Owens Corning NYSE:OC
FQ1 2022 Earnings Call Transcripts

Wednesday, April 27, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

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Currency: USD
Consensus as of Apr-27-2022 1:08 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations

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Call Participants

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Presentation

Operator
Hello and welcome to the Owens Corning Q1 2022 Earnings Call. My name is Katie, and I'll be coordinating your call today. [Operator Instructions]

I'll now hand over to your host, Amber Wohlfarth, to begin. Amber, please go ahead.

Amber Wohlfarth
Director of Investor Relations

Thank you and good morning, everyone. Thank you for taking the time to join us for today's conference call and review of our business results for the first quarter 2022. Joining us today are Brian Chambers, Owens Corning's Chair and Chief Executive Officer; and Ken Parks, our Chief Financial Officer. Following our presentation this morning, we will open this 1-hour call to your questions. [Operator Instructions]

Earlier this morning, we issued a news release and filed a 10-Q that detailed our financial results for the first quarter 2022. For the purposes of our discussion today, we've prepared presentation slides that summarize our performance and results, and we'll refer to these slides during this call. You can access the earnings press release, Form 10-Q and the presentation slides at our website, owenscorning.com. Refer to the Investors link under the Corporate section of our home page. A transcript and recording of this call and the supporting slides will be available on our website for future reference.

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

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

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

We also use free cash flow and free cash flow conversion of adjusted earnings as measures helpful to investors to evaluate the company's ability to generate cash and utilize that cash to pursue opportunities that enhance shareholder value. The tables in today's news release and the Form 10-Q include more detailed financial information. For those of you following along with our slide presentation, we will begin on Slide 4.

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

Brian D. Chambers
President, CEO & Chair

Thanks, Amber. Good morning, everyone, and thank you for joining us for today's call. I hope all of you are continuing to stay healthy and safe.
During our call this morning, I'll provide a broad overview of our performance and the strategic investments we continue to make to expand our addressable markets, generate higher, more resilient earnings and deliver additional value to our shareholders. Ken will then provide details on our first quarter financial results, and I'll come back to talk about our outlook for the second quarter and broader business trends.

Before moving into our discussion on the quarter, I’d like to take a moment to address the war in Ukraine. First and foremost, our thoughts are with all Ukrainians and the others in the region who have been so tragically impacted. We condemn Russia’s invasion and the atrocities taking place there. While our hope is for a withdrawal of troops and peaceful resolution, it became increasingly clear that this would not be the case. Therefore, we made the decision to exit Russia through a transfer or sale of our facilities. As most can appreciate, this is not an overnight process, but I can assure you we are working intently to expedite our exit. Through this work, the safety and security of our employees in the region will remain our top priority. We will also continue to support humanitarian efforts in Ukraine and nearby countries through our company efforts in the Owens Corning Foundation.

Now I'll turn to our first quarter results, where our performance continued to build on the momentum from an outstanding 2021. Underpinning this performance is our ongoing commitment to safety, sustainability and innovation, where we continue to lead the industry. During the first quarter, we improved our safety performance 22% compared to the same period last year, achieving a recordable incident rate of 0.51. More than half of our global sites have worked injury-free over the past 12 months, further reflecting our team’s world-class safety performance.

Financially, we delivered record first quarter revenue of $2.3 billion, a 23% increase over the first quarter of 2021; adjusted EBIT of $417 million, up 48% year-over-year; and adjusted EBITDA of $543 million. This resulted in an adjusted EBIT margin of 18% and adjusted EBITDA margin up 23% for the quarter. In addition, we generated free cash flow of $51 million and returned $264 million of cash to investors through dividends and share repurchases.

During the quarter, we continued to see high demand in our key geographies and building and construction end markets. Residential remodeling and new construction in both the U.S. and Europe remain robust, and we continue to see strong backlogs for our commercial construction products, including renewable energy and infrastructure. Against this backdrop, we are capitalizing on the structural improvements we have made in the businesses and leveraging our commercial and operational execution across the company to generate strong manufacturing performance and positive price realization to offset inflationary headwinds that are impacting energy cost, material input cost and transportation.

As we deliver above-market performance in the near term, we are also investing and taking actions to build Owens Corning for the future. At our Investor Day last November, we reviewed our strategy to accelerate our growth and generate higher, more resilient earnings by strengthening our core businesses and expanding into new products and applications, which utilize our market knowledge, material science expertise and manufacturing capabilities. Today, I’m pleased to share 2 updates that directly support our strategy and our mission to build a sustainable future through material innovation.

A key element of our strategy is pivoting our Composites business into higher-value, more capital-efficient applications focused on building and construction, renewable energy and infrastructure, all of which leverage our core glass fiber technology. We continue to see the results of this work through our financial performance and are taking additional actions to further strengthen the business.

