

Owens Corning NYSE:OC

FQ3 2023 Earnings Call Transcripts

Wednesday, October 25, 2023 1:00 PM GMT

S&P Global Market Intelligence Estimates

| | -FQ3 2023- | | | -FQ4 2023- | -FY 2023- | -FY 2024- |
|----------------|------------|---------|---|------------|-----------|-----------|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| EPS Normalized | 3.86 | 4.15 | ▲ 7.51 | 2.89 | 13.73 | 14.04 |
| Revenue (mm) | 2528.26 | 2479.00 | ▼ (1.95 %) | 2276.90 | 9705.16 | 9862.80 |

Currency: USD

Consensus as of Oct-24-2023 3:23 PM GMT

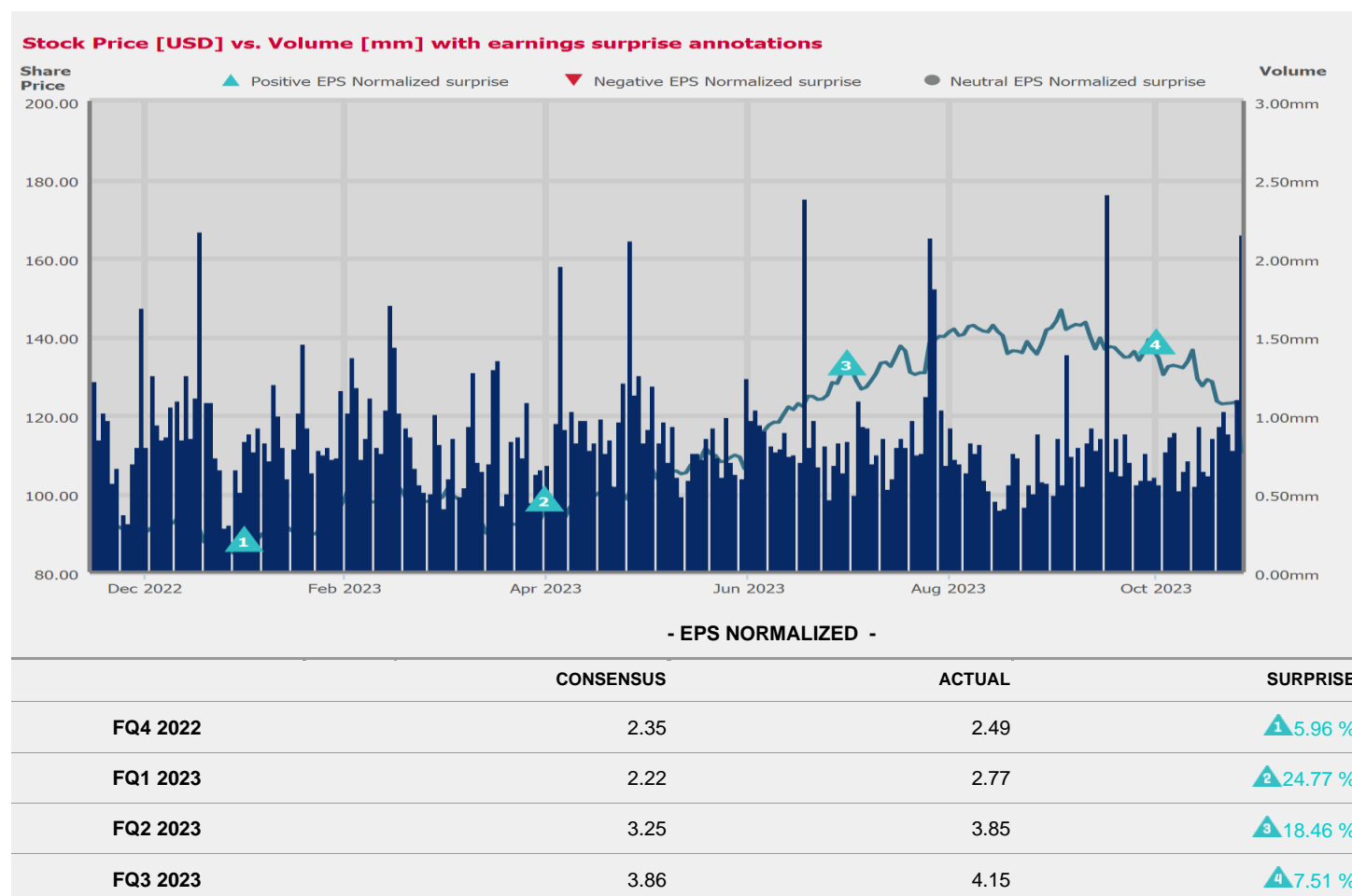


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Call Participants

EXECUTIVES

Amber Wohlfarth
Vice President of Investor Relations

Brian D. Chambers
President, CEO & Chair

Todd W. Fister
Executive VP & CFO

Richard Samuel Reid
*Wells Fargo Securities, LLC,
Research Division*

Stephen Kim
*Evercore ISI Institutional Equities,
Research Division*

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

ANALYSTS

Adam Michael Baumgarten
Zelman & Associates LLC

John Lovallo
*UBS Investment Bank, Research
Division*

Joseph David Ahlersmeyer
*Deutsche Bank AG, Research
Division*

Kathryn Ingram Thompson
Thompson Research Group, LLC

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

Matthew Adrien Bouley
*Barclays Bank PLC, Research
Division*

Michael Glaser Dahl
*RBC Capital Markets, Research
Division*

Michael Jason Rehaut
*JPMorgan Chase & Co, Research
Division*

Philip H. Ng
Jefferies LLC, Research Division

Presentation

Operator

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

I would now like to hand over to your host, Amber Wohlfarth from Owens Corning to begin. Amber, please go ahead.

Amber Wohlfarth

Vice President 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 third quarter 2023. Joining us today are Brian Chambers, Owens Corning's Chair and Chief Executive Officer; and Todd Fister, our Chief Financial Officer.

[Operator Instructions] Earlier this morning, we issued a news release and filed a 10-Q that detailed our financial results for the third quarter 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 forecast 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 in 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 effects 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 thanks for joining us today. I'd like to begin by welcoming our new Chief Financial Officer, Todd Fister, to