S&P Global
Market Intelligence

Owens Corning NYSE:OC

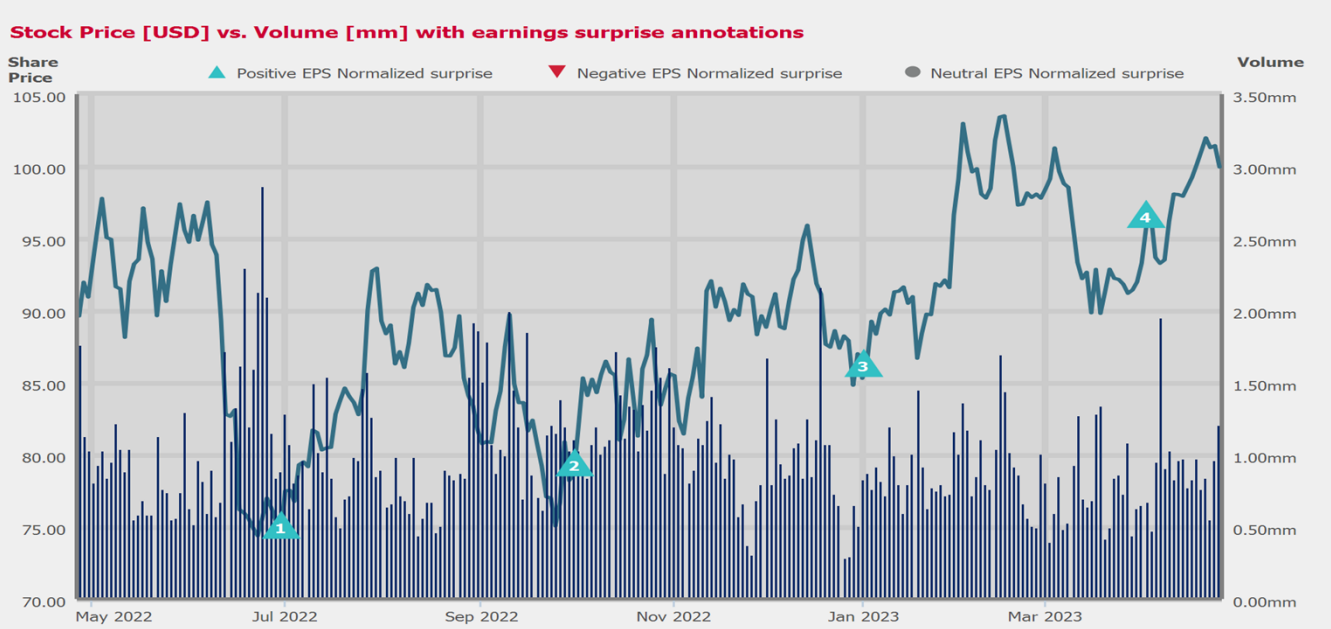
FQ1 2023 Earnings Call Transcripts

Wednesday, April 26, 2023 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.22	2.77	▲24.77	2.88	9.91	10.72
Revenue (mm)	2221.62	2331.00	▲4.92	2431.16	9129.17	9271.09

Currency: USD
Consensus as of Apr-25-2023 5:45 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	3.33	3.83	▲1 15.02 %
FQ3 2022	3.19	3.57	▲2 11.91 %
FQ4 2022	2.35	2.49	▲3 5.96 %
FQ1 2023	2.22	2.77	▲4 24.77 %

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Presentation

Operator

Hello, everyone, and welcome to the Owens Corning First Quarter 2023 Earnings Call. My name is Daisy, and I'll be coordinating your call today. [Operator Instructions]

I would now like to hand the call over to your host, Amber Wohlfarth from Owens Corning, to begin. So 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 2023. 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 of 2023. For the purposes of our discussion today, we have prepared presentation slides that summarize our performance and results, and we'll refer to these slides during this call. You can access the earnings press release, Form 10-Q and the presentation slides at our website, owenscorning.com. Refer to the Investors link under the Corporate section of our 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, 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. During our call this morning, I'll provide a broad overview of our first quarter performance and the work we are doing to further strengthen

and grow our company. Ken will then provide more details on our first quarter results, and I'll come back to discuss what we are seeing in our markets and our near-term outlook.

Owens Corning delivered strong first quarter results within a very dynamic market environment. During the quarter, our global teams continued to demonstrate the ability to react and respond to shifting market conditions as we manage the impacts of ongoing inflation, higher interest rates and continued geopolitical tensions which is leading to slower global economic growth and lower demand in a number of our end markets.

I will begin a review of the quarter, as always, with our safety performance. At Owens Corning, our commitment to safety is unconditional. During the first quarter, our recordable incident rate was 0.64, in line with our performance during the same period last year. Over the past 12 months, nearly 1/2 of our global facilities have worked injury-free.

Financially, we delivered revenue of $2.3 billion, similar to first quarter 2022. Adjusted EBIT of $361 million and adjusted EBITDA of $487 million were both down versus prior year.

Despite facing more challenging end markets, the structural improvements we've made to our businesses, combined with our leading market positions and disciplined execution, positioned us to generate another quarter of strong financial results, delivering an adjusted EBIT margin of 15% and adjusted EBITDA margin of 21% for the quarter.

In terms of free cash flow in the quarter, we had a cash outflow of $322 million, reflecting a more normal seasonal cash flow trend for our company. And consistent with our capital allocation strategy, we returned $183 million to investors through dividends and share repurchases.