First, we have completed the review of strategic alternatives for our DUCS business, which we announced last October. As a reminder, this product line, which is primarily used in automotive applications, is manufactured in 3 facilities and generated approximately $270 million in revenues in 2021. From this review, we have decided to sell the European portion of the business, which includes our manufacturing assets located in Chambéry, France. We recently received a binding offer for this facility that is now going through a consultation process with employee representatives of the plan as required by French law. We could complete all reviews and close by the end of second quarter. The 2 other manufacturing facilities supplying DUCS material will be converted to produce other glass fiber products needed to support our growth in building and construction applications.

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In addition, we signed an agreement with JR Plastics Corporation to acquire WearDeck, a premium producer of composite weather-resistant decking for commercial and residential applications. The transaction, which is expected to close later this quarter, creates new opportunities to leverage our glass fiber material science in a fast-growing product category. With expected revenues of approximately $60 million this year, we see the opportunity to accelerate material conversion inside the more than $7 billion North American decking market with a high-performance product that is stronger and more versatile than most other decking options.

Both of these actions demonstrate the progress we are making in executing our enterprise strategy to accelerate growth and strengthen the earnings power of our company. In addition to these actions, we continue to invest in accelerating our product and process innovation and expanding our sustainability leadership. During the first quarter, the company launched 16 new or refreshed products across our global businesses. These products span our core product platforms, including roofing shingles and components; insulation XPS foam and mineral wool; and wind, nonwovens and other composite materials. This is a tremendous accomplishment that puts us well ahead of last year's pace for product launches.

Finally, I’d like to share 2 significant developments in sustainability, which is fundamental to who we are and how we operate. In March, we issued our 16th Annual Sustainability Report titled Building a Sustainable Future. The report encompasses 16 topics that reflect stakeholder priorities across various aspects of sustainability and reinforces our long-standing commitment to making the world a better place.

Since 2007, we have reduced our absolute greenhouse gas emissions by approximately 60%. And currently, over 50% of our electricity comes from renewable sources. In 2021, we consumed more than 1.4 billion pounds of recycled glass, which reduced energy use and lowered Scope 1, 2 and 3 greenhouse gas emissions.

Sharing our results and aspirations is an important part of our commitment to all stakeholders. And if you haven't already done so, I encourage you to review our sustainability report online. This report will be the last published under the leadership of Chief Sustainability Officer, Frank O'Brien-Bernini, who has announced his retirement. As one of the first CSOs of a public company, Frank has led our sustainability work for the past 15 years, developing our capabilities, building a world-class team and driving our results.

To build on this strong foundation, we are excited to promote David Rabuano as our new Chief Sustainability Officer effective May 1. David is a proven business leader within Owens Corning with a passion for sustainability and deep expertise in our operations, which makes him the ideal person to lead us into the future as we further integrate sustainability into our products and processes.

With that view of our performance and priorities, I will now turn it over to Ken to discuss our financial results in more detail. Ken?
first quarter were $285 million or $2.84 per diluted share compared to $190 million or $1.79 per diluted share in the first quarter of 2021.

Slide 6 shows the reconciliation between our first quarter 2022 adjusted and reported EBIT. For the quarter, adjusting items totaled approximately $25 million. We recognized a $27 million gain on a sale related to a previously announced facility closure in China. We also recognized $4 million of gains on the sale of precious metals. In addition, we recorded $6 million of restructuring charges associated with previously announced actions. All of these items are excluded from our first quarter adjusted EBIT.

Turning to Slide 7. I'll discuss our cash generation and capital deployment during Q1 2022. Earnings expansion, along with continued discipline around management of working capital, operating expenses and capital investments resulted in strong cash flow. Free cash flow for the first quarter was $51 million, down as expected from prior year, partially due to us starting to replenish historically low inventory levels. Capital additions for the first quarter were $107 million or 4.6% of revenue, up $23 million from 2021 as we return to more normal capital spending while we continue prioritizing investments that drive growth and productivity.

Consistent with what we shared at Investor Day, we continue to be focused on reducing our capital intensity through productivity and process innovations. For the last 12 months, our return on capital was 19%, an improvement of more than 800 basis points versus full year 2020. At quarter end, the company had liquidity of approximately $1.8 billion, consisting of $748 million of cash and nearly $1.1 billion of combined availability on our bank debt facilities.

During the first quarter of 2022, we returned $264 million to shareholders through share repurchases and dividends. We repurchased 2.5 million shares of common stock for $229 million. The cash dividend paid during the quarter reflected the recently announced increase of 35% over prior quarterly dividends. We remain focused on consistently generating strong free cash flow, returning at least 50% to investors over time and maintaining an investment-grade balance sheet while executing our business strategies to grow our company.

On April 15, we signed a purchase agreement to acquire WearDeck, a premium composites decking and structural lumber manufacturer, for $130 million. WearDeck is expected to generate revenue of approximately $60 million in the full year 2022. The acquisition is a positive step in advancing the strategy outlined in our recent Investor Day and has EBITDA margins consistent with the overall enterprise and with a lower level of capital intensity.