our call this morning. Some of you had a chance to hear from Todd in his most recent role as President of our Insulation business. He brings more than 25 years of financial, operational and strategic experience to his new role, along with deep industry knowledge and valuable customer perspective. Todd and I have worked closely together over the past several years, and I look forward to continuing to partner with him as our CFO.

During our call this morning, I'll start with a broad overview of our performance, including some of the key focus areas driving our success. Todd will then provide further detail on our third quarter results, and I'll come back to discuss what we are currently seeing in our markets and our near-term outlook.

Overall, Owens Corning delivered another strong quarter as our global teams continued to execute at a high level in response to dynamic market conditions. The sustained quality and consistency of our performance reflects the strength of our team, our market positions and our strategy. I'll speak more about this shortly. But first, I'll begin our review of the quarter, as always, with our safety performance.

At Owens Corning, our commitment to safety is unconditional. During the third quarter, we maintained a very safe environment with an RIR of 0.66, with half of our global locations operating injury-free for a year or more. Financially, we delivered revenue of \$2.5 billion, similar to third quarter 2022, with adjusted EBIT of \$518 million, up 6% year-over-year and adjusted EBITDA of \$644 million, resulting in an adjusted EBIT margin of 21% and adjusted EBITDA margin of 26% for the company in the quarter. In addition, the cash flow of \$581 million in the quarter. And consistent with our capital allocation strategy, we returned \$187 million to investors through dividends and share repurchases.

Throughout the quarter, each of our segments continue to perform well. In Roofing, the strength of our contract network and product offering drove increased demand with a heightened storm season. In Insulation, we saw sequential stability in our technical and global businesses, while experiencing some near-term buying impact in our residential business as demand track more closely to lag housing starts. And in Composites, as expected, we saw a slower market demand and softer pricing for our glass reinforcement products, while input costs continued to moderate.

