

Owens Corning NYSE:OC

FQ3 2024 Earnings Call Transcripts

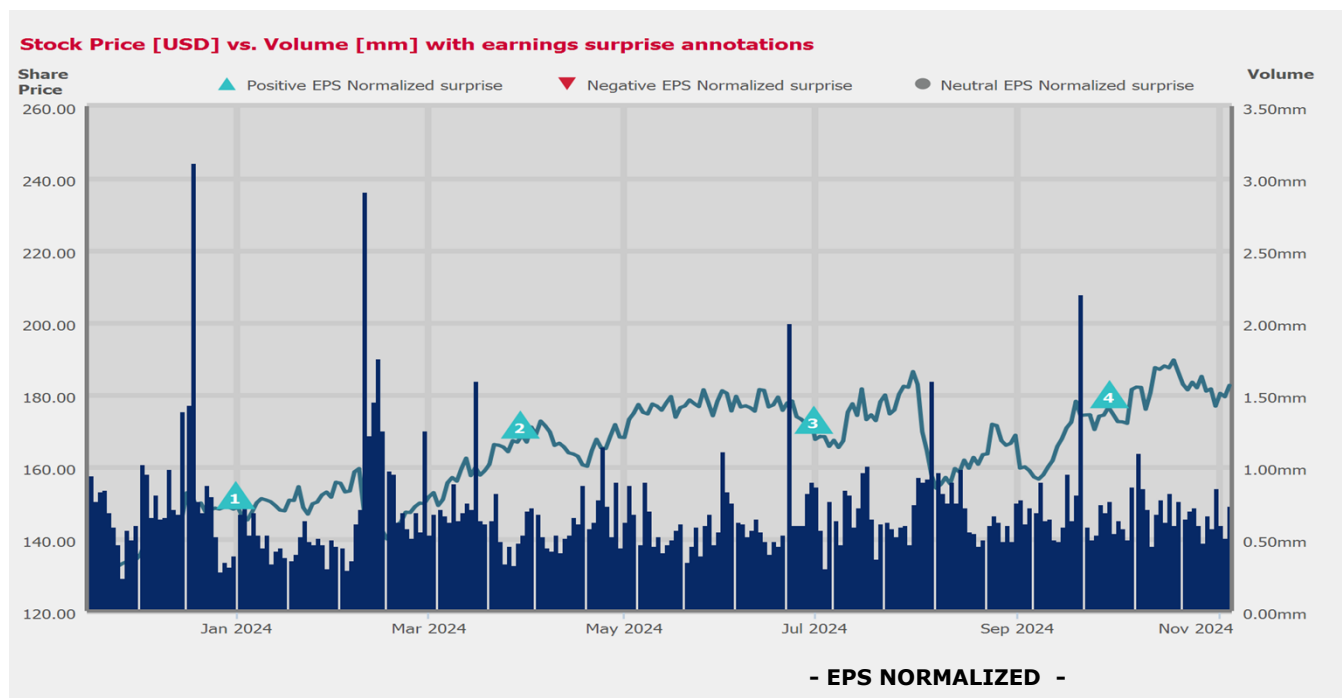
Wednesday, November 06, 2024 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.05	4.38	▲8.15	3.16	15.42	16.42
Revenue (mm)	3044.75	3046.00	▲0.04	2841.85	11057.84	12124.42

Currency: USD

Consensus as of Nov-05-2024 9:25 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ4 2023	2.86	3.21	▲12.24 %
FQ1 2024	3.09	3.59	▲16.18 %
FQ2 2024	4.35	4.64	▲6.67 %
FQ3 2024	4.05	4.38	▲8.15 %

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Call Participants

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Presentation

Operator

Good morning, everyone, and welcome to Owens Corning's Third 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, Corporate Affairs and Investor Relations, to begin. Please go ahead.

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 third quarter of 2024. Joining us today are Brian Chambers, Owens Corning's Chair and Chief Executive Officer; and Todd Fister, our Chief Financial Officer. [Operator Instructions]

Earlier this morning, we issued a news release and filed a 10-Q that detailed our financial results for the third quarter of 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](https://www.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 and 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](https://www.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?

Todd Fister

President, CEO & Chair

Thanks, Amber. Good morning, everyone, and thank you for joining us today. During our call this morning, I will share an overview of our third quarter performance and review several strategic initiatives and investments we are making to sharpen our focus as a leader in residential and commercial building products while positioning the company for future growth. Todd will provide further detail on our financial performance, and then I'll come back and discuss our near-term outlook.

Owens Corning delivered another outstanding quarter, with our team continuing to demonstrate best-in-class commercial and operational execution despite challenging near-term market conditions. Our ongoing ability to deliver such strong results is a direct reflection of the work we've done over the past few years to strengthen our market-leading positions, improve our operating efficiencies and increase the earnings power of the company.

In addition to our strong financial results, we also made progress on a number of key initiatives to further enhance our production, capacity and capability, as well as simplify our geographic footprint. I'll speak more about this shortly. But first, I'll begin as always with a critical component to our success, safety.

Through the implementation of our Safer Together operating framework, our recordable incident rate was 0.58 in the third quarter. 2/3 of our facilities have operated injury-free this year and more than half have

done so for over a year. As a reminder, our recently added Doors segment has not been included in the RIR calculation. As we bring our safety-first culture to this business, we continue to see improvements in the performance and look forward to including Doors in our safety reporting in early 2025.

In looking at our financial performance in more detail, our results continued to demonstrate our structurally higher and more resilient earnings profile despite more challenging market conditions. In the third quarter, the company delivered an adjusted EBIT margin of 19% and adjusted EBITDA margin of 25%, marking the 17th consecutive quarter of achieving mid-teens or better adjusted EBIT margins and 20% or better adjusted EBITDA margins.

Sales and margin growth resulted in adjusted diluted earnings per share of \$4.38. In the quarter, we also continued to demonstrate the cash-generating capability of the company, producing \$558 million of free cash flow. And given the strength of our balance sheet and focus on being disciplined capital allocators, we returned \$252 million to shareholders through dividends and share repurchases.