Slide 8 summarizes the changes in first quarter adjusted EBIT from 2021 to 2022 by business. First quarter 2022 adjusted EBIT increased $135 million over the prior year, reaching $417 million. All 3 segments delivered significant year-over-year EBIT growth.

Now turning to Slide 9. I'll provide more details on the performance of each of the businesses. The Insulation business started the year strong in both North American residential and technical and global insulation, resulting in EBIT growth of 57% year-over-year. Q1 revenues were $859 million, a 23% increase over first quarter 2021. North American residential fiberglass insulation growth resulted from positive pricing and stronger volumes, benefiting from incremental capacity additions and ongoing productivity.

In technical and global insulation, demand remains strong for our highly specified products with the most notable year-over-year growth in North America and Europe, including global mineral wool and FOAMULAR. Pricing was positive and once again improved sequentially, nearly double what we realized in Q4. Overall, the top line growth resulting from solid price realization as well as modest volume growth reflects continued strength in both U.S. new construction and the commercial end markets we serve globally.

EBIT for the first quarter was $129 million, up $47 million as compared to 2021. The EBIT increase resulted from positive price more than offsetting accelerating energy, material and transportation inflation. In both residential as well as technical and global, price/cost was positive. Additionally, we benefited from
continuing to execute well in our manufacturing operations. Insulation delivered EBIT margins of 15% in the first quarter.

Now please turn to Slide 10 for a review of our Composites business. The Composites business generated record results in the first quarter. Sales for the quarter were $714 million, up 28% compared to the prior year. We benefited from favorable spot pricing and additional price realization from recent contract negotiations as we face into the expectation that inflation continues to accelerate as we move through the year. The top line growth was also driven by strong commercial performance with our ongoing strategy to focus on higher-value solutions, resulting in the fourth consecutive quarter of favorable mix.

Going forward, we expect to see lesser year-over-year favorability driven by mix shifts while maintaining the already improved mix. Overall volumes were up slightly versus prior year but remained strong.

EBIT for the quarter was $154 million, up $75 million from the same period a year ago, resulting from positive price more than offsetting the impact of accelerating energy, material and transportation inflation, in addition to improved production leverage and favorable mix. Composites delivered 22% EBIT margins for the quarter.

Slide 11 provides an overview of our Roofing business. The Roofing business delivered its strongest first quarter top and bottom line performance. Sales in the quarter were $838 million, up 18% as compared to the prior year, with commercial execution generating positive price realization and shingles volume growth, offset by the expected year-over-year impact of more normal components inventory stocking. The U.S. asphalt shingle market on a volume basis was relatively flat in Q1 as compared to the prior year, with our U.S. shingle volumes slightly outperforming the market.

For the quarter, EBIT was $176 million, up $20 million from the prior year as we continue to service the strong market demand and positive pricing more than offset asphalt, other material and delivery inflation that continued into Q1, with EBIT margins remaining strong at 21%.

Turning to Slide 12. I'll discuss our 2022 outlook for key financial items. All remain unchanged from our previous guidance provided in February. General corporate expenses are expected to range between $160 million and $170 million. Interest expense is estimated to be between $115 million and $125 million. We expect our 2022 effective tax rate to be 25% to 27% of adjusted pretax earnings and our cash tax rate to be 22% to 24% of adjusted pretax earnings. Finally, capital additions are expected to be approximately $480 million, which is below anticipated depreciation and amortization of approximately $520 million.

Now please turn to Slide 13, and I'll return the call to Brian to further discuss the outlook for our company. Brian?

Brian D. Chambers
President, CEO & Chair

Thank you, Ken. Our first quarter performance provided us with an outstanding start to 2022 and positions us well to deliver another strong year. From a demand perspective in the second quarter, we expect U.S. residential and commercial markets as well as our global building and construction end markets to remain strong. Based on current trends, we also anticipate inflation across our business segments to continue accelerating in the quarter.

Even with higher inflation, we expect to maintain positive price/cost in each of our businesses in Q2 as we realize the improvements from previously announced pricing actions. Moving forward, we will continue to closely manage the ongoing impacts of inflation, supply chain disruptions and the regional impacts of COVID on our businesses. Overall for the company, we expect to have another quarter of net sales and adjusted EBIT growth versus prior year.

Now consistent with prior calls, I'll provide a more detailed, business-specific outlook for the second quarter. Starting with Insulation, we expect revenue to grow mid- to high teens versus prior year driven by a combination of continued price appreciation and modest volume growth. In our North American residential fiberglass business, we anticipate our volumes to be up low single digits versus prior year,
supported through the start-up of our Eloy facility and ongoing productivity efforts. We expect price realization as a percent of sales similar to what we experienced in the first quarter.