With slowing demand, we took additional actions to manage our inventories. Our ongoing ability to deliver strong results within these market conditions demonstrates the progress we've made in structuring our company to generate higher, more resilient earnings through the cycle. This improved level of performance is a result of strategic choices we've made and the operating initiatives being driven by our global teams to more fully leverage our enterprise capabilities.

From a commercial perspective, we continue to operate with a focus on helping our customers win and grow in the market with innovative products, unique sales and marketing capabilities and our distinct brand. We've also enhanced our pricing acumen through the use of digital tools, shifted our product and customer mix to higher-end segments and accelerated our product innovation. For example, over the past 2 years, we have increased investments in R&D by roughly 15% annually to advance our material innovation and development capabilities. Through the first 3 quarters of 2023, our unique product and process innovation has translated to the launch of 25 new or refreshed products across all 3 of our businesses.

Operationally, we have increased our manufacturing performance and operating efficiencies through a combination of network optimization moves, new process innovations and productivity initiatives. This ongoing work is increasing the throughput of our existing assets and improving our margins. We are also making targeted production investments in each of our businesses to increase our capacity to meet the growing demand for our building and construction products.

Over the past few years, we have announced a glass nonwoven plant expansion and new coating line and our Fort Smith, Arkansas composites location; a new FOAMULAR NGX insulation plant in Russellville, Arkansas; a new laminate

manufacturing capacity at our Medina, Ohio roofing plant. All of these strategic additions are expected to come online between early 2024 and the end of 2025, providing additional capacity to further strengthen our current market positions.

As we look at additional opportunities to grow, we will continue to be disciplined operators, focusing on markets and product lines where we can build leading positions through our market knowledge, material science capabilities and manufacturing expertise. Overall, through our investments and focused execution, we have structurally improved the margin profile of the company and increased our ability to generate significant operating and free cash flow. Our capital allocation strategy continues to prioritize maintaining an investment-grade balance sheet while investing in organic growth and productivity; acquisitions that leverage our unique material science, manufacturing and market expertise; and returning approximately 50% of free cash flow to shareholders over time through dividends and share repurchases.

Over the past 2 years, given the strength of our operations and confidence in future performance, we have doubled our dividend. And over the past 4 years, we have bought back approximately 20% of our outstanding shares. Linking all of these choices, investments and operating priorities together is our enterprise strategy, which we launched 2 years ago. It focuses on strengthening our position in core products and markets, expanding into new product adjacencies and developing more multi material and prefabricated solutions. The result is a company that is well positioned to outperform prior cycles with opportunities for continued growth.

Now before I turn it over to Todd, I'd like to provide an update on another key performance driver, sustainability, which remains core to who we are and what we do at Owens Corning. In September, Owens Corning joined the European Alliance to Save Energy as the newest partner in its mission to advance energy efficiency and contribute to a more sustainable Europe. We look forward to leveraging this new membership to strengthen our partnership with key stakeholders in the region and share knowledge and best practices on sustainability topics across industries.

In addition, we recently announced 2 other sustainability-related developments. Within our Roofing business, we are advancing a pair of initiatives aimed at recycling shingles. The first effort involves deconstructing waste shingles to reclaim 100% of component materials. A recycling pilot, we began with our partners less than a year ago, has now been proven at scale, positioning us to begin plant trials to incorporate the extracted materials into the development of new prototype shingles.

A second initiative focused on recycling shingles into asphalt pavement is also progressing. We've partnered with the National Center for Asphalt Technology to generate life cycle assessment data on shingle use in pavement. We believe the results will provide asphalt contractors with a clear value proposition to incorporate recycled shingles into their paving mixtures, which can lower the carbon footprint while maintaining road performance. Together, these initiatives support our goal of recycling 2 million tons of shingles annually in the U.S. by 2030 and our broader ambition to create a circular shingle economy and divert shingle waste from landfills. We look forward to providing further updates as these programs move forward.