Our market-leading businesses continued to perform at a high level and generated results in line with our expectations. Roofing once again delivered very strong margins with our shingle volume outperforming the market as the overall asphalt shingle market was down slightly versus prior year. In Insulation, we delivered increased sales in the quarter through positive price realization and favorable product mix within our North American residential and technical insulation businesses.

Work within our Doors business continue to focus on integration efforts as we navigated through some choppy near-term end-markets. Results in its first full quarter as part of Owens Corning were in line with our outlook. And in Composites, the segment performed well despite the macro environment remaining challenging. In the quarter, we also began commissioning our new glass nonwovens line in Fort Smith, Arkansas, giving us incremental capacity to grow this business.

Our results this quarter continue to reflect the progress we have made in structuring our company to generate higher, more resilient earnings while also growing our top line. Over the past few years, through the execution of our enterprise strategy and operating priorities, we've been reshaping the company, creating multiple paths to achieve 20% or better adjusted EBITDA margins, mid-teen returns on invested capital and significant free cash flow generation. Through this process, we have maintained a disciplined capital allocation approach focused on products and applications where we can build market-leading positions. This has resulted in acquisitions that have expanded our offering of branded building products as well as investments to drive organic growth.

We have also capitalized on several business optimization opportunities to simplify our structure and geographic footprint that have improved our operating efficiencies and cost position. As a result of this disciplined approach to enhance our earnings power and focus Owens Corning as a building products leader in North America and Europe, we announced 2 key decisions this morning.

Let me start with our announcement to further simplify our geographic footprint by selling our building products business in China and Korea to a member of the business' management team. This sale of assets includes 6 insulation manufacturing facilities in China as well as a Korean roofing manufacturing facility servicing demand in that region. Not included in this transaction are our glass reinforcement facilities in Asia Pacific and our manufacturing assets that service our North American and European markets, including our roofing coated wovens manufacturing facilities in India and our cellular glass insulation plant in China.

Over the years, we've built a strong market presence and customer base with the business generating revenues of approximately \$130 million in 2024. The strategic decision to exit this business allows us to put more focus on strengthening our leadership position in North America and Europe, which includes additional investments in these markets.

The latest example of this is our announcement this morning to increase fiberglass insulation capacity in the United States. Over the last few quarters, we've been evaluating options to invest in the continued modernization of our flexible and cost-effective U.S. fiberglass insulation network to meet strong market demand for both our residential and commercial products.

As a result of this evaluation, we are excited to announce the addition of a new production line within our existing Kansas City manufacturing facility. This capacity, which is expected to come online in 2027, will utilize our advanced process technology to produce both light- and heavy-density fiberglass products at an improved cost. In addition, the new line will give us the capability to rebalance our fiberglass production network to increase capacity of light-density residential insulation across our other existing facilities. Positioning this new line in Kansas City enables us to grow alongside customers to meet market demand while leveraging our existing footprint and the knowledge of our manufacturing team in Kansas City.

In addition to these 2 announcements, we continue to make good progress on our other 2 key strategic initiatives to sharpen our product and geographic focus: the integration of Doors; and the evaluation of our glass reinforcements business. The acquisition and addition of the Doors segment to Owens Corning has strengthened our portfolio of highly valued branded building products. As we continue to make progress in integrating Doors within OC, we remain excited about the future growth opportunities within this category and our ability to drive improved financial results as we leverage both companies' best-in-class brands, extensive customer and channel knowledge, manufacturing capabilities and material science expertise.

We continue to execute our integration playbook, finding cost synergies consistent with our original expectation of \$125 million, while we explore new growth opportunities with customers utilizing our expanded product line and long-standing relationships. We have delivered sourcing synergies in a number of categories and streamlined operating processes, reducing duplicate spending and leveraging our scale.

In terms of synergy capture, we are on track to realize these cost savings within the first 2 years and anticipate recognizing about half of the synergies within the Doors segment and the remainder across legacy OC.

Lastly, regarding the strategic review of our glass reinforcements business. We continue to make progress on the evaluation of options to both maximize the value to shareholders and determine the best growth path for the business. At this time, however, we have not yet concluded our review process. As we explore alternatives, we are committed to being a disciplined operator as we plan for the future. As such, while we explore options, we continue to focus on improving the overall cost position of the business through ongoing restructuring actions.

Before I turn it over to Todd, I would like to congratulate my 25,000 Owens Corning colleagues for their role in our most recent recognition. We have been named in the top 10 of the 100 Best Corporate Citizens List for the seventh consecutive year and we're ranked first within our industry category. This list recognizes outstanding environmental, social and governance performance and transparency, among the largest publicly-traded U.S. companies. As we make progress toward our mission to build a more sustainable future through material innovation, it's our people that truly make the difference.

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

Todd W. Fister
Executive VP & CFO

Thank you, Brian, and good morning, everyone. As Brian mentioned, we delivered another quarter of outstanding results. The performance in the third quarter reflects the structural improvements we have made to the enterprise and the consistent commercial and operational execution from our teams. We have multiple paths to sustain our structurally higher EBITDA margins, deliver strong cash generation and continue to return cash to shareholders.

I'd now like to turn to Slide 5 to discuss the quarter in more detail. In the third quarter, we continued to build on a strong first half to deliver top line and bottom line growth in the quarter for the enterprise. Adjusted EBIT of \$582 million and adjusted EBITDA of \$766 million grew versus last year by 12% and 19%. Adjusted EBIT margin was 19% and adjusted EBITDA margin was 25%.

Part of the year-over-year growth can be attributed to the first full quarter of operating the Doors segment after our acquisition of Masonite, with the remainder primarily driven by ongoing excellent commercial execution in our legacy businesses. Organically, adjusted EBIT and adjusted EBITDA were up 5%.