In our technical and global insulation businesses, volume should be up modestly versus prior year as demand for our products in global building and construction applications remains solid. Like residential insulation, we would expect price realization as a percent of sales similar to what we experienced in Q1. In terms of inflation, we expect material and energy cost increases, especially in Europe, to continue to accelerate from what we experienced in the first quarter but anticipate that price realization will result in positive price/cost in the quarter. Given all this, we expect to see earnings growth in Q2 versus prior year with mid-teen EBIT margins for the business.

Moving on to Composites. In the second quarter, we expect revenue to increase mid-20% year-over-year, primarily driven by continued price realization and low to mid-single-digit volume growth in the quarter. We anticipate Composites pricing will remain strong as we realize the benefit of both spot pricing and the impact from our contract negotiations. While we expect inflation to continue to accelerate, we believe we are positioned to deliver a positive price/cost for the quarter. Overall, we expect to realize strong earnings growth in the quarter versus prior year with EBIT margins of approximately 20%.

And in Roofing, we anticipate revenue growth of high single digits with ARMA market shipments down mid-single digits versus a strong second quarter comp in the prior year. We would anticipate our shingle volumes in the quarter to track largely in line with the market. As in our other businesses, we expect inflation to increase in the quarter with asphalt, transportation and other material costs moving higher. From a price/cost perspective, we expect to deliver another positive quarter with realization resulting from our January and mid-April price increases. Overall, we anticipate relatively flat earnings with EBIT margins of low to mid-20s for Roofing.

With that view of our businesses, I'll close with a few enterprise items. Our team remains committed to generating strong operating and free cash flow. In terms of capital allocation, our priorities remain focused on reinvesting in our business, especially organic growth and productivity initiatives, returning at least 50% of free cash flow to shareholders over time through dividends and share repurchases and maintaining an investment-grade balance sheet. In addition, as evidenced by the recently announced acquisition of WearDeck, we are continuing to actively evaluate investments in strategic acquisitions to leverage our unique material science, manufacturing and market expertise and expand our addressable markets. We are also continuing to accelerate our product and process innovation and market development in support of our enterprise strategy to grow through expanding our building and construction product and system offerings.

While we remain focused on servicing our customers' demand in the near term, we are also positioning Owens Corning to capitalize on specific longer-term secular trends around housing growth and renovation, changing construction practices and investments in renewable energy and infrastructure. We are excited about the opportunities we have to help our customers win in the market, grow our company and deliver value for our shareholders.

In closing, our team delivered another outstanding quarter driven by continued strong execution and the structural improvements and strategic investments we are making to drive revenue growth and generate higher, more resilient earnings.

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

**Amber Wohlfarth**  
*Director of Investor Relations*

Thank you, Brian. We are now ready to begin the Q&A session.
Question and Answer

Operator

[Operator Instructions] We take our first question from Stephen Kim from Evercore.

Stephen Kim

Evercore ISI Institutional Equities, Research Division

Great quarter, obviously. A lot of things, a lot of positives to highlight. But I want to, I guess, focus on the Composites business, which is dramatically outpacing what I think you had previously suggested was a longer-term margin outlook in the mid-teens. And I was wondering if there was any update to that. And specifically, I guess, if you could help us think through 2 things within Composites related to the margin. One is the stickiness of the price. You talked about positive negotiations later this -- last year as well as good spot. Just wondering if you could give us a sense for how durable you think that negotiating power is. Maybe you could talk about capacity utilization, for example, in the Composites network.

And then the second thing is you're doing a bunch of like M&A-related things, vliepa, DUCS, WearDeck and stuff. Can you just give us a sense of what you think the net margin effect from these actions might be?

Kenneth S. Parks

Executive VP & CFO

Thanks, Stephen. Great questions. Let's start out with the Composites margin rate. Think about it this way, as we come into the year, we've talked about the fact that about 2/3 of our Composites business is tied to contracts and about 1/3 of it is not and therefore, the pricing on those contracts as we finalized them as we got through the end of 2021 and early into 2022. Certainly, as we were having those discussions, we were thinking about what the inflation curves looked like ahead of us as we move through the year. And as we said very consistently, we were expecting inflation to continue to accelerate as we move through the year.

Therefore, what you're kind of seeing in the Composites business, at least in the first quarter, is you probably got a slightly larger spread between pricing and inflation, specifically on the contract side, just because of the inflation expectation that was built into kind of the contracts themselves. So therefore, margins are stronger. We expect them to remain strong. I think it's probably a little bit early to call a new rate -- a new long-term rate for the Composites business. We've said mid-teens over time. And mid-teens over time is still a nice step-up from where that business had been running several years ago.

So very good performance. The demand environment remains strong. The pricing does remain sticky, and you asked about the stickiness of that pricing. And as we move into these higher-value applications and solutions that we talked about at Investor Day and taking a pivot in the business, taking a look at our DUCS business and what we might do with the DUCS product line as well as some of the other acquisitions that you called in, we're shifting the business more to those higher-value applications. Those higher-value applications come along with a lot more conversation and work between us and our customers. And therefore, not only does the pricing become stickier, but the relationship becomes stickier. So we think that we have a good opportunity to hold on to that pricing as we go forward.