And finally, Owens Corning was honored to again place in the Top 10 of the 100 Best Corporate Citizens List and first within our industry category. This is the sixth year in a row we have ranked in the Top 10. This list recognizes outstanding environmental, social and governance performance and transparency among the largest publicly traded U.S. companies. This achievement is particularly meaningful as it reinforces the work we do and the way we do it. It directly speaks to the commitment of our 19,000 employees that support our mission to build a sustainable future through material innovation.

With that, I will now turn it over to Todd to discuss our financial results in more detail. Todd?

Todd W. Fister
Executive VP & CFO

Thank you, Brian, and good morning, everyone. I'm excited to be on the call with you today. I've met some of you as Insulation President and look forward to engaging with all of you as CFO. During my time leading Insulation, I worked closely with Brian and our management team as we built the enterprise strategy we shared at our 2021 Investor Day. Over the last few years, I've been executing that strategy to drive structural marginal improvements in insulation, resulting in a stronger and more resilient business. I am thrilled to continue to deliver on that enterprise strategy as CFO.

I'd now like to turn to Slide 5 to discuss the results for the third quarter. As Brian mentioned, we delivered a strong quarter with consolidated net sales of \$2.5 billion, in line with the same quarter last year. Adjusted EBIT of \$518 million and adjusted EBITDA of \$644 million were both 6% higher than the same quarter last year. Overall, we continue to realize the benefit of positive pricing, which tempered the revenue impact of lower volumes in 2 of our segments.

In addition, overall input material and delivery costs were deflationary in the quarter. This, along with ongoing commercial and operational execution, resulted in adjusted EBIT margins of 21% and adjusted EBITDA margins of 26%. Net earnings attributable to Owens Corning for the third quarter were \$337 million or \$3.71 per diluted share compared to \$470 million or \$4.84 per diluted share in the same quarter of 2022. The difference was driven primarily by a \$130 million gain on our investment in FiberTEK in the third quarter of 2022. Adjusted earnings for the third quarter were \$377 million or \$4.15 per diluted share compared to \$351 million or \$3.61 per diluted share in the same quarter of 2022.

Slide 6 shows the reconciliation between our third quarter 2023 adjusted and reported EBIT. For the quarter, adjusting items totaled approximately \$55 million and are excluded from our third quarter adjusted EBIT. They include \$41 million of charges associated with our ongoing cost optimization and product line rationalization actions, and a \$14 million charge related to the recall of certain marine insulation products sold by our Paroc subsidiary, which was initially disclosed in Q2.

Turning to Slide 7. I will comment on our cash generation and capital deployment. The strength of our earnings, along with continued discipline around management of working capital, operating expenses and capital investments, generated free cash flow of \$581 million for the quarter. Capital additions for the third quarter were \$110 million or 4.4% of revenue, up \$16 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 September 30, 2023.

At quarter end, the company had liquidity of approximately \$2.4 billion, consisting of \$1.3 billion of cash, and \$1.1 billion of availability on our bank debt facilities. During the third quarter, we returned \$187 million to shareholders through share repurchases and dividends, bringing the total year-to-date cash return to shareholders to \$530 million. In the quarter, we repurchased 1 million shares of common stock for \$140 million and paid a cash dividend totaling \$47 million. Our capital allocation strategy will remain focused on generating strong free cash flow, returning approximately 50% to investors over time and maintaining an investment grade balance sheet, while executing on our business strategies to grow the company.

