maybe some pent-up demand or other unusual factors that might not repeat?

Just trying to get a sense of how confident you are on the -- maybe not the growth rate, but maybe kind of the activity level or revenue level that you can sustain or build on going into next year?

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

Yes. The -- our performance in the Construction Adhesives business is a culmination of a number of things. First of all, that team got after it in the fourth quarter of last year, really started to restructure the business, lower their breakeven point and change their cost profile, recognizing that this is always going to be a cyclical end market.

In the roofing space, in particular, we've continued to take share. We are in the right segments. So we're benefiting from growth in data centers and institutional buildings as well as participating on a few chip manufacturing projects. So that's exciting. Then again, we're also, again, taking share with innovation.

We just introduced, Mike, a product called PG-1 EF ECO. It's a two (technical difficulty) canisterized foam, spray adhesive, and it doesn't use a fluorinated hydrocarbon as a propellant. So it's much more environmentally friendly than other products. It's actually easier to dispense as well, which contractors like. It's labor saving. And it's really been successful.

So I think it's a combination of things when you look at our construction business. It's good, solid innovation, working closely with our customers to bring solutions and drive share and it's our own self-help around driving cost reduction as well that you're starting to see there.

You asked about restocking. I don't see restocking. We monitor a few things to assess whether we've got volume flowing through like order size, things like lead time, things like how the distributors are responding and we're really seeing flow through all the way to the market on the volume we're supplying. So I don't think we're seeing restocking. I think this is just good market demand, and we're seeing that carry into the fourth quarter.

Mike Harrison - Seaport Global Securities LLC - Analyst

All right. That's very helpful. And then I know it's still early and it seems like there are a lot of uncertainties around demand and the macro environment going into next year. But as we're starting to turn our attention and investors are thinking about fiscal '25, can you talk about some of the things that are within your control, things like restructuring, contribution from acquisitions, synergies?

How much should those contribute to year-on-year EBITDA growth? And maybe any other puts and takes that we might want to keep in mind as we're starting to think about our models for next year?

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

Yes. Let me just talk a little bit about the macro, then I'm going to turn it over to John to talk a little bit more about some of the things you could use to model it.

The -- when I think about next year, what we're planning for relates to a continuation of what we're seeing from a volume perspective and sort of our P7, P8, [non] into the fourth quarter. So sort of subdued market demand, good opportunities for us to continue to finish our restructuring program. As you'll recall, that was a \$45 million restructuring program with the last \$10 million of benefits happening next year.

I think price raw material balance is going to be a lot less lumpy than it was this year. It's going to be more normalized. And of course, then we've got great synergies and growth coming off the companies that we acquired in 2023 and now in 2024 that are really to be compounding starting next year.

John, you might want to provide a little more detail on some of these things.

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

Sure. So Mike, you asked about some of the self-help or other things that are maybe a little bit more market dependent. So we talked about our restructuring program delivering \$40 million to \$45 million of savings by the end of 2026. We'll be at a run rate of 30 to 35 by the end of this year. So that carry over the additional amount will show up in 2025.

Acquisitions deliver probably another \$20 million to \$25 million of EBITDA based on the two deals we closed this year. We'll annualize those up and then the synergies on those deals as well as the ones we closed last year. Always have wage inflation, merit increase. I think we ball parked that in the \$20 million to \$25 million range last year. I expect it to be the same.

And then there will be some variable comp rebuild. It will probably be less than we anticipated coming into this year, but it will still be in that \$10 million to \$20 million range. So as Celeste said, we expect to grow volume, pricing raws ought to be relatively neutral. So we're still in the early days of our budgeting, but hopefully, that helps with a little bit of insight in terms of how we're thinking about the operating environment and some of the drivers.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - Deutsche Bank Securities Inc. - Analyst

Celeste, back on the solar business. How big is this business how much of the business is in China? And what were volumes down in the quarter in China for you guys?

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

Yeah, when you ask about how much were the volumes down in China, just for clarity, are you asking about solar? Are you asking about in total?

David Begleiter - Deutsche Bank Securities Inc. - Analyst

Just solar.

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

Just solar. Yes. Okay. So if you look at our portfolio, it's very diverse. And there's no single business that is no business region, no market segment region combo that's greater than 5% of revenue. Now what was interesting in solar was how the impact that we saw from that business was weak on a global level. So overall, we definitely experienced slowdowns such that I'd say some total, the impact of the solar business on our range pushed us to the bottom end of our EBITDA guidance.