And I would tell you that we are running at pretty high capacity utilization across the Composites business. We saw good growth in most of the key markets. I'll tell you the strength was very strong in Americas and even in Europe for growth year-over-year. So good capacity utilization and good demand.

I think these acquisitions that we're bringing in, they do come in with nice margin rates. I think they will be similar to, and in some cases, slightly better than the overall margin rates of the Composites business. And another important point that we've talked about is that they are lower in capital requirements. And that is one of the key things that we're looking at as well as we look at the Composites business, and that has helped us to drive EBITDA margins higher and our return on invested capital higher for the company.
overall. So I think I touched on most of the things that you asked about. And we are very, very pleased with the performance of the Composites business and the work that the team is doing.

Operator

The next question comes from Matthew Bouley from Barclays.

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

I wanted to ask for an update on your thoughts around natural gas. Obviously, you've described your hedging program in the past, but now it seems like the futures out--several months have increased--the longer natural gas stays where it is. I'm just curious, and it's sort of a follow-up to your prior question on how you're thinking about margins in the second half, but just any sort of thought around the timing of those cost impacts and sort of how that phases in over the second half or even into 2023?

Kenneth S. Parks
Executive VP & CFO

Yes. It's--energy in general is one of the things that we're watching very, very closely. And even in the first quarter, at an aggregate level, we saw about $220 million of inflation that you'll see through the disclosures, which is almost half of what we saw in the full year of 2021. So clearly, inflation is accelerating. And a big chunk of that already is in the energy sector and primarily in Europe. So most of the inflation--the majority of the inflation we're seeing on energy cost is coming from Europe.

We do have the hedges in place that we talked about last time. And I think I quoted a number of energy overall for the corporation accounted for probably about 6% to 7% of our COGS. And I can tell you that as we look out into 2022 and even with what we saw in the first quarter of 2021, that number could step up a couple of points. It could be 8% to 9% of COGS overall. So we're certainly aware of it. I think it's running at a pretty healthy inflation rate right now on energy. And it will probably run in our expectations similarly as we move through the year.

We do have the hedges in place. We haven't really changed our approach at doing that. We follow a path where we hedge probably about 70% to 75% of the current quarter. And then we hedge a lesser amount of the following 4 quarters. And then on a rolling basis, we step forward and top those up as we get into the current quarter to something closer to the 70% to 75% range. You'll see in our 10-Q, there's disclosures around those hedges. And you can kind of see called out in there that during the first quarter, the benefit of the hedges benefited us about--probably around $10 million for the quarter, offsetting some of those energy costs that would have come through.

So we like the program. We like the disciplined approach at keeping it in place. And I think that while it may move around a little bit as far as whether it's 70% or 75% covered in the current quarter, I think that we'll continue that and keep a very disciplined look on our energy costs.

Operator

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

Kathryn Ingram Thompson
Thompson Research Group, LLC

Just wanted to circle back on Composites and see what impact the Shanghai shutdown has on your Composite operations. And bigger picture, your thoughts on continuing operations in China in light of the decision to exit Russia completely and one of your domestic peers choosing to leave--exit China? How do you think about managing this business going forward from a global standpoint?

Kenneth S. Parks
Executive VP & CFO

In our--we are seeing a little bit of softening, I would say, in our China business. I wouldn't call it soft. I would call it down from a very strong level. The business continues to operate well. We are watching
it closely as it relates to geopolitical concerns. We've made no decisions long term about doing anything different in China. Our Composites business in Asia Pacific is really spread between China and India. And India is doing very well, has grown very nicely and is expected to grow nicely going forward. And China, we'll watch closely. But so far, so good. A little bit of softening in the order rates, but nothing of any overall concern for us.

Operator

Next, we have a question from Mike Rehaut from JPMorgan.

Michael Jason Rehaut
JPMorgan Chase & Co, Research Division

I was curious on getting a little more information on the WearDeck acquisition, specifically around what the mix is between residential and commercial. Obviously, the space is somewhat consolidated, I guess, you could say, although growing rapidly in terms of the market itself with a couple of very large players already there. I was just curious about the positioning in the market, again, the res-commercial split. Any detail in terms of maybe if it has a certain geographic presence or advantage and price points in the market?

Brian D. Chambers
President, CEO & Chair

Thanks, Mike. Thanks for the question there. We're really excited about the WearDeck business and adding the product line to our company. I think, first, I'd start strategically, this fits very, very well with the enterprise strategy we outlined at our Investor Day last fall, where we want to expand into new building and construction material products and applications that really leverage our material science strengths, our channel knowledge, our manufacturing expertise. And this certainly fits inside of that and also supports the pivot, as Ken talked about, we continue to make in our Composites business to expand into higher-value, more capital-efficient products that really benefit from our glass fiber technology. And that would be the WearDeck product.