Now turning to Slide 8. I'll provide more details on the performance of each of the businesses. The Roofing business delivered another great quarter with revenue growth of 8% and record EBIT. Sales in the quarter were \$1.1 billion. Overall volume was up versus last year with a strong attachment rate for our components products. In addition to higher volume, favorable mix and positive price realization drove the year-over-year increase. In the quarter, the U.S. asphalt shingle market on a volume basis was up 14% compared to the prior year, driven by higher levels of storm activity. Our U.S. shingle volumes trailed the market, primarily due to our continued low levels of inventories throughout Q3 and strong demand in prior quarters. For the quarter, EBIT was \$343 million, up \$114 million versus last year. The EBIT increase was primarily due to positive price cost, higher volumes and favorable mix. We continue to see input costs moderate in the quarter. All of this resulted in EBIT margins of 32% and EBITDA margins of 33% in the quarter.

Now please turn to Slide 9 for a summary of our Insulation business. The Insulation business delivered strong third quarter margins on lower revenue. Q3 revenues were \$913 million, a 5% decrease from the third quarter of 2022, with mid-teen EBIT margins. In Technical & Global, revenue was down slightly year-over-year. Positive price and favorable

mix primarily in Europe were more than offset by lower volumes tied to the overall weaker macro environment versus prior year. Additionally, the sale of our Insulation operations in Russia contributed to the year-over-year revenue decline. North American residential Insulation revenue was down as expected. Volumes were down as demand track closer to lagged housing starts. Insulation EBIT for the third quarter was \$150 million, down \$23million compared to 2022. Year-over-year, the impact of lower volumes, planned maintenance downtime and production investments were partially offset by realization of previously announced pricing actions and deflation from input cost and delivery. Overall, Insulation delivered EBIT margins of 16% and EBITDA margins of 22% in the third quarter.

Slide 10 provides an overview of our Composites business. In the third quarter, the Composites business continued to perform well despite the weaker macro environment for glass reinforcements. Sales for the quarter were \$567 million, down 11% compared to the prior year. The decreased sales resulted primarily from lower volumes and overall negative price as positive contract price was more than offset by negative spot price in glass reinforcements.

Within Composites, while overall revenues were down, we saw growth in higher value building and construction products like nonwovens and OC structural lumber. EBIT for the quarter was \$80 million, down \$46 million from Q3 2022. The EBIT decline was primarily due to lower volumes and associated production downtime as we maintain discipline around inventory. We continue to experience price pressure in the quarter and had slightly negative price cost as we saw another quarter of inflation moderating and deflation in transportation cost. Overall, Composites delivered 14% EBIT margins and 22% EBITDA margins for the quarter.

Slide 11 summarizes our full year 2023 outlook for key financial items. General corporate expenses are expected to be at the high end of our prior range of \$215 million to \$225 million, and interest expense is estimated to be in the range of \$70 million to \$80 million. We continue to expect our full year effective tax rate to be 24% to 26% of adjusted pretax earnings, and we expect our cash tax rate to be similar to the effective tax rate of 24% to 26%. This is down from our prior outlook of 26% to 28%. Finally, our outlook for capital additions is unchanged at approximately \$520 million, which is expected to be roughly in line with depreciation and amortization now estimated to range between \$510 million and \$520 million.

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

Brian D. Chambers

President, CEO & Chair

Thank you, Todd. Our third quarter results continued to demonstrate the sustained quality and consistency of our enterprise earnings. As we move into the fourth quarter, we expect to continue to face a very dynamic market, with the impact of higher interest rates and ongoing geopolitical tensions resulting in slower global economic growth. And looking at our end markets, we continue to see good opportunities in most of our building and construction markets as we finish the year, with increasing pressure in some of our industrial and international markets. We expect U.S. Roofing demand to remain robust driven by storm activity through the first 3 quarters. And many of the key verticals within our nonresidential building and construction businesses in the U.S. and Europe to remain relatively stable.

Overall, for the company, we expect our performance in Q4 to result in net sales slightly below prior year while generating mid-teen EBIT margins. Now, consistent with prior calls, I'll provide a more detailed business-specific outlook for the fourth quarter. Starting with Roofing. We expect revenue to be up mid- to high single digits. We anticipate our volumes to be up mid-single digits, but would expect to trail ARMA market shipments in the quarter due to our strong performance in Q4 of last year.