Adjusted earnings for the third quarter were \$385 million or \$4.38 per diluted share, compared with \$380 million or \$4.18 per diluted share in the same quarter prior year. For the quarter, adjusting items totaled approximately \$73 million and are excluded from our adjusted EBIT. They primarily include \$61 million of Masonite acquisition-related costs, \$19 million of gains on the sale of certain precious metals as we shift our ownership portfolio and change the production tooling needs in Composites, and \$16 million of charges related to the ongoing strategic review of the glass reinforcements business.

Turning to Slide 6. 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.

Operating cash flow was up slightly from prior year in the third quarter. Free cash flow for the quarter was \$558 million compared to \$581 million in the same quarter last year. The year-over-year decline was due to increased capital additions which were \$141 million in the quarter, up \$31 million from prior year as we make the targeted investments Brian mentioned.

Our return on capital was 15% for the 12 months ending September 30, 2024, down from last year as we continued to see the impact of the acquisition. At quarter-end, the company had liquidity of approximately \$1.8 billion, consisting of \$499 million of cash and \$1.3 billion of availability on our bank debt facilities. We have \$400 million of senior notes due in the fourth quarter.

During the third quarter of 2024, we returned \$252 million to shareholders through share repurchases and a cash dividend. Through the first 9 months of the year, we have returned \$486 million to shareholders through share repurchases and dividends. At the end of the quarter, we had 6.9 million shares available for repurchase under our current authorization. Exiting Q3, our net debt to adjusted EBITDA was slightly below our targeted range of 2 to 3x, inclusive of returning \$252 million to shareholders in the quarter.

Now turning to Slide 7, I'll provide additional details on our segment results. The Roofing business had another quarter of shingle market outperformance as we continue to demonstrate the strength of our contractor engagement model. Overall revenue was \$1.1 billion, in line with prior year as positive price and favorable mix offset the impact of lower components volumes and the net impact from the exit of protected packaging.

In the quarter, we saw positive price realization in our August increase, and demand for our shingles remained strong. The U.S. asphalt shingle market on a volume basis was down slightly in the quarter compared to the prior year. Coming into the quarter, we anticipated the market would be down mid-to high single digits. As we expected, our U.S. shingle volume outperformed the market, up slightly as demand for our shingles remained strong.

Also as expected, overall segment volumes were impacted by lower roofing components volumes as distributors worked through channel inventory of these products. Volume continued to be impacted by the strategic decision to exit our protective packaging business. We would anticipate Q4 will be the last quarter of impact from protective packaging.

EBIT was \$359 million for the quarter, up \$16 million versus last year. The increase was primarily due to positive price and favorable mix offsetting the volume decline. All of this resulted in EBIT margin of 33% and EBITDA margin of 35%.

Now please turn to Slide 8 for a summary of our Insulation business. In the third quarter, the Insulation business delivered growth and expanded margin versus prior year. We continue to execute well in a fairly stable North American market, while Europe and Asia Pacific remain weak. Q3 revenues were \$946 million, up 4% over prior year. Within Insulation, revenue for our North American residential business grew in the quarter. Volume was up despite choppiness in housing starts. We also continue to realize positive price in North American residential on previously announced pricing actions.

In technical and global, revenue was similar to last year. Through strong commercial execution, revenue for our fiberglass technical insulation products in North America has continued to grow. Demand remains challenged by the macro environment in Europe. Overall for Insulation, EBITDA in the third quarter was \$183 million, up \$33 million compared to prior year. Consistent with the first half, the EBIT growth in Q3 was primarily due to positive price realization and lower delivery costs. Input costs were fairly neutral for the quarter. For the quarter, Insulation delivered an EBIT margin of 19% and EBITDA margin of 25%.

Moving to Slide 9, I will provide an overview of the Doors business. Overall the business performed in line with our outlook as we navigated challenging market conditions for Doors in North America and Europe. The integration is continuing to progress well. In the quarter, the business generated revenue of \$573 million. This revenue includes the impact of a softer market in North America and Europe on volume and some pricing pressure.

EBIT for the quarter was \$36 million, including \$22 million of impact from purchase accounting. In order to share a clearer view of Doors' performance in the quarter and to exclude the impact of the purchase price accounting, EBITDA for the quarter was \$89 million. Overall, Doors generated an EBIT margin of 6% and EBITDA margin of 16% in the third quarter.

Slide 10 provides an overview of our Composites business. In the third quarter, the business continued to perform well in a challenging macro environment. While end-markets for glass reinforcements continued to be soft, we saw volume stabilization sequentially. Lower glass reinforcement pricing remained consistent with the impacts we saw in the first half.

Revenue for the quarter was \$534 million, down 6% compared to prior year. EBIT for the quarter was \$61 million, down \$19 million from prior year. EBIT was primarily impacted by lower glass reinforcement prices. We also incurred some incremental costs in the quarter as we begin to start up our nonwovens line in Fort Smith, Arkansas. We more than offset the impact of start-up costs with positive manufacturing cost. Overall, Composites delivered an 11% EBIT margin and 20% EBITDA margin for the quarter.

Moving on to Slide 11. I will discuss our full year 2024 outlook for key financial items. General corporate expenses are now expected to be approximately \$250 million, down from our prior range of \$255 million to \$265 million as a result of ongoing cost controls as we exit the year.

In line with our prior outlook, interest expense is estimated to range between \$210 million and \$220 million, including the impact of additional interest expense on the higher debt from the acquisition and less interest income on our lower cash balance. Our 2024 effective tax rate is expected to remain unchanged between 24% to 26% of adjusted pretax earnings. Next, capital additions are expected to be approximately \$650 million, 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 third quarter results demonstrated the impact of the strategic choices and structural improvements we have made to strengthen Owens Corning and build a company that continues to deliver strong free cash flow and sustainably higher margins despite challenging market conditions. The near-term market outlook for many of our residential and commercial end-markets is likely to remain choppy as we close out 2024 and enter into the new year. However, as we move through 2025, we do expect to see demand trends in both repair and remodel and new construction to strengthen in North America as interest rates come down and investments in housing and nonresidential projects improve.