So decking is a great new product category for us, opens up a $7 billion-plus kind of addressable decking market in North America. The WearDeck product is unique in that it is stronger and more durable than a lot of other decking products out there because of the composition of the material used and the glass fiber that's used as a reinforcing mechanism that adds strength and durability. So that's what attracted us to this particular product is that it's unique relative to some of the other decking materials out there.

And it's a great -- it brings a great value proposition in the commercial decking space, which is an opportunity we really see with this particular product to grow. So I think strategically, we like it in terms of expanding into some new product categories. We like it that it really leverages our glass fiber material science that we can continue to innovate with and create great product offering. It really leverages our channel knowledge and gives us, as Ken talked about, some high-EBITDA-margin business, lower capital intensity. So we do plan to invest in growing this.

When I just think about the product, you asked about commercial versus residential today, this product is primarily used in commercial decking applications and specifically in marine docks, marine decking park, so anything along the water. And they've really built a great business in the Southeast around that, being sold primarily through decking and dock distributors, a little bit through 2-step distribution as well to service that market. So we think that we've got a great channel knowledge in terms of scaling this business up and expanding.

And I would think about it a little bit like our Roofing model. This is a product that you convert contractors to use this material, you pull it through distribution. And so that's something we feel we can really leverage our channel knowledge and our customer knowledge as we think about scaling up. It's a very capital-efficient process. So as we think about expansion, we think we can do that and do that very capital efficient to drive continued growth. So we're excited to add the product line, the business, the team as part of the company, and we think it gives us great growth opportunities going forward.
Operator

Next, we have a question from Phil Ng from Jefferies.

Philip H. Ng  
*Jefferies LLC, Research Division*

Congrats on the really strong results. I guess, for me, Brian, certainly, your Insulation business is putting up really strong results. And I suspect your backlogs are really extended for both your commercial and resi business. But any color there? How far are you sold out this year?

And then just going back, the last time we saw mortgage rates kind of hit that 5% range that second half '18 period. Certainly, an air pocket led to some volatility in your business. Helpful to give us some perspective on maybe how you guys are set up a little differently and better equipped to manage potentially that volatility.

Brian D. Chambers  
*President, CEO & Chair*

Yes. Thanks, Phil. Appreciate the comments. First, in terms of our backlogs and our demand profile, we continue to see really favorable demand trends throughout our Insulation business on both the residential and commercial and technical side, as you indicated. So we continue to run on extended cycles in a lot of those product lines. So we think that, that's going to continue into the foreseeable future. And we talked about our Q2 guide of continued kind of volume growth in both the residential and the technical insulation side. So we're seeing really good demand trends both in our -- in the U.S. market and the European market. So that is something that we think is going to continue into the near term.

Yes, when I think about interest rates, the last time that we saw interest rates going through -- particularly in 2018, we did see an impact on housing starts. And certainly, rising interest rates are dominating the headlines. But we continue to see kind of longer-term secular trends continuing to create a really good demand environment. There's been a lot of talk about millennial cohort who need housing and are wanting to move into housing and coming into that. We think that's going to be a tailwind for housing demand for the foreseeable future. We continue to believe that there's more of a premium that's being placed on housing and living spaces as a result of the pandemic, and people are going to continue to invest in renovation, modeling and also new construction to support that.

And then I go back to that I've talked about continuously, which is housing has been underbilled in the United States for the last decade. So we think there's a lot of catch-up that needs to take place. And we continue to see, even with these high starts, completion rates lagging. So we think there's a lot of tailwinds inside of the U.S. residential insulation business to carry us through for quite a while even in this rising rate environment.

So to your point, if and when we see the growth rates starting to slow, we still think that these fundamental secular tailwinds are going to create a good demand environment for the long term. If we do see that start to change, to your point, we've made a lot of structural improvements with our cost base. We've been focused on for the last 3 years building out a more flexible, cost-efficient manufacturing base. We believe we've done that. We've invested in automation. We're driving great productivity.

We've talked about the pivots we're making in our network with the Santa Clara sale that will take place later this year. We've invested in Eloy and Nephi, 2 facilities that we think are going to create and give us great flexible, cost-efficient manufacturing capability that we can kind of scale up and down with demand. So we think we're in a really good position in terms of -- in the near term, the investments we've made to increase in capacity, but over the long term, creating a much more flexible, more cost-effective network to adjust to any kind of demand variations in the market going forward.

Operator

The next question is from Susan Maklari from Goldman Sachs.

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

My question is, going back to your business within Europe, can you talk to any change in underlying demand that you've seen given the geopolitical events there and the macro outlook or the potential for change in the macro outlook? Or anything that you're anticipating as you look down to the next several quarters?

Kenneth S. Parks
Executive VP & CFO

Sue, I think in the near term, I can tell you that based upon what we're seeing today is that, that demand in Europe remains strong. It has been strong over the last several quarters, and it remains strong. Certainly, we're not discounting or ignoring or not paying attention to what's going on between Russia and the Ukraine, and we do have a sizable business in Poland. So we watch that closely as well. But I can tell you that even through quarter-to-date, everything in Europe seems to be running the way that it has been, and our order book continues to be strong. So we think over the next several quarters, we have some good tailwind there to work through, and we'll continue to stay close to it.