In the quarter, each of our segments performed well relative to market conditions, especially our North American residential business, which demonstrated the strength of our customer partnerships, the value of our product lines and the power of our brand.

In Insulation, we continue to realize the benefits of good price realization and solid residential insulation demand offsetting the impacts of slowing volumes in our technical and global businesses and ongoing inflation. In Composites, as expected, we saw the impact of customers resetting their inventory levels and slower market demand, as well as production curtailments and the loss of earnings tied to our previously announced divestitures. And in Roofing, we continue to see strong demand for our products, resulting in better price realization and volumes that outperform the market.

Our results to start the year continue to highlight the work done by our team to strengthen the earnings power of our company. In addition to driving strong financial performance in the near term, we also continue to make strategic investments that will expand our growth potential and enhance our earnings performance, centered around optimizing our manufacturing networks, improving our cost positions and supporting our longer-term growth goals.

Following the closure of the Santa Clara, California insulation facility in Q4 as part of our network optimization initiative, we completed the sale of the site in March, and in line with our expectations, have started up our expanded Nephi, Utah insulation facility this month.

We also continue to make investments to expand our production capacity in key product lines. To support our Roofing business, we will be making a major investment in our Medina, Ohio facility to expand our laminate manufacturing capacity, including our market-leading Duration Shingles. This action comes on the heels of several smaller investments last year to increase productivity and capacity across our entire shingle manufacturing network to meet the growing demand for laminate shingles.

The Medina investment will transition an existing strip line to a convertible line with the ability to produce laminate shingles, as well as needed roofing components, such as hip and ridge and starter shingles, which support our residential roofing system. We expect to have this new line up and running by the end of 2025.

Within our Insulation business, we recently formalized our previously announced plans to build the new FOAMULAR NGX manufacturing plant in Russellville, Arkansas. Also targeted for startup in 2025, the new plant will serve the growing needs of our extruded polystyrene insulation customers. With applications spanning both residential and commercial buildings, FOAMULAR NGX provides a significant reduction in embodied carbon, further contributing to our ability to create sustainable solutions for the building materials industry.

Along with our capacity investments, we continue to accelerate our product and process innovation. During the first quarter, we launched 11 new or refreshed products, spanning core platforms in our Roofing, Insulation and Composites businesses.

Of particular note was the introduction of Ultra-Pure spray foam, the newest product line addition from Natural Polymers, which we acquired last summer. This low-VOC spray foam insulation product supports increasingly stringent energy codes and homeowner demand for products that contribute to a healthier indoor air quality, and adds to our comprehensive array of insulation solutions for virtually any building environment.

These investments in additional capacity and product innovation help our customers win and grow in the market, improve our operating efficiencies and create new growth opportunities for our company, further strengthening our market-leading positions.

As we continue to grow our company, we remain committed to operating at the highest standard and winning in the market the right way. In March, we were recognized by Ethisphere as one of 2023 World's Most Ethical Companies, marking the sixth consecutive year we've been recognized with this honor. Owens Corning was 1 of just 2 honorees in the construction and building materials industry, underscoring our commitment to leading with integrity and prioritizing ethical business practices.

Finally, before I turn it over to Ken, I'd like to provide an update on our sustainability efforts, which continue to generate multiple advantages by creating additional growth opportunities and helping to fulfill our company's mission and purpose. We are proud to be issuing our 17th Annual Sustainability Report next month, which will highlight our ongoing aspirations to double the positive impact of our products, halve our environmental footprint, protect our people, advance inclusion and diversity and make a positive impact in the communities where we work and live.

Sustainability has long been core to who we are and how we operate, serving as an important driver and differentiator for our company. I encourage you to review our report upon publication as it highlights the efforts and achievements of our 19,000 employees across the world who are working every day in service of our mission to build a sustainable future through material innovation.

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

Kenneth S. Parks
Executive VP & CFO

Thanks, Brian, and good morning, everyone. As Brian commented, we delivered another strong quarter in an increasingly challenging economic environment. Our commercial and operational execution continue to be fundamental in driving this performance.

As we've talked about in prior calls, inflation, while beginning to moderate, continues to have a year-over-year impact on overall input cost. Positive carryover pricing offset these inflation headwinds in the quarter in all 3 businesses and helped to offset the impact of lower demand, including the associated production downtime.

Beginning on Slide 5, we can take a closer look at our results. Consolidated net sales were $2.3 billion for the first quarter, consistent with the same period in 2022. Adjusted EBIT for the first quarter of 2023 was $361 million, down $56 million compared to the first quarter last year. Adjusted EBIT margin remained solid at 15%. Adjusted earnings for the first quarter were $255 million or $2.77 per diluted share compared to $293 million or $2.92 per diluted share a year ago.

Slide 6 shows the reconciliation between our first quarter 2023 adjusted and reported EBIT. For the quarter, adjusting items totaled approximately $173 million. We recognized $189 million gain on the previously announced sale of our Santa Clara, California site. We also recognized $2 million of gains on the sale of precious metals. And in addition, we recorded $18 million of charges associated with ongoing cost optimization actions. All of these items are excluded from our first quarter adjusted EBIT.

Turning to Slide 7. I'll comment on our cash generation and capital deployment. Free cash flow for the first quarter was a net outflow of $322 million, driven by the timing of working capital and capital additions as we return to more normal seasonal patterns within our businesses. Capital additions for the first quarter were $158 million or 7% of revenue, up $51 million from 2022. We remain focused on reducing our capital intensity over time through productivity and process innovations. As a result, our return on capital was 20% for the 12 months ending March 31, 2023. At quarter end, the company had liquidity of approximately $1.8 billion, consisting of $757 million of cash and nearly $1.1 billion of combined availability on our bank debt facilities.