We've also seen some signs of economic recovery in Europe that should continue to evolve and strengthen market conditions next year. Specific to the fourth quarter, we expect overall demand for our products to be impacted by challenging market conditions as well as normal end-of-the-year seasonality. In addition, we will realize some operational impact from manufacturing disruptions from the recent hurricanes in each of our businesses.

In our North America building and construction markets, we anticipate nondiscretionary repair and remodeling activity to be solid, while more discretionary repair and remodeling activity is expected to remain soft. We also expect the decline in lagged housing starts to result in lower demand from single-family new construction in the quarter.

Outside North America, we anticipate ongoing macroeconomic trends, and geopolitical tensions will continue to negatively impact demand for our products. Given this backdrop, we expect fourth quarter revenue growth for the company of around 20% with anticipated revenue from our legacy OC business to be slightly below prior year. For EBIT, we expect to deliver another strong quarter of mid-teen margin for the enterprise, with an EBITDA margin of approximately 20%.

Now, consistent with prior calls, I'll provide a more detailed business specific outlook for the fourth quarter. Starting with our Roofing business, we anticipate our revenue to be down mid-single digits with lower components volume, partially offset by positive price realization. Based on more normal seasonality in the fourth quarter and with the majority of demand from recent storm activity being serviced next year, we expect ARMA market shipments to be down low to mid-single digits for the fourth quarter in 2024, with demand for our shingles relatively flat.

For components, we anticipate volumes in the quarter to be down versus prior year as we see attachment rates for our roofing components to shingles running at more normalized levels versus last year. In addition, we will realize the last quarter of impact from the exit of our protective packaging business. As a reminder, this business had approximately \$100 million in revenue annually.

We expect positive price from our previous announcements to partially offset the revenue impact of lower components volumes. Compared to Q4 of last year, we anticipate higher manufacturing costs as we invest in our assets to continue to meet the high level of demand for our products and absorb the cost of maintenance and some operational disruptions. Overall for Roofing, we anticipate an EBIT margin approaching 30% and EBITDA of approximately 31%.

Moving on to our Insulation business. We expect revenue to be down slightly versus prior year with ongoing price realizations largely offsetting lower volumes. In our North America residential insulation business, we anticipate revenue to be relatively flat. We expect realization from the June price increase to be offset by lower volumes in line with the near-term decline in lagged housing starts.

In technical and global, we expect revenue to be down slightly versus prior year, driven primarily by lower volumes, which will be partially offset by positive price realization, primarily in North America. Outside of North America, demand remains challenged by the soft market environment.

For the overall Insulation business in the quarter, we expect to incur incremental costs in some of our facilities tied to impact from the recent hurricane activity. Also in the quarter, we anticipate input materials and delivery to be relatively neutral, with price costs remaining positive. Given all this, we expect to generate EBIT and EBITDA margin for Insulation similar to the fourth quarter last year.

Turning to Doors. We expect to be impacted by continued market pressure and distributors tightly managing end-of-year inventories, resulting in lower volumes, with Q4 revenue down high single digits sequentially from Q3. We anticipate price cost to be positive in the quarter, primarily driven by an incremental catch-up of tariff recovery for input costs. For EBITDA, we expect lower volumes and associated deleverage to impact the quarter, partially offset by early synergies in line with what we have realized to date.

Overall for Doors, we anticipate low to mid-teen EBITDA margin. Going forward, we will guide on EBITDA for this business to focus on the operational performance and take away the noise of purchase price accounting. And in Composites for the fourth quarter, we anticipate overall revenues to be similar to last year as volume growth, primarily in our North America glass reinforcements business, is offset by lower price and unfavorable mix. Consistent with what we've shared in prior quarters, both contract pricing and spot pricing are lower year-over-year.

During the quarter, we expect the nonwovens business to continue to perform well, with solid demand and pricing, even as we absorb some incremental start-up costs with the commissioning of our new Fort Smith

nonwovens line. Overall for the business, we expect favorable manufacturing costs from lower production downtime and productivity. For the fourth quarter, we expect mid- to high single-digit EBIT margin in Composites and mid-teen EBITDA margin.

With that view of our businesses, I'll turn to a few enterprise items. As I shared at the start of the call, our team is demonstrating best-in-class execution each and every day to consistently deliver higher, more resilient earnings. It is this consistent performance, coupled with the strategic initiatives and investments we have made which has accelerated our growth, strengthened our earnings power, and positioned Owens Corning to outperform the market.

We believe the strategic decisions to invest in our North American fiberglass network, along with the addition of our Doors business, combined with the review of strategic alternatives for our glass reinforcements business and exit of our China building materials business are the latest examples of how we are using a disciplined approach to reshape and grow the company. As we integrate Masonite and look at additional opportunities to invest organically and inorganically, 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 have built an incredibly strong balance sheet, which we will continue to utilize as we invest to strengthen the long-term performance of the company. Going forward, we remain committed to strong cash flow generation and a balanced capital allocation strategy, returning at least 50% of free cash flow to shareholders over time.

In closing, I want to recognize the great work being done by our team to deliver for our stakeholders today and position OC to grow in the future. We've built multiple paths to achieve 20% or more adjusted EBITDA margin, mid-teen returns on invested capital, and generate significant free cash flow. As we finish 2024, we are focused on executing our priorities, serving our customers and creating value for our shareholders.

With that, we would like to open the call up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from John Lovallo with UBS.

Spencer Andrew Kaufman

UBS Investment Bank, Research Division

This is actually Spencer Kaufman on for John. Apologies if I missed this, but how much incremental capacity will the new insulation line in Kansas City be bringing online in 2027? And are you concerned about any certain competitors that are also bringing capacity online? Or is the North American resi market just simply running too tight right now?