Operator

The next question is from Deepa Raghavan from Wells Fargo.

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

I'll ask a question on Roofing. Can you give us an update on the industry allocations? Is the industry still on pretty tight allocation? Are you seeing any easing there just given some of the fundamental headwinds to the housing market outlooks from rates? Also, the 8% price increase that was announced in March, how much of that is sticking?

Brian D. Chambers
President, CEO & Chair

Yes. Thanks. Maybe I'll start with the last one. In terms of the price realization we announced here for mid-April, and we are seeing good realization, very consistent with what we've been seeing with our previous increases in the business. So we still see strong demand overall in the market and certainly strong demand for our product and so getting good realization.

If I just step back on the overall roofing market, I'd say that the overall demand fundamentals for Roofing remains very strong. We came into the year with an expectation that repair and remodeling would continue to drive good demand. New construction growth was going to drive demand. And the real wild card was going to be how storm demand materialized through the year because storm demand, as a reminder, accounts for about 30% of the overall roofing demand. So we think the fundamental repair/remodeling, new construction demand is still there.

The first quarter market shipments of around 40 million squares, that was very much in line with what we expected coming into the quarter. Historically, a 40 million square first quarter is very strong. So I think that's an indication of distributors' outlook as well in terms of the setup for the market. So we're guiding to a market that's going to be down kind of mid-single digits here in Q2, but that's coming off of really a historically high strong Q2 last year. So we still think overall good demand drivers in Roofing, and we're setting up for a strong year. However, we are continuing to watch the storm demand. Storm demand year-to-date is tracking well below average. So that could create some demand challenges as we get into the back half of the year, and we'll continue to watch that.

I think the other thing, to your point, we're still supply-constrained in terms of servicing our demand to our customers. We continue to work hard to manufacture more and get that material out there. I think broadly in the industry, we're starting to see some regions that -- where distributors are probably making a little bit more progress on restocking and getting their inventory positions up, parts of the West, parts of the Midwest, Mountain region. But that's, I think, just early in terms of what we're starting to see in terms of distributor restocking.
And I think going forward, we’re probably going to see a little bit more regional variation to demand and very much more product- and brand-specific demand. Because I think as different manufacturers have different capacity rates and service cycles, I think there might be some inventories that get built. So I think there’s going to be a little bit more separation going forward, more regional variation and distributors making purchasing choices more brand- and product-specific.

But overall, again, we’re set up, I think, for another very good year. Our contractor backlogs, and that’s a big part of our model, to work with our contractors, continue to stay strong as we come into the season. So I think we’re going to be set up for a good year.

Operator

Next, we have a question from David MacGregor from Longbow Research.

David Sutherland MacGregor
Longbow Research LLC

Congratulations on a strong quarter. I wanted to ask about Composites. And clearly, very strong pricing environment right now. But how do you think about price sensitivity to demand? And what percentage of the Composites sales base for OC is sensitive to price?

Kenneth S. Parks
Executive VP & CFO

There’s always some sensitivity to price, but maybe I’ll just kind of repeat a couple of the comments that we had before, which is think about the short-term pricing or call it the near-term pricing. 2/3 of the business is tied to contracts, right? So that pricing kind of gets set for the contract period, and that contract period can be, in many cases, a year, sometimes it’s 2 years. And there will be potential inflation clauses built into that. So while there’s sensitivity for 2/3 of the business, the contract pricing will kind of get set, and we’ll work with that.

The 1/3 of the business that’s not tied to contracts, which is more driven by spot pricing, we’ve seen that be very strong, even leading up to before we renegotiated contracts going into 2022. So there’s probably maybe a bit more sensitivity about the 1/3 of the business that’s not tied to contracts, but it has been strong, and the demand for the products there as well across the board in Composites have been very strong. So we don’t really see anything in the near-term outlook that would tell us that pricing is probably going to shift significantly downward on us. We see some comfort with the contract levels, and we see the products that are being priced at spot prices having very strong demand. So for right now, we see the outlook being solid and the price to be pretty sticky.

Operator

Our next question comes from John Lovallo from UBS.

John Lovallo
UBS Investment Bank, Research Division

Maybe thinking about your Investor Day outlook for $10 billion in revenue by 2024, which was going to be a combination of organic and acquisitions. Just considering the strength of your organic business currently, does that change the way you’re thinking about acquisitions over the next year or 2?