How much was it down in China? I mean, solar was down significantly in China, double-digit reduction, almost half.

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

Yes. That's right. And -- and so yes, Celeste is right, it's less than 5%, probably between 3% -- 2% and 3% in that range. About 60% of the business is in China, about 40% outside of China. So hopefully, that helps dimensionalize it a little bit for you.

David Begleiter - *Deutsche Bank Securities Inc. - Analyst*

No, very helpful. And is this destocking by [pal] manufacturers? If so, how long do you expect this to continue? Are there competitive threats that's impacting your share in that region? Any further color on that?

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

So just to speak about the Chinese market in particular, that's in particular where we see heavy overcapacity. And one of the things that we've experienced since this construction market slowed down in China was that some of the silicon sealants from the construction industry have been redeployed into the solar industry.

So you got to a situation which is compounded. We've got overcapacity in the end market, particularly in China, and we've got more suppliers bringing alternate raw material into the market. It was a double whammy in China.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *J.P. Morgan Securities LLC - Analyst*

Your guide in EBITDA for the year used to be \$630 million at the midpoint and now it's \$615 million. So there's a decrease of \$15 million that you'll experience, I guess, mostly in the fourth quarter. Can you explain what that's from? Is it lower pricing or lower volumes? What's causing the lower returns?

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

Yes, I'll start, and then I'll turn it over to John. So originally, when we planned for 2024, we anticipated we would see solid mid-single-digit volume growth in the second half. And up until P7, that was definitely the case. In fact P7 we thought would be very indicative of the volume profile we would see in the second half. What we experienced was a pronounced slowdown in P7 and P8. Still positive volume growth but really a reset lower. And as we updated our guidance for the second half, we took that into account.

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

I'll just add a little color, Jeff. So just as it relates to previous guidance versus current guidance and how that pacing is working. We were about \$5 million below our midpoint in Q3, and then we lowered the full year, as you said, midpoint by \$15 million. And the way we thought about it is -- looked at the way Q3 played out. It did weaken but really in the second half of the quarter. And then we've kind of projected that Q4 will look more like the second half of Q3 for those markets that we saw the weakness. And so it's kind of a full quarter versus a partial quarter.

But it is really all volume, as Celeste alluded to, and you can see that in our revenue guidance. We lowered it by equivalent kind of at the midpoint for the revenue guidance of about 1%. That's all volume. That would equate to roughly \$35 million and that flows through to the bottom line and roughly 40%. So that's kind of how you would bridge our previous guidance to our current guidance.

Jeff Zekauskas - *J.P. Morgan Securities LLC - Analyst*

Okay. Great. Secondly, I think for the first three quarters of the year, your acquisition benefit to sales is about 4%. And for the first three quarters, you've grown your adjusted operating income and your adjusted EBITDA at about 8%.

Is it fair to say that 4% of the growth comes from acquisitions? That is of the EBITDA growth or the operating income growth? Or is it higher? Or is it lower?

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

So yes, Jeff, I'd say the -- it's probably in that range. I think we indicated coming into the year that we thought that we would see contribution from acquisitions in the \$20 million to \$25 million range. That will be a little bit higher now with the acquisition of ND Industries and HS Butyl. So as an example, in this quarter, we probably saw a contribution of about \$7 million from acquisitions. And it will probably be similar, maybe \$1 million more than that in Q4.

Jeff Zekauskas - J.P. Morgan Securities LLC - Analyst

Okay. Great. And then on your gross margin, the sales in the third quarter were essentially flat with the second quarter, but your cost of goods sold on an adjusted basis was up maybe \$7 million. Should we read that as sequential raw materials are now beginning to rise a little bit or flatten out?

And often in your fourth quarter, your gross margin jumps relative to your third quarter. What's the reason for that? And will that -- would you expect that to happen this year?

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

Yes. I think what you're seeing on the sequential move in gross profit margin from Q2 to Q3 is -- and we mentioned this on the last call. The pricing raw dynamic had been a tailwind for us in the first half of the year. It's probably a \$10 million tailwind in Q2, and we -- as we said, that would flip in the second half of the year, and it did. And we said it would be about a negative \$10 million in Q3, year-on-year, and that's what we saw. And that really is what drove it. There really wasn't any change in sequential raw materials, sequential pricing, it really is the year-on-year effect.