Todd W. Fister

Executive VP & CFO

Spencer, this is Todd. I'll take that one. So when you look at the line in Kansas City, you could think of that as being an incremental 2% to 3% increase in capacity for the fiberglass industry. What's great about that asset is really a couple of things for us. It's a very capital-efficient asset that we're adding because we're using existing footprint and infrastructure that we have in our Kansas City facility. It also has a really attractive ongoing operating cost because, again, we're able to use the fixed cost overhead of that facility with this new line.

We've designed the new line to give us flexibility across our network, flexibility to better serve the technical insulation market. That's been a market that we've really been focused on over a long period of time, and we've grown that business quite significantly, not just the last few years, but over the last decade or so. But it also gives us flexibility to rebalance our network in different ways to serve the residential market.

So when we look at that addition, we like it as a way to support the ongoing growth of the Insulation business. But it also is part of our strategy to continue to focus on growth of technical insulation, growth of other attractive markets, and give us a really nice cost structure of our network and our assets. So that was the big rationale for adding it.

Operator

Our next question comes from Stephen Kim with Evercore ISI.

Stephen Kim

Evercore ISI Institutional Equities, Research Division

Just sort of a follow-up a little bit on Insulation. Just with respect to your 4Q guide, you mentioned some hurricane aspects. I was wondering if you could quantify that. And then also, with respect to, I guess, the big news last night, in the situation where you've got a Republican sweep -- I know the House is still up for grabs, but assuming you did get a Republican sweep, do you think there's risk to the HUD energy code mandate? And if that were to actually be reversed, I'm curious how that would affect your calculus around the Kansas City expansion. Yes. So we'll just -- we'll go with that.

Todd W. Fister

Executive VP & CFO

Thanks, Stephen. Appreciate both of those, and I'll answer the hurricane first, and then we could talk a bit about the HUD changes. So overall, for the hurricane, we did see some limited impacts in some of our facilities from both Helene and Milton. We had some power interruptions. We had one of our plants be idled, we had some startup costs associated with it. You could think of this cost is -- as being probably in the range of \$8 million to \$10 million or so in Q4 for hurricane impact, really, mostly associated with manufacturing costs in those facilities.

There may be some positive demand associated with the hurricanes. Typically, that lags a bit. So we wouldn't expect to see a lot of that in Q4, but certainly could see some of that in the first half of the year as that demand comes through.

As we look at policy and housing, we all know housing has been underbuilt in the U.S. for a very long period of time. And one of the things we saw talked about, really, on both sides was the need for more housing supply, in part to address the inflation that we've seen in housing pricing over time. So fundamentally, we think the macros are good for housing in North America. Fundamentally, our products add a lot of value in housing.

You mentioned the HUD changes. Really none of that has made its way into any material volume in markets today. As Brian and I talked about this on previous calls, we always viewed it as an outcome that would be impacted by what happened yesterday with the election. So you know when we think about capital investments, we're making long-term investments based on the fundamentals of the business. And really, we weren't contemplating volume from HUD as we thought about what we would do with Kansas City. That was not part of the calculus one way or the other as we thought about that asset that we were adding. Thank you for the question.

Operator

Our next question comes from Philip Ng with Jefferies.

Philip H. Ng

Jefferies LLC, Research Division

Congrats on another strong quarter. On Roofing, can you size up any potential uplift from some of the recent hurricanes and how do you see that kind of getting layered in perhaps 2025? The demand backdrop on Roofing has obviously been really strong last year. So as you lap that, just curious your ability to grow, to sustain, call it, low 30% margins, and perhaps to even drive prices higher as we look out to next year?

Brian D. Chambers

President, CEO & Chair

Thanks, Phil. Yes, let me talk a little bit about the hurricane impact. I think we're still assessing. I mean these were 2 really devastating hurricanes that impacted a lot of folks. So I think there's some infrastructure that really needs to be repaired. But as we look at some of the potential impacts, I think on Beacon's call, they had done some analysis, and were estimating somewhere around 3 million squares of potential impact.

I think at this point, we'd be right in line with that thought in terms of how that might play out for us. And as Todd mentioned, I think given the broadness of flooding and some of the other damages that are going to need to be repaired as we go into next year, I think there's some incremental potential upside in our other businesses as well. But from a Roofing standpoint, I think that's our initial estimate.

As you know, the damage repair takes a long time when we're talking about hurricanes. So we would expect this to be much more impacting demand and volumes as we move through 2025. So not a lot here early on in the fourth quarter. There might be a little bit of inventory stocking, but we don't think that's going to be significant. We think the broader play is going to be into next year.

In terms of the overall setup for 2025, you've said it. I mean, the last few years, we've been in a very strong roofing market. I think we continue to see fundamental trends for R&R stay pretty strong this year in many regions. We think that's going to continue, especially if we start to see some lower interest rates, more existing homeowner turnover, that generally drives a little bit of R&R activity.

And new construction, again, based on the expectations from lower interest rates, we think new construction is going to start to pick up as we move through 2025. So I think the setup in Roofing for 2025 is we think we're going to start off with another pretty strong first half given some of the R&R fundamentals that we think will carry over, some of the new construction trends we think will pick up, and then some of the incremental storm demand.

So for our ability to grow, I think we've been making significant investments, as we've talked about over the last number of calls, around investing to grow our laminate capacity. We continue to see that mix shift in roofing from strips to laminates. That continues to be a positive mix impact on our results. And we've been investing in our existing footprint to expand that capacity.

We are expecting to bring our Medina -- new Medina laminator up online in the first half -- sorry, about midyear next year. That's going to be an incremental couple of million squares of lam capacity, that's going to add to the existing network increases we've had. So I think we're facing what we think is going to be another positive backdrop for roofing demand going into 2025. And certainly, the investments that we're making in capacity adds, we believe, are going to put us in a better position to continue to service our customers' growth as we go forward.

Operator

The next question comes from Anthony Pettinari with Citi.