During the first quarter, we returned $183 million to shareholders through share repurchases and dividends. We repurchased 1.5 million shares of common stock for $135 million and paid a cash dividend totaling $48 million. We remain focused on consistently generating strong free cash flow, returning approximately 50% to investors over time and maintaining an investment-grade balance sheet while executing our business strategies to grow our company.

Now turning to Slide 8. I'll provide more details on the performance of each of the businesses. The Insulation business started the year strong with top and bottom line growth in both technical and global insulation as well as North America residential. Q1 revenues were $919 million, a 7% increase over the first quarter of 2022, and EBIT grew more than 20% year-over-year. We continued to see solid realization on announced pricing actions and favorable mix across the business offsetting ongoing inflation.

In technical and global insulation, revenue grew slightly as a result of positive price as well as favorable mix, primarily within our global mineral wool business. Volumes were down versus prior year due to demand softening tied to the broader macroeconomic environment, and currency translation continued to be a headwind. Additionally, we saw the first full quarter of impact from the sale of our Insulation operations in Russia. North American residential insulation growth was the result of positive pricing and incremental revenue from the Natural Polymers acquisition. Volumes for residential fiberglass were down slightly in the quarter versus prior year.

EBIT for the first quarter was $156 million, up $27 million compared to 2022. Positive price and mix more than offset ongoing inflation, the impact of lower volumes and the previously communicated incremental cost of planned maintenance and downtime and production investments. Overall, Insulation delivered EBIT margins of 17% in the first quarter.

Now please turn to Slide 9 for a summary of our Composites business. In the first quarter, the Composites business continued to experience the impact of the softer macro environment, resulting in lower demand. Sales for the quarter were $585 million, down 18% compared to the prior year as lower volumes and continued headwinds from currency translation were partially offset by higher selling prices.

EBIT for the quarter was $49 million, down $105 million from the same period a year ago. The EBIT decline was primarily due to lower volumes and the associated production downtime, as well as inflation and manufacturing costs which were partially offset by higher selling prices. Additionally, the sale of our DUCS manufacturing assets in Chambéry, France, and our operations in Russia last year contributed to the year-over-year EBIT decline. Overall, Composites delivered 8% EBIT margins for the quarter.

Slide 10 provides an overview of our Roofing business. The Roofing business delivered strong first quarter top and bottom line performance. Sales in the quarter were $895 million, up 7% as compared to the prior year. Positive price realization was partially offset by mid-single-digit volume declines. The U.S. asphalt shingle market on a volume basis was down 22% compared to the prior year, with demand for our U.S. shingle volumes outperforming the market.

For the quarter, EBIT was $209 million, up $33 million with positive price; partially offset by ongoing inflation; the impact of higher manufacturing costs, primarily related to downtime taken in Q4; and lower volumes. EBIT margins remained strong at 23%.

Slide 11 summarizes our full year 2023 outlook for key financial items, all of which remain unchanged from our guidance provided in February. General corporate expenses are expected to range between $195 million and $205 million. Interest expense is estimated to range between $95 million and $105 million. Our full year effective tax rate is expected to be 24% to 26% of adjusted pretax earnings. And our cash tax rate is expected to be 26% to 28% of adjusted pretax earnings. Finally, capital additions are expected to be approximately $520 million, which is at or below anticipated depreciation and amortization, estimated to range between $520 million and $530 million.

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, Ken. Our first quarter performance provided us with a strong start to 2023, demonstrating the broad capability of our teams and the value of our products. As we move through Q2, we expect market conditions to remain more challenging as we see residential, commercial and industrial investment decisions, as well as consumer buying patterns, continue to be impacted by higher interest rates and slower economic growth. While we expect these factors to influence our performance over the near term, secular trends in housing, energy efficiency and the need for more sustainable building and construction materials, continue to create significant growth opportunities for the company.

Given the near-term market outlook, we expect our volumes in the second quarter to decline versus prior year in many of our product categories, based on slower underlying market demand. Pricing is expected to remain positive in the quarter as we continue to realize the benefits of carryover pricing from previously announced actions.

Given this and the expectation for a more moderate inflationary environment, we anticipate offsetting the impact of ongoing input cost inflation and maintaining a positive price/cost in the quarter. Overall for the company, we expect our performance in Q2 to result in a moderate decline in net sales versus prior year while we continue to generate mid-teen EBIT margins.

Now consistent with prior calls, I'll provide a more detailed business-specific outlook for the second quarter.

Starting with our Insulation business. We expect revenue to be similar to prior year as continued price realization and the net impact of acquisitions and divestitures offsets lower demand resulting from the decline in lagged housing starts in the U.S. as well as the ongoing market slowdown in Europe.

In our technical and global insulation businesses, we expect continued price realization resulting from our previously announced increases to more than offset lower volumes tied to the broader macro environment in Europe as well as softer demand in North America. In our North American residential insulation business, we anticipate continued price realization on our previously announced increases to be more than offset by lower demand versus prior year as builders work through their backlog and demand for insulation begins to track closer to lagged housing starts.

From a cost perspective, we expect inflation from materials and energy to continue to moderate, but remain a headwind in the quarter, with price/cost remaining positive. We also expect to see planned maintenance downtime and production investments similar to Q1. Given all this, we expect to deliver mid-teen EBIT margins for the business.