If you look into Q4, we'd expect that pricing raw material difference to be about the same, maybe a little bit more pronounced, maybe a little bit higher than \$10 million headwind. But we would expect gross profit margin to tick up slightly -- really driven by higher volume. So Q4 is our highest volume quarter of the year, and we are projecting that. That's really more of a seasonality thing than a market-driven thing.

Jeff Zekauskas - J.P. Morgan Securities LLC - Analyst

Okay. And then lastly, I don't recall what your solar comparisons were in the first two quarters year-over-year. So could you just give us a rough idea of what the solar comparisons were like in the first two quarters? And how that compares to the third quarter?

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

Yes. So the first two quarters -- we were -- it was -- we saw organic volume in the first quarter, relatively flat, down kind of mid-teens in the second quarter. And then we were down more than 30% -- more than 35% in the third quarter. So it really picked up steam. We expected this to be a soft market, but not as soft as we saw the development of this in the third quarter.

Operator

(Operator Instructions) Ghansham Panjabi, Baird.

Matt Krueger - *Robert W. Baird & Co., Inc. - Analyst*

This is Matt Krueger, sitting in for Ghansham. So given the level of volumes generated in the HHC business for the third quarter, were margins in that segment as you would have expected? And if not, was there anything unique or impactful in the quarter that you would call out for that segment from a profitability perspective?

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

Yeah, the margins were as expected for HHC in the quarter. I think you might remember last quarter, we mentioned that, as John just said, we are going to see had been tailwinds in the raw material price bucket flip midyear. We saw about a \$10 million impact of that in Q3, and that impact was in HHC. So we've seen -- now that's worked through the -- that's worked through the P&L. If you look at HHC going forward, which is probably your next question, what you're going to see there is continued pricing improvement. So price -- these price indexes are really resetting every quarter or so. And so you'll start to see price less negative in HHC in the next quarter and flattening out moving forward.

Meanwhile, we've had positive volume growth in what 13 or 14 HHC market segment. So good, solid growth in volume, and we're seeing pricing improve. This is the quarter where you saw the squeeze.

Matt Krueger - *Robert W. Baird & Co., Inc. - Analyst*

Got it. Understood. And then understanding that the rollover in pricing has been largely formulaic across the business. Can you talk about what you're seeing from a competitive landscape perspective as volumes are fluctuating across certain end markets and raw materials are oscillating?

And then just a follow-on there. What are you expecting from price cost as it relates to the first half of 2025? I appreciate the comments that you've already given on the fourth quarter here.

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

Yes. I think this year, in 2024, the price raw bucket was really lumpy from one quarter to the next. And that's what happens after we've had a strong increase or decrease in overall raw material prices.

As we move into 2025, that's going to really level out a lot. If I look at the 4,000 raw materials that we monitor -- 4,000 material classes that we monitor, those are pretty evenly balanced from a third of them increasing, a third of them decreasing, and a third of them staying flat. And we're already taking pricing actions in Q4 as it relates to some of those markets.

As far as the competitors go, we have very responsible sophisticated, two very large -- two or three very large, sophisticated, large competitors. They have good pricing acumen and they will price responsibly. I'm seeing that across the market in general, and that really hasn't changed over time.

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

And Matt, just to add a little color on your question about what to expect going forward versus what we've seen in pricing raws. So coming into this year, you're aware that the price -- our ability to capture price and manage raws has been a big generator of value. But we also -- there's also a lag impact. And coming into this year, we knew although we captured a lot of raw material savings last year, there's a little bit of catch-up on pricing adjustments related to our index-based contracts. So we had expected it to be pretty neutral, but pretty big numbers offsetting each other.

As we exit this year, based on what we know today, both are relatively small impacts that would carry over, again, pretty much offsetting each other. So we expect next year to be relatively neutral like this year, but less of the big volatility -- less lumpy yes.

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

Yes. From a quarter-to-quarter basis. Yes.

Operator

We have no further questions in queue. I would like to turn the call back over to Celeste Mastin for any closing remarks.

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

Thanks, everyone else, for joining us this morning, and we look forward to having you back next quarter. Have a great day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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