Anthony James Pettinari

Citigroup Inc., Research Division

I was wondering if you could talk about underlying demand from Doors and how that's kind of trended versus expectations since you closed the acquisition, if there's any kind of finer point you draw on interior versus exterior or U.S. versus rest of world. And then assuming we do have a stronger R&R backdrop next year, can you maybe just talk broadly about the prospect for volume improvement and maybe price improvement in Doors next year?

Brian D. Chambers

President, CEO & Chair

Yes. Thanks, Anthony. Certainly, in the third quarter, I'd say the business performed well relative to these market conditions and in line with our outlook. But we are facing tougher market conditions and a more challenging market condition, certainly here in the back half since we've closed out the acquisition.

The business, as a reminder, is pretty evenly split between new construction and R&R activities. And we've continued to see some of the lagged housing starts coming down a little bit here over the last quarters, and third quarter we expect that to continue. So that's going to create some demand challenges inside the new construction. And certainly, the R&R activity has been down, not just in Doors, but across a lot of other building material product categories here this year. And we think that's playing into some of the more challenging market conditions that we're seeing.

When we look at our business, I would say the volume declines we've seen have been pretty consistent between interior and exterior. So we are not seeing a lot of big differences there, I think, again, fundamentally tied to we've seen this step down in both new construction and R&R going forward.

And the U.S. business, we've got a smaller business in Europe. Those demand trends are challenged as well. So I think it's a near-term backdrop that is more challenging. But back to our discussion in terms of a 2025 outlook, we do believe that as we see interest rates come down, what we expect, will we see housing turnover increase, where we see new construction starts improve, we do see a backdrop going into 2025 that's going to create a more favorable demand environment for Doors overall.

And then we are a category leader in this space. We value innovation, we value service, we value quality, we value the commercial partnerships that we're building. So we believe we're going to be able to be set up to take advantage of that volume growth in terms of going forward.

In the near term, we're continuing to execute our integration playbook. So as I talked about in my prepared comments, we're on track to deliver \$125 million of cost synergies in line with our expectation. And we're also leveraging our operational and our commercial playbook. So we're looking at potential growth opportunities with our customers as we go into 2025 across the broader platform opportunity.

And then we're also looking operationally in terms of additional cost synergies as well as looking at the manufacturing footprint for optimization opportunities. And that's something that we've got a good track record of executing again.

So we're going to prepare ourselves for the near-term market challenges to operate a very cost-effective business. We're going to continue to focus on service and quality and innovation as differentiators. And then we're going to prepare ourselves, as the market does improve, that we can take full advantage of that to grow our volumes as we go into 2025.

Operator

Our next question today comes from Sam Reid with Wells Fargo.

Richard Samuel Reid

Wells Fargo Securities, LLC, Research Division

I actually wanted to piggyback off the last question on Masonite, but maybe drill down a bit more on pricing. So when you talk about pricing giveback, could you just aggregate between repair/remodel pricing and maybe what you're seeing on price in terms of what you're selling into the new build channel? It sounds like most of the weakness is on the repair/remodel side, but would just like to maybe hear a finer point on that.

And then if we were to see discretionary repair/remodel spend recover in 2025 kind of consistent with your expectations, do you think that would have a corresponding impact -- positive impact on pricing in Masonite?

Brian D. Chambers

President, CEO & Chair

Yes. Thanks, Sam. In terms of the pricing moves that we made, we talked about that in the comments. We did make some modest pricing moves relative to the market conditions. Very surgical, very specific in certain areas, and very modest. And I would say, it really did get us in line with some of the competitive pricing dynamics we're seeing in some markets. So we've made some modest moves there.

We're still focused on value pricing and retaining the value that we have relative to our service, our quality and our innovation in the market. But we did make some of those moves in the quarter.

Really broadly, I would say not a lot of differences between new construction, repair and remodeling. These were more broader market-based moves that we felt we needed to make to stay competitive while maintaining our value premium in the market.

So as we go forward into next year, certainly, a better volume environment and better demand environment creates the opportunity for improved pricing. And so we'll look at that as we go forward into next year and manage the business relative to that market demand and also relative to the value premium that we would expect to have in the marketplace.

Operator

Our next question comes from Trevor Allinson with Wolfe Research.

Trevor Scott Allinson

Wolfe Research, LLC

One follow-up on ARMA shipments. They were better than you were anticipating. It looks like your volumes are kind of right in line with your guidance. Can you talk about what helped the market perform better than you anticipated? Was that just less distributor destocking than you were looking for? And then was it capacity limitations or planned downtime? Or what was it that kept your volumes from also being better than what you were leading into the quarter given a better market? Just trying to understand your capacity and your ability to take advantage of some of the tailwinds you're talking about prior to Medina coming online next year.

Brian D. Chambers*President, CEO & Chair*

Thanks, Trevor. In terms of the ARMA market shipments, they were slightly stronger than we were anticipating. I think a couple of factors played into that. One is we saw some incrementally better storm demand, particularly in Texas related to Hurricane Beryl. There's just been a lot of repair and activity around that, and that stayed stronger, frankly, through the quarter with the amount of damage that was done there. And then we saw some pockets in the Midwest and Northeast with just warm weather, good seasonal opportunities to put more roofs on. And so we saw that demand in particularly those regions kind of step up more than we would have expected. So overall, a good quarter.

Our shipments outperformed that a little bit. We continue to see strong demand for our products. And so some of the limitations, as you mentioned there, are really tied to our capacity limitations. That's why we are making these significant investments to increase the laminate capacity. We have very strong demand for our products. We've got a great contractor network that we invest a lot to grow the businesses together with them, and that's created a great demand environment for us. And that's why we're making the investments we are to try to continue to increase that capacity.

I think we have increased our laminates capacity year-on-year. We're going to produce more laminates this year than last. We'll continue that as we go into 2025 with another big step-up, as you said, with the Medina laminator. So we feel like the demand outlook for our products is going to remain strong as we go into 2025.

Operator

Our next question comes from Adam Baumgarten with Zelman & Associates.