Moving on to Composites. In the second quarter, we expect revenue to be down low double digits versus prior year as volume declines begin to improve versus the prior 2 quarters. The quarter will also be impacted by last year's exit and sale of the DUCS product line and Russian operation. We anticipate Composites' pricing will be relatively flat as we see favorable contract pricing offset by reductions in spot pricing.

While we expect inflation to moderate, we anticipate price/cost will be a headwind in the quarter. We expect overall volumes to be down versus prior year, but do see demand trends stabilizing in our key regions as customer inventory levels have been reset. As we evaluate market conditions, we will continue to be proactive in adjusting our production to anticipated demand levels. Overall, we expect EBIT margins of low double digits in the second quarter.

And in Roofing, we anticipate revenue to be down modestly with ARMA market shipments expected to be down mid-single digits versus prior year. We would anticipate our shingle volumes in the quarter to track largely in line with the market. We expect inflation to be fairly neutral in the quarter as we have seen costs moderate in some of our input materials. While asphalt costs have begun to increase as we enter into paving season, we expect the year-over-year impact to be slightly deflationary and partially offset inflation from other input materials and higher manufacturing cost.

From a price/cost perspective, we expect to deliver another positive quarter based primarily on price carryover from previously announced increases, but narrowing from Q1. Overall for Roofing, we anticipate generating EBIT margins in the quarter similar to Q1.

With that view of our businesses, I'll turn to a few enterprise items. While we expect the shifting macro environment to continue to impact our end markets in the near term, the structural improvements we have made and continue to make in our businesses, combined with our leading market positions and disciplined execution, position us well to continue generating strong financial results and outperform previous cycles.

In addition, we continue to execute our enterprise strategy as we make investments to strengthen our position in core products and markets; expand into new product adjacencies that leverage our material science, market and manufacturing expertise; and develop more multi-material and prefabricated construction solutions. Each of these strategic pillars creates new growth opportunities as we expand our building and construction material product offering, reduces our overall capital intensity and increases the earnings power of the company as we deliver higher, more sustainable operating margins.

We've also built an incredibly strong balance sheet which we plan to leverage as we continue investing to strengthen the long-term performance of the company through a balanced capital allocation strategy focused on: Investments which drive organic growth and productivity, acquisitions which leverage our unique material science market and manufacturing expertise and returning approximately 50% of free cash flow to shareholders over time through dividends and share repurchases.

In closing, our team delivered strong first quarter results in a very dynamic market environment. We remain committed to operating safely, helping our customers win and grow the market and creating value for our shareholders as we continue to deliver on our financial commitments and strengthen our company for the future.
With that, we would like to open it up for questions.

Question and Answer

Operator

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

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

Maybe I'll just ask on Roofing and sort of your own volume outperformance relative to the industry. Just curious if you can add a little more detail around that, drivers, what's sort of happening with geographies and whether that may have resulted in that. And as we look out and sort of forecast over the next year, should we kind of expect that to reverse at some point?

Brian D. Chambers
President, CEO & Chair

Thanks for the question. Yes, certainly, demand for OC products has remained very strong to start the year. I think what we're seeing in Q1 is a very similar dynamic to what we saw play out in Q4, really driven by 2 factors. One is the level of OC inventory at distributors relative to other brands, and then continued good, strong contractor pull-through demand increasing out-the-door sales. So I think those 2 factors played in both Q4 and Q1.

So I want to step back a little bit because we've talked about this over the past few earnings calls. I think in Roofing in particular, where we were looking at inventory levels to finish the year, we had talked about distributors starting to be much more selective in the products and brands they were buying. They were looking to rightsize inventory levels to end the year. And we saw that the level of inventory of our products in distribution channels broadly needed to be continue to be restocked. And so that drove some additional sales for us in Q4 as they were closing out the year.

We saw that dynamic really kind of continuing to play out in Q1, which as inventory levels were being rightsized to set up for the new year, I think, again, inventory levels of OC products remain very lean in the distribution channels, so there needed to be continued restocking to get ready for the heart of the season, which we're just starting to come into. So I think that was a big play over the last couple of quarters.

And then continued good demand and out-the-door sales of our products. And we continue to invest in our contractor conversion strategy and helping those contractors and distributors build their businesses around our products, our brands and create good demand dynamics for our products. So I think both are playing out.

I do think, in terms of your comments around going forward, we've guided in Q2 that we think, largely, inventory levels are rightsized for both our products and other products in the channel. So we think now it's going to be more a factor around out-the-door sales.

I would say that the last couple of quarters, the dynamics of distributor buy-in versus sell-out have been fairly lopsided. In other words, we've seen much less buy-in, and the sell-out trends in distribution has been a little stronger. We think we saw that in Q1 as well. So as we go forward, I would expect to see that the buy-in trends would more closely correlate to sell-out trends of distribution for our products and other products going forward.

So I think given all that, we think the inventory levels are being set up for a good year in Roofing. Even though we saw Q1 kind of step down on a year-over-year basis, the buying of materials in Q1 was still relatively strong, and we still think we're set up for a good Roofing year.

Operator

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

Kathryn Ingram Thompson
Thompson Research Group, LLC

If you could clarify how much the divested businesses impacted segment earnings in the quarter and the expectations for the year.

And any color on the start of the year pricing negotiations for Composites? And how this impacts the '23 outlook, and in particular, not as part of this pricing but also kind of the Roofing side and how that also impacts your outlook for Composites.

Kenneth S. Parks
Executive VP & CFO

Thanks, Kathryn. Let's talk about the divestitures piece first. We've sized pretty clearly the revenue side of that equation. We said that the divestiture of our DUCS assets in Chambéry, France, was about $100 million of revenue per year; and the Russia assets were a very similar number, about $100 million of revenue per year. And I think you can think about that pretty ratably over the quarters.