Brian D. Chambers
President, CEO & Chair

Thanks, John. I don’t know if it changes our view of acquisitions. We continue to want to look for acquisitions that support our enterprise strategy; that creates additional growth opportunities for us; that creates the opportunity for more resilient earnings; lower capital intensity; and where we can utilize our material science, our manufacturing knowledge, our channel knowledge to kind of grow and scale a business. So I think our acquisition outlook would stay the same in terms of the desire to kind of grow revenues at the pace we outlined at Investor Day through acquisition.
I think to your point, what we’re seeing is a much more accelerated rate of organic growth tied to pricing, tied to the innovation that we are investing in. So I think it wouldn’t change our outlook for acquisition. I think it could potentially pull that $10 billion revenue target forward for us as we continue to grow organically and then layer in these value-creative acquisitions. So we just think that gives us probably more tailwind as we go forward over the next few years to continue to grow the company.

Operator

The next question is from Mike Dahl from RBC.

Michael Glaser Dahl
RBC Capital Markets, Research Division

Just around the DUCS conversion, the 2 facilities that you're repurposing. Can you talk a little bit more about what that entails, what the timing characteristics will be? Any CapEx needs? Any other operational impacts or ramp-up that we should be thinking about through the year?

Kenneth S. Parks
Executive VP & CFO

Yes. Thanks, Mike. The conversion of those 2 facilities, the 1 in the U.S. and the 1 in Asia, it will not take much in the way of CapEx. I mean they already have furnaces. They're already melting. It will be some capital, but nothing that will be a significant step-up. And therefore, I would tell you that it should be a relatively quick conversion.

In fact, in the U.S. facility, part of that facility is already making some of the products that we would ship the rest of the facility to. So we think the operational impacts would be fairly minimal because the knowledge is already on the ground there. So overall, we see this as a good conversion. It's not going to have a lot of risk to it, and we believe that it's going to have very minimal capital. And it's all built into the outlook that we've already provided to you for capital additions for the year.

Operator

The next question is from Anthony Pettinari from Citigroup.

Asher Melech Sohnen
Citigroup Inc., Research Division

This is Asher Sohnen on for Anthony. In light of the WearDeck acquisition, should we think about your target mix shift to building products within Composites as being largely driven by M&A in the near term or maybe mostly organic? And then just on the decking business itself, given HDPE prices that are quite elevated at present, just how do you see the pricing trajectory for that business over the near term? And then how we should think about the price/cost dynamic for that business if the deflationary environment materializes?

Kenneth S. Parks
Executive VP & CFO

So let me start out, and then Brian will probably jump in as well. On the shifting of the business through M&A or organic, think about a couple of things. The WearDeck business does shift some of that to the higher-value applications. But also keep in mind that as the DUCS product line exits our portfolio, that is also in itself going to facilitate the shift upward because the DUCS business primarily supports, I would call it, the automotive industry. It's not in the spaces that we've talked about really trying to shift to building, construction, renewables and infrastructure. So the shift is going to come through both our moves and organic growth through the innovation. It's going to come from the M&A activity, which is both the acquisition side of the equation as well as the shift away from the DUCS product line.

Brian D. Chambers
President, CEO & Chair
Yes. No. And I guess I would add that when we talked about the shift in our Composites business, we said about 40% was currently in building, construction and about 20% sustainable -- renewable energy, about 20% infrastructure. So about -- roughly about 70% more. And that was kind of the shift. We were going to continue to invest in those 3 big areas of building and construction, renewable and infrastructure. So I think we like this -- the WearDeck acquisition certainly continues that mix shift into more building and construction applications, where we've got lot of expertise and channel knowledge. And so we think it fits really well into our growth strategy there.

**Operator**

So we take our final question from Adam Baumgarten from Zelman.

**Marius Cornel Morar**
**Zelman & Associates LLC**

This is Marius for Adam. Just going back to the WearDeck, I’m just curious about sort of like your longer-term plans when it comes to using your current distribution relationships to try to push that product into the residential market. And if we sort of take a longer-term view, let’s say, 10 years from now, how large overall do you see yourself playing in that space?

**Brian D. Chambers**
**President, CEO & Chair**

In terms of leveraging our distribution knowledge, channel knowledge, I think we see that as an important part of the scale-up. I mean part of it is the product innovation, which is a really great product. And then part of it is how we scale up the manufacturing capabilities, and then the third part is how we get it to customers and kind of expand the customer base. And so we think we’re very good and well positioned to help scale up, expand manufacturing, again, very capital-efficient way to do that, and then to utilize our customer networks and customer relationships to kind of expand distribution. So I think that is going to be the goal as we continue to try to grow. And we see significant growth opportunities in the category for us.

So longer term, we believe this could be a very sizable part of our business as we go forward. But I think a little too early before we start putting longer-term kind of revenue and margin targets around the application.

**Operator**

I now hand the call back over to Brian Chambers for any closing remarks.

**Brian D. Chambers**
**President, CEO & Chair**

Okay. Well, thanks again, everyone, for your time today and your questions. We certainly appreciate your interest in Owens Corning and look forward to speaking with you again in July during our second quarter call. And until then, I hope you and your families remain healthy and safe. Thanks.

**Operator**

This now concludes today's call. Thank you all for joining. Please disconnect your lines.
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