Adam Michael Baumgarten*Zelman & Associates LLC*

Just on the sale of the China and Korea building materials businesses, any impact on earnings from that sale? I know you gave the revenue. And then I may have missed this, but when do you expect it to close?

Todd W. Fister*Executive VP & CFO*

Thanks, Adam. I appreciate the question. I can give a little more color on the business itself, then we can talk about closing time. So what we shared was \$130 million of revenue. It's 6 plants in China, it's 1 plant in Korea. The Chinese plants are really primarily China-for-China insulation products. And then the Korean plant is shingles that go into Korea and Japan.

When you look at that business, it's a pretty low EBITDA margin business. So it's consistent with what we've been doing across the portfolio to really focus on our higher-value product lines that add a lot of value for customers. And they have structurally more attractive margins going forward. So this one had pretty low EBITDA margins, also pretty high capital intensity just given the footprint that we've got, especially in those Chinese insulation plants.

When we think about timing to close, this is going to be a couple of quarters to work through everything and get everything set up to actually execute the sale. So we would expect Q2 timing for this to be complete.

Operator

Next, we have Keith Hughes with Truist.

Keith Brian Hughes*Truist Securities, Inc., Research Division*

You've given us the guidance for EBITDA margin for Masonite in the fourth quarter. It's a little fuzzy on what that compares to. Would that compare to a high single-digit EBITDA margin fourth quarter of last year given where the structure of the business is?

Brian D. Chambers*President, CEO & Chair*

Yes. Keith, this is Brian. Tough with all the moving parts in terms of that. I think that would continue to equate to kind of a mid-single-digit EBIT margin guide from our perspective in terms of how we are operating the business. So that's where -- there's a lot of noise inside the purchase accounting. We're getting that set, and that's why we're really wanting to try to change an EBITDA margin guide.

I think on a year-over-year comparison, that's also going to be something that is a relative data point as well in terms of how we're operating the business post acquisition. But that's going to be the guide that we continue to focus on as we go forward versus the EBIT side.

Operator

Our next question comes from Michael Dahl with RBC.

Michael Glaser Dahl*RBC Capital Markets, Research Division*

I want to focus on Roofing. So continued strength in margins. When you think about the margin in fourth quarter, I know you talked about the manufacturing cost. Can you quantify the manufacturing costs, and then where you are on kind of input and delivery cost? Because it seems like you still had some sequential price realization.

And then the second part, if I can, would be, as you look into '25, given the strength in demand and potentially some continued price offset by maybe some of these laminate investments, can you give us a view on how you think about Roofing margins setting up into '25?

Brian D. Chambers*President, CEO & Chair*

Thanks, Mike. In terms of the fourth quarter margin guidance, we continue to operate the business very well and continue to generate very strong margins, certainly, relative to history in terms of the performance that we're seeing and the work that's being done in the business. So I think great execution by the team is continuing to lead to very strong margins going forward.

In terms of input costs that we see, we're seeing really just modest inflation in a few areas and some deflation in others. So I think we're seeing pretty stable input costs across the business. And that's been a pretty constant theme here over the last couple of quarters. So the pricing realization we're seeing off the August increase, that's creating positive price/cost relative to those input materials. And we'll look and see what kind of happens as we go into 2025, but we think that's going to stay stable for the fourth quarter here.

In terms of the 2025 setup on margin performance, I think we've talked about what would be positive indicators to retain and maintain these kind of margin levels would be a continued strong market, which we expect to see in terms of setup for 2025, continued strong demand for our products, which we continue to see going into '25. Maintaining some kind of a price/cost positive mix that we think, given those demands, set up well for us.

And then continue to see good strong demand for our components business, which also is a key contributor in our margin performance. And again, I think we've seen some step back on a year-over-year basis on some of the component volumes, but very normal attachment rates as we track that. So we're seeing still good demand for our components, and we're seeing good demand from contractors selling the full system and package on the roof. So we think that's going to continue going into 2025.

So I'd say the setup for next year is very well for us in terms of volume, in terms of our product demand, in terms of price/cost, and in terms of our components business. So we think we're set up for a good first half.

Operator

Your next question comes from Susan Maklari with Goldman Sachs.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

As you think about the changes that you're making to the portfolio with the additions and exiting some of the other businesses and regions, can you talk a bit about what that will mean for the cash flow dynamics of the business over time? And with that, just any comments on priorities for that capital allocation and how you're thinking about that balance between deleveraging and the shareholder returns, especially with the buybacks that you did this quarter?

Todd W. Fister

Executive VP & CFO

Thanks, Sue. Appreciate the question. Let me talk a bit about the changes of the portfolio, and then we could talk about implications on capital allocation. We're being very thoughtful as we think about the changes we're making. As I alluded to a moment ago about our sale of the assets in China and Korea, these were pretty low EBITDA margin, high capital intensity businesses.

We've talked before about glass reinforcements as being really a great business, but a business that requires capital going forward. And the Doors acquisition, being a business that structurally shifts our portfolio into a much lower capital intensity position than what we have in our Insulation or Composites businesses.

So we've got an eye to the future of really building a company that's a branded leader in building products in both North America and Europe that also has an attractive cash flow profile in terms of the ongoing capital requirements of the business and also the significant free cash flow that we can generate off of that portfolio to both reinvest in the business and also return to shareholders.

When we think about our priorities right now for capital allocation, our priority is, first and foremost, is to integrate Masonite very successfully and deliver returns to shareholders from the investment. In the near term here, we also have a little bit of deleveraging in the fourth quarter. We've got \$400 million of senior notes that are coming due that we will retire in Q4, and we're building a little bit of cash on sheet to do that.

Beyond that, as Brian discussed, we're making very strategic capital investments into our business, into businesses that we want to grow. And we think we can grow very effectively with capital-efficient additions to capacity, whether it's Medina with the laminator, whether it's the Russellville plant for our extruded polystyrene foam business; our Fort Smith, Arkansas nonwovens plant; or the Kansas City addition that we discussed today. So we're focused on these targeted, very strategic capital investments that we think are both capital efficient but also cost efficient to really continue to drive attractive cash flows for the business.