As far as the profitability of those, I would probably characterize it as this. It probably had a profitability level last year similar to the profitability level of Composites overall, maybe slightly better on the DUCS side just because it was a very, very strong demand year. But with that, you should probably be able to kind of size it pretty closely as to how it will affect us as we move through each one of the quarters. And to remind you, that DUCS divestiture was done mid-year while Russia was effectively done at the end of the year. So you'll have the impacts from that one throughout all 4 quarters.

As we think about pricing, a couple of the comments that both I made and Brian made is that we've seen good contract pricing continue through. About 2/3 of our Composites business is tied to contracts.

And another piece of information to think about as you're thinking about that is that, when we think about where contracts are, contracts are more heavily weighted to Europe and North America, while Asia is a bit more of a spot pricing market. So as you think about how those play together, while contract pricing has held in nicely based upon what we negotiated coming into 2023, we have seen more pressure in the spot pricing business. And as Brian commented on the outlook, we would expect spot pricing pressure in the second quarter to offset the continued positive contribution from contract pricing, but in different markets and in different product lines.

I give you that background or maybe a little bit more of that color because on your question around how do we see this progressing as we move into kind of contract negotiations or contract discussions, I would say, as we move through the year, it will be very specific depending on the regions that we're having these contract discussions about.

And based upon what we're seeing right now, we're continuing to see good volumes in North America. We actually saw volumes in North American composites increase year-over-year in the first quarter. We saw Europe step down, but it was kind of in line with what we had seen through the balance of the last couple of quarters in 2022. Asia will probably be a little bit more of a dynamic, and that's where we will probably see more spot pricing headwinds.

But we're optimistic that, with the quality of the products, with our relationships with customers, with our proximity to customers and with providing -- very importantly, what we've talked about since kind of the end of 2021 in our Investor Day. As we move down the curve or out the curve on providing not just the composites products, but providing value solutions, that really helps us as we're discussing with our customers what we're going to put into the contracts because then it becomes much more about not just price, but also with how we work with them to get them exactly what we need at the right time and the right place.

So, so far for the year, feeling good about contract and we'll watch spot pricing really closely. I'll let Brian comment on the Roofing side of this impact as well. The Roofing side of the impact of the pricing on Composites. Are we anticipating any significant moves on -- because of what's happening in the roofing markets, for Composites pricing?

Brian D. Chambers
President, CEO & Chair

No, no. Nothing that I would add on that, no.

Operator

Our next question is from Phil Ng from Jefferies.

Philip H. Ng
Jefferies LLC, Research Division

Congrats on another strong quarter. Brian, I think last quarter, you mentioned you had backlogs that would carry you through the second quarter for fiberglass insulation. I think the early read for spring selling season has been pretty constructive so far. Will we start seeing that ripple through in the second half? And kind of how do you see this demand backdrop playing out front half, back half going to next year? And any concerns that we should be mindful of on the destocking side of things on the inventory side?

Brian D. Chambers
President, CEO & Chair

Yes. Thanks, Phil. Our Insulation business delivered another good quarter. I think a big factor of that was the strength of the residential insulation business. And this is also a trend, I think we've been talking about the last several quarters, that we've seen this continuation of strength. Even though we've seen headline starts dropping over the past few quarters, we've seen good, strong demand in res insulation.

I think this goes back to when we look at how starts were ramping up in '21 and the first part of 2022, we saw starts accelerating, but really started looking at completion rates. And they have topped out at about 1.4 million units and we've seen them kind of hold there throughout all of 2022. And we think that's really been the constraint of demand for insulation and some other building material products, is the ability for builders to complete their homes. So we saw extended construction cycles due to labor constraints, material constraints really impacting in that.

So as we came into this year, even though headline starts have been down, completion rates have been staying pretty steady. And we saw that, that backlog of homes to be finished was going to continue to create good demand in Q1. And we saw that kind of play out.

As part of our guide, we're starting to look across the country, and we see now regions where those completion rates are getting cleared. Builders are working through their backlog. And so we do see, as we move into the back half of the year, we're probably going to start trending more towards our historic metric, which is lagged housing starts versus the completion rates, that, that's going to drive the demand going forward.

Now having said that, I mean, the last couple of months, we've seen housing starts and permits at or above that 1.4 million unit rate, which is encouraging in terms of kind of flattening, any kind of a downturn in terms of demand impact to us in the back half. And while we've seen some completion rates increasing, those have been mostly around multifamily, not single family. So single family completion rates seem to be kind of steady in terms of what they've been running in the last several quarters.

So if you kind of play that all through, we think that, if housing starts can continue to trend at that around 1.4 million units as we move forward, even when we start to convert to demand for our products driven more by lagged housing starts, we think that's a very good, constructive market for demand, and that would certainly minimize any impact for us in the back half going into the next year.

A couple of other broad comments I'd say is that, even if we do see some near-term choppiness, I've said this repeatedly as well, we think any kind of downturn is going to be short-lived in terms of depth, duration because of just the fundamental need for more housing, the demographic drivers. There's really no inventory in the channel that needs to be worked through.

So -- and we're starting to see, I think, consumers reset to the 6% kind of interest rates that are coming back in the market, which is why I think we've seen some pretty good prints on housing starts and permits the last couple of months. So I think that would say this might -- we might see some demand slowdown as we move into the back half of the year, but we would expect it's going to be fairly short-lived.

I'd say the last piece, just at a macro level, too, that creates a new potential tailwind to the business is, within the Inflation Reduction Act that was passed, there is a section in there around tax credits for energy investments, including insulation. We think that could create some reinsulation opportunities for us as we move in the back half of the year, and consumers and homeowners become more aware of that tax credit.

We last saw this play out for us after the last housing crisis. As part of some legislation, there were also tax credits, and we saw pretty good realization rates by homeowners taking advantage of that. So we think that can be another demand mitigator, any slowdown in new construction, that creates some opportunities for us as we move through the back half of the year and into 2024.

Operator

Our next question is from John Lovallo from UBS.

John Lovallo
UBS Investment Bank, Research Division

I guess carryover pricing has been pretty favorable across each of the businesses. Can you maybe talk about the opportunities for incremental pricing actions as we move through the year?

Brian D. Chambers
President, CEO & Chair

John, I would say I think our commercial teams have done really exceptional work across the company to manage price through a very challenging environment, a high inflationary environment over the last several quarters. So as we come into this year, we continue to look at the demand environment, we continue to look at the inflationary environment, and we'll continue to make decisions then in terms of additional pricing actions that are required.

You might have seen we recently announced an increase in our Roofing business with an effective date of mid-May. We continue to look at the inflation drivers in our Roofing business overall. While we think we're going to see a little bit of benefit here in the near term on lower asphalt costs, we're still seeing inflation in our other materials. And frankly, concerned about some of the supply cuts and other things that are going on in the oil markets that could create some supply constraints as we move into the back half of the year.

So I think we're managing that in terms of the inflation we see in front of us. We've made that announcement. We'll see how that plays out in terms of realization -- or 3 weeks, 4 weeks away from that implementation. I think we're going to continue to manage pricing very similar going forward as we have demonstrated historically here over the past several quarters, and we'll make those calls as we need to as we move forward.

Operator

Our next question is from Stephen Kim from Evercore.

Stephen Kim
Evercore ISI Institutional Equities, Research Division

Yes. Good results. I wanted to ask a question about Insulation, and in particular on the technical side of that business. You've spent a lot of time and gave a lot of color around the resi North America.

But I'm curious about the price performance in the segment. It suggests that you've had some very good pricing in the other part of your business, in the technical side of the business. So wanted to see if you could explain a little bit more about what the dynamics are there.

Because I think the fiberglass in North America is pretty well understood, but it seems like you've achieved some very good pricing in the international markets. I think you called out Paroc also having some good pricing. Help us understand sort of what's driving the pricing outside of resi North America.

Brian D. Chambers
President, CEO & Chair

Yes. Thanks, Stephen. Appreciate the comments. And yes, we've had very good performance in our technical and global businesses within Insulation and in fact have been working not just in terms of the pricing actions, but the innovation and other aspects really to strengthen that part of the business. And as you rightly call out, that's now about 2/3 of the Insulation business. And this has been an area of focused investment for us over the past several years to really kind of strengthen out that product line. Our mineral wool, FOAMGLAS, foam product lines that are big opportunities for us that we think we can continue to grow and develop.

So as you pointed out, about 2/3 of that business is really focused in nonresidential applications. And we're fortunate, because of the breadth of our product offering, we operate in a lot of different commercial, industrial type of verticals. So not just office buildings, but we're in the data centers and airports and health care facilities. So that wide variety -- and a lot of industrial applications. That wide variety of end markets have given us the ability to generate, I think, really good results.

The key part of this business that we really like and historically we've seen, is while we generally see earnings movements around volumes that can move up and down, it's much more -- much less, sorry, price-sensitive. And that's because a lot of these products are specified. They're embedded into applications, that provide unique performance characteristics in terms of thermal performance, structural performance. So that gives us the ability to price these relative to values. And those price points generally are more sticky than we've seen historically in some of our residential applications.

So when I look kind of -- I'll take Europe. We've seen good performance by our European team really in a very challenging market. So we expected that our volumes in Europe would step down as we started the year given the macroeconomic environment. We have seen that play out. But again, we're maintaining very strong price/costs, and this was worked by the team last year. And if you recall, last year, we kind of lagged on a price/cost to start the year, we got on top of that midyear and then we've seen those price points hold in the market. And now that we've gotten on top of that, we're seeing good price/cost performance.

So I think we're managing through the dynamics of demand. But we've seen demand, I would say, step down in Q1, but we're seeing things stable. And would expect demand environment to stay fairly stable as we move through the first part of the year in Europe around these products.

In North America, we saw a little bit of a step-down in volumes again to start the year tied to just, I think, a general slowdown in commercial industrial applications broadly. But again, very moderate in terms of that step down and we've been able to manage price very well. The team has done a great job there. And so we've been able to maintain a positive price/cost mix even with some of that step-down. So I think as we move forward, we're expecting that our commercial and industrial markets are going to continue to generate good results, but we're going to be managing through, we think, some near-term volume slowdowns as projects get reset.

Last thing I'd say though, there is one product category, particularly our FOAMGLAS, where we have actually seen demand stay very solid for us and we're seeing kind of a growing backlog in quoting activity. And this is a product line that gets used in industrial segments and LNG segments. And I think we're seeing a real uplift both in Europe and the U.S. markets around that application, and we think that's going to drive some growth for us going forward.

So overall, I think we're well positioned, we like the product line, and we've seen very good execution by our team there.

Operator

Our next question is from Keith Hughes from Truist.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Question on Roofing and asphalt. I know in the prepared comments, you talked about how we're heading into the paving season, there's usually some inflation in asphalt as we head into that. I guess my question's more year-over-year. Sort of what's your expectation on your asphalt inputs over the next quarter or 2 based on where the industry is right now?