And then we've been committed to our capital allocation strategy. We like the leverage of 2 to 3x EBITDA. We're a little below that coming out of Q3, even including returning \$200 million to shareholders through buybacks in the quarter. So we're happy with that 2 to 3x range. But as Brian said, we've got a very strong balance sheet, and we've got a lot of flexibility on what we do in terms of capital allocation as we go forward.

But we've returned a lot of cash to shareholders through dividends and repurchases over time, 58% over the last 12 months including the largest acquisition we've done as a company. So we're committed to that, and we're committed to very shareholder-friendly and value-creating capital allocation as we go forward. And we think this new portfolio of market-leading businesses helps us achieve that.

Operator

Our next question comes from Garik Shmois with Loop Capital.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Sorry if this was asked since my line was dropped earlier. But on Composites, did I hear you correctly that pricing, while down year-on-year, really hasn't weakened sequentially? Is that right? Is that on spot primarily? And then maybe just some thoughts ahead of the contract negotiations and pricing going into next year.

Todd W. Fister
Executive VP & CFO

Thanks for the question. I'll take that one. So yes, I mean, we're down still year-over-year from a pricing standpoint. Sequentially, we've seen a good stability in Composites. Both Brian and I are really proud of how that business has executed both commercially to drive sequential stability, but also on the manufacturing side. They've done outstanding work this year on manufacturing productivity to really drive the kind of stable margins you've seen the last few quarters.

It is really early days on contract negotiations. So it's a little early to say much about where we're at. We're in the midst of it, but the business has really prioritized how do we add value to customers, how do we keep our costs really efficient. And we're trying to drive stable margins as we can in pretty challenging market environments still in China, which certainly is impacting the global demand environment.

Operator

The next question is from Matthew Bouley with Barclays.

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

Wanted to ask on Insulation and volumes, just given you're guiding the volumes to flip a little bit negative here exiting 2024. Wanted to get your thoughts on kind of how you're thinking about the first half of '25 given that exit rate. Obviously, these can be sort of high fixed cost manufacturing assets. So kind of any near-term thoughts on the volume decrements and if any kind of need to rightsize production if we do still have that volume headwind early next year?

Todd W. Fister
Executive VP & CFO

Thanks, Matt. Appreciate the question. So when we look at where we're at right now, we're dealing with really a little bit of an air pocket of weaker starts that we saw from March through July. As we saw interest rates a bit high, we saw a little bit of a downturn in starts. That said, I mean, starts are still in a pretty good range for us.

And I'll remind you, we reengineered the Insulation business to be able to deliver really attractive margins and cash flows and return on capital in exactly this kind of market environment, where we're around this 1.3 million to 1.4 million starts range.

Our view fundamentally is the housing market is still under-built. We really have not approached the 1.5 million annual starts number since the late 2000s. We also continue to see support from codes, that when you go back over a long period of time, we see the pounds per home roughly 30% higher over a 10-year period than where we were a decade ago. So it's not linear where year in and year out, we see 2.5%, 3% increases in volume from codes. But certainly, long term, it's a strong support for the volume dynamics in the industry.

So we'll watch housing starts closely as we end the year. We'll watch interest rates as we end the year. But we're confident we've engineered a business that can deliver good margin stability as we go forward. And that's very intentional around the choices we've made with the cost structure and how we've positioned the business for success.

Operator

The next question is from Kathryn Thompson with Thompson Research Group.

Kathryn Ingram Thompson

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Thompson Research Group, LLC

You touched this earlier in the Q&A just around pricing in the Doors segment in particular. But if we step back and take a look at balancing value over volume, this certainly has been, I wouldn't say an issue, but a focus area in Doors. But as we look at you getting out of Asia for certain products and that continued push to nearshoring or reshoring, how does Owens Corning approach the value over volume? And how do you think that changes over the next 3 years?

Brian D. Chambers

President, CEO & Chair

Thanks, Kathryn. I think the approach, I'll just kind of step back. High level, we are investors of innovation. We're investors in marketing tools, commercial tools, quality, service, the things that bring value to our customers and the things that help them grow in the market. And so we always start with a premise of how can we help our customers win and grow in the market through our product offering, through our innovation, through our commercial tools, through our commercial resources, through our service, our quality, anything that can help the business and help them grow. So we invest to create value.

Now when we say value over volume, I think that's a trade-off that I don't really look to make. We look to drive increased value. We have to be competitive in our pricing. We have to be competitive in our offering to maintain our positions in the market. So I think we don't trade off value over volume. We invest to create more value that leads to additional volume. And I think that's our approach.

So we are always going to be competitive in all of our product offerings to market conditions. But we are always going to expect that through that value proposition that we're creating, that we can see a value premium for our products in the market. And not only that we see a value premium, but our customers see that value premium as they take those products into the market.

So that's our overall approach. When we look at in-sourcing or outsourcing, we have a fundamental belief that we want to manufacture close to our customers. We think that improves that quality and service angle. So we're always going to be mindful of imports and other areas that could impact the cost structure within our businesses. But we also have a philosophy of local manufacturing for local demand and local service.

So that's something that is sharpening our focus on the geographic footprint that we've talked about. We really are focused on executing our strategy to reshape the company as a building products leader in North America and Europe. And we're going to invest in manufacturing assets and sourcing to suppliers that are local to our markets and local to our manufacturing facilities there to create the best service platform for our customers.

Operator

Thank you. This concludes our Q&A session. So I'll now pass you back to Brian Chambers for any final comments.

Brian D. Chambers

President, CEO & Chair

Well, 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. And we look forward to speaking with you again on our fourth quarter call. Thanks, and have a safe day.

Operator

This concludes our call. Thank you for joining. You may now disconnect your lines.

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