Brian D. Chambers
President, CEO & Chair

Yes. Thanks, Keith. So we saw asphalt costs coming into the year starting to pick up on a month-over-month basis. We guided to that as far as Q1. So we saw those asphalt costs month-over-month pick up. In our Q2 guide, we expect to see that continue. Traditionally and historically, when we've come into the paving season, the summer season, we see asphalt costs move up. Majority of asphalts are used in paving, not in roofing applications, so that tends to drive a lot of the cost structure in the business. And we would expect that we're going to see a pretty heavy paving season with the infrastructure investments that are being made and -- by states and federal governments. So we're expecting that our asphalt costs are going to continue to move up sequentially.

Now on a year-over-year basis, though, we do expect to see a little bit of deflation in the quarter in terms of our overall asphalt cost. And I'd say as we move forward over the next couple of quarters, we would expect to see paving costs continue to move up in line with just seasonal demand patterns. And the big concern is, again, kind of the supply cuts that have been announced, how those are going to impact oil prices, which ultimately then impact asphalt costs. And that's a bit of the unknown that we're going to have to play through as we move into the back half of the year.

Operator

Our next question is from Michael Rehaut from JPMorgan.

Michael Jason Rehaut
JPMorgan Chase & Co, Research Division

Congrats on the results on the first quarter. I wanted to zero in a little bit on Composites. And you're expecting revenues down low double digits, but some better EBIT margins of also low double digits compared to this first quarter. I wanted to get a sense of if that's purely driven by perhaps a potentially higher revenue number. Looks like low double digits down would be still decently higher than the last couple of quarters.

And if there's anything that we should think about from this new low double-digit EBIT margin in the second quarter that might be still holding back performance as we think about going into the back half of the year.

Kenneth S. Parks
Executive VP & CFO

Yes. Thanks, Mike. Thanks for the questions, and let's just kind of take each one of those apart a little bit. You've really focused in on one of the really important points as we're thinking about moving from Q1 to Q2. And we'll talk about that around Composites, specifically around your question, which is what is really driving that step-up?

Now you've called out one thing that's absolutely one of the drivers that's going to help us step up those margins closer back to where we think this business runs in the long term, which is in the mid-teens operating margin rate. And that is better volumes, right? And we're seeing -- we're anticipating to see a little bit of step-up of volumes in North America. We would expect sequentially volumes to be a bit higher in Asia, part of that driven by just how Chinese New Year falls and the fact that the second quarter won't be dealing with that. But certainly, volumes are one of the drivers.

One of the important things to think about also is energy costs. And energy costs, as we saw it peak specifically in Europe in the last quarter of last year, we also talked about on the last call that while we were seeing energy costs peak, we were also seeing our customers start to kind of, let's say, rationalize or make sure that they had the right levels of inventory on hand. So pulled back a little bit on their buying patterns as we finish the fourth quarter.

Therefore, just think about how that works. We ended up with a bit more inventory on our books that we were carrying over to the first quarter that actually had that higher energy cost in it because it kind of gets built into the inventory value, that then rolls out as that product goes out the door and hits the P&L.

So that was one of the variables that caused the step down in operating margins between Q4 and Q1. And certainly, that's what we saw, that's what we anticipated. And as we noted, the business performed pretty much exactly like we had guided for the first quarter. Now as we go to Q2, as we all know by watching energy cost, not only in the U.S. but in Europe, those rates per TTF and/or the rates in the U.S. have stepped down pretty sizably, not only year-over-year, but where the peak levels were at the end of 2022.

So we feel really confident that the part of our step-up that's not only volume related, because we feel good about that, but our step-up in performance due to the fact that we're kind of absorbing and have absorbed this higher energy cost as we move through Q3, Q4 last year into Q1, will provide us a lift as well. And if energy rates stay where they are, we would expect that to continue to be a positive contributor to margin performance in the Composites business as we move through the year.

So kind of I'll wrap up the comment to say -- because you did ask about what does this mean for things that are holding back our performance? And I kind of take that, and we'll say what that means to me, is the fact that the question is, do we really believe we're going to see this business move back towards the mid-teens operating margin performance that we saw in 2022? And the answer is solidly yes.

I mean, we're absorbing the fact that markets declined. We absorbed kind of some downtime and curtailment to adjust to those margins. We'll see a little bit more of that in Q2. We're certainly seeing the -- kind of absorbing, that higher energy costs flow through our business. And we're seeing volumes kind of -- I won't across-the-board say bottomed out. But certainly, what we're seeing is some incremental improvements as we move forward.

So we feel really good about how the Composites team has executed through the headwinds that they've seen kind of come on them in Q3, Q4 into Q1. And we feel like this business is tracking towards getting back to exactly where we've said. It's going to be through all the structural improvements and pivoting, as we say, to more value solutions, which is mid-teens operating margins.

Operator

Our next question is from Anthony Pettinari from Citi.

Gregory Andreopoulos
Citigroup Inc., Research Division

This is Greg Andreopoulos on for Anthony. Thanks for the detailed discussion. So just some sizable expansionary projects in the pipeline for Insulation, I think in Arkansas, and Roofing in Ohio. I'm just wondering, what type of cost curve gains you can realize from projects like this? And if there's a targeted level of returns for projects of this size, whether it be IRR or ROIC or another returns metric.

And just as a quick kind of follow-on or related question. I'm wondering what makes projects like these more attractive than bolt-on M&A in the current marketplace. And if you could maybe just touch on what you're seeing in the current M&A landscape, whether there's a shortage or surplus of opportunities, valuations. And any color you could provide would be greatly appreciated.

Kenneth S. Parks
Executive VP & CFO

I'll start out and then I'll let Brian kind of take the M&A part of this. But what I would say is that, as you think about these projects -- and we've outlined, as you said, some Insulation projects. We're also in

the midst of building out a nonwovens facility also in Arkansas for the Composites business. We look at each one of these. And you can imagine the points that you lay out, what are the returns? What's the commercial market look like? And what does that create as far as an IRR and/or a discounted cash flow? Every one of these things are positive to that contribution.

And it's not just that the project itself has the right financial metrics, but as we look at it, we really start from what is the strategy of where we're trying to grow. And you've heard Brian say many times, building out our material science capability and our manufacturing processes. So we kind of start about how are we going to continue to grow and expand from the businesses that we have today?

Again, we laid that out in November of 2021 in our Investor Day. And therefore, as we look at these projects, we say, not only does it have good financial returns, but it fits that strategy. And so these all have those kind of returns, and we're confident that they will deliver, exactly how we laid out the investment, to go both from an investment side as well as the return side.

Now as we think about M&A, you won't be surprised to hear it's not necessarily a choice of do we do all growth projects internally for organic growth, or do we look at things on the M&A front? But there's things in both buckets. And part of our job is to look at that, to look at how do we grow this business organically and then how do we look at the M&A landscape and pick those things that add on to our portfolio to build ourselves out exactly how we lay out the strategy.

Brian D. Chambers
President, CEO & Chair

And I would add here. I think when we look at our balanced capital allocation strategy, we're really focused on 3 big pillars. One is to continue to invest in organic growth and productivity initiatives. And these organic growth projects for us, we see great opportunities in the market to grow within those product lines, to strengthen our core positions and generate great returns, as Ken talked about. So that's a key part of our capital allocation strategy, to always look internally in terms of growth or productivity initiatives where we can drive the performance of the business.

I think the second big part of that is to look through and look at acquisitions that can expand and broaden our capabilities into new product adjacencies that really leverage our material science capabilities, our marketing, our manufacturing capabilities. I think you saw that a little bit in some of the acquisitions we did last year in terms of -- we've moved into a decking category which we think provides great structural lumber growth opportunities in a composite material, we expanded into a new insulation material. So I think we're targeted around those product adjacencies that we think we can grow at a faster rate and really kind of strengthen the overall performance of those businesses within our company.

And then the third one is also always looking at how we return cash back to shareholders. And so we have a very balanced approach to return, approximately 50% over time through dividend, share repurchases.

So I think we kind of evaluate our capital allocation choices around those 3 priorities and make decisions that we think are going to be in the best long-term interest of the company in terms of growth and performance, and shareholders in terms of value creation.

Operator

Our last question we have time for today comes from Susan Maklari from Goldman Sachs.

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

Brian, perhaps building on your comments in the last question, can you talk a bit about the cash generation of the business, especially as conditions normalize? And how you're thinking about the level of free cash flow you can generate here relative to where we were prior to the pandemic.

Brian D. Chambers
President, CEO & Chair

Sure. So I think we've been very pleased with the performance of the businesses, our focus on working capital, our focus on reducing the capital intensity within the company that has resulted to a very strong operating cash flow performance. Last year, I think topping close to $1.8 billion in terms of operating cash flow. Free cash flow last year, about $1.3 billion, close to and at around 100% conversion rates.

And so those are the metrics that we look at to say we think we've created a company and built an operating structure that can continue to generate very strong operating cash flows, very strong free cash flows that give us the opportunities, as I talked about in my last answer, to then deploy that cash across those capital allocation priorities.

So we feel we've built a great engine within the company in terms of working capital management, CapEx management and operating performance that's going to continue to generate strong operating and free cash flows as we go forward.

Kenneth S. Parks
Executive VP & CFO

And I think it's important to point out, and maybe I'll add on just a little bit to that. The performance of the business from a cash flow perspective, as Brian points out, really good working capital performance. I think there was concerns coming into this inflationary cycle that our pricing mechanisms may not have been where people had anticipated them to be to always recover that inflation, and we've been able to do that consistently since this started in the middle of 2020.

But what I want to point out is also think about the free cash flow generation that we've done in the last couple of years in light of our cash tax rate also stepping up. As you know that for the last decade or so, we've been operating with -- we had been operating with a cash tax loss carryforward in the U.S. that we basically exhausted. So we saw our cash tax rate in the U.S. go from essentially 0 to something more of a normalized number. And I think that just further attributes kind of good work by the business overall on making sure that we are focused on the profitability of our products, getting them to the market the right way and also managing that working capital really closely.

And also the last point is, as we think about reducing capital intensity over time, you can -- and you see us tick that down. We were at about 7% a few years ago. Last year, I think we ran about 4.5% to 5%. So we continue to focus on all those things that ensure that pretty much in all environments, we're generating really, really strong cash flows, we're growing the profitability of this business and sustaining mid-teens operating margins.

Operator

Thank you. This is all the time we have for questions today, so I'd like to hand back over to Brian for any closing remarks.

Brian D. Chambers
President, CEO & Chair

Thanks, Daisy. And really just want to say thanks to everyone for your time today and your questions. We appreciate your interest in Owens Corning and look forward to speaking with you again during our second quarter call. So thanks, and have a great day.

Operator
Thank you, everyone, for joining today's call. You may now disconnect your lines, and have a lovely day.