In the quarter, we expect to realize price from our previous announcements made this year and maintain positive price costs as we finished the year. Consistent with prior years, we also plan to take needed downtimes for maintenance and productivity improvements. Overall for Roofing in the fourth quarter, we anticipate generating EBIT margins of mid- to high 20%.

Moving on to our Insulation business. We expect revenue to be down mid-single digits versus prior year. Positive price realization, along with favorable mix and currency, are expected to be more than offset by lower volumes. In Technical & Global, we expect revenue to be relatively flat versus prior year. Continued price realization resulting from previously announced increases, which we began to anniversary in Q3 and favorable mix in currency, are expected to be offset by lower volumes tied to the broader macro environment in Europe. We also anticipate softer demand in North America and will realize the last quarter of impact from the sale of our Russian operation. In our North American Residential Insulation business, we anticipate relatively stable volumes sequentially but expect lower demand in the quarter versus prior year as we continue to track closer to lagged housing starts.

For the overall Insulation business, we expect input materials to be inflationary, resulting in another quarter of positive but narrowing price cost year-over-year. Given all this, we expect to generate mid-teen EBIT margins for Insulation in Q4. In Composites for the fourth quarter, we expect revenue to be down high single digits versus prior year, with volumes down versus the fourth quarter last year and price becoming a bigger headwind in the quarter. The year-over-year comparison will also be impacted by mix similar to what we saw in Q3 and last year's exit and sale of the Russian operation. We anticipate Composites pricing will be negative, driven by price declines in Asia that have begun to impact other regions. While we expect the net impact of input and delivery cost deflation to be similar to what we saw last quarter, we anticipate price cost will remain a headwind as we exit the year.

Given the slower demand environment in glass reinforcements versus prior year, we will take additional actions to balance our production to current demand levels as we evaluate market conditions and manage inventory. While we continue to see good demand in pricing for our downstream glass non wovens and structural lumber products, we expect the near-term market outlook for glass reinforcements will remain challenging. Overall, we anticipate margins in the fourth quarter for Composites will be in the mid- to high-single-digits. With that view of our businesses, I'll close with a few enterprise comments.

As I shared at the start of the call, over the past few years, we have made several strategic choices and operational investments to leverage our enterprise capabilities and consistently deliver more resilient earnings. Moving forward, we remain well positioned to capitalize on several key secular trends to create new growth opportunities and broaden our market reach, including the increased level of investments being made in residential living spaces; changing construction practices, driving the need for more multi material systems; and the demand for more sustainable building solutions. And as Todd mentioned, we have built an incredibly strong balance sheet, which we will utilize as we continue investing to strengthen the long-term performance of the company. We remain committed to a capital allocation strategy with a balanced approach focused on organic growth and productivity investments, acquisitions that complement our strategic priorities and returning approximately 50% of free cash flow to shareholders over time through dividends and share repurchases. As we finish 2023 and turn towards 2024, and we will remain focused on delivering strong financial results and positioning the company for long-term success. With that, we will now open the call up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question today is from Stephen Kim from Evercore.

Stephen Kim

Evercore ISI Institutional Equities, Research Division

Good results, and thanks for all the commentary. My question is going to be a little more general about market share and margins. There's been a lot of volatility in ARMA shipments relative to your roofing volumes quarter-to-quarter. But overall, industry volume and pricing has been strong in Roofing. And then meanwhile in Insulation, you've taken a lot of capacity actions but pricing has also been strong, and it sounds like there's pent-up rebuild activity needed there. So I'm hoping you can speak to kind of market share versus margins generally across your businesses? And so looking back over the past few years, can you assess for us how your market share has trended in your view, particularly in Roofing and Insulation and how you think about market share versus margins going forward in those 2 segments?

Brian D. Chambers

President, CEO & Chair

All right. Thanks, Stephen. Appreciate the comments and the questions. Let me get started. I'll maybe talk a little bit about Roofing, and then I'll kick it to Todd to talk about Insulation. I think in general over the last few years, we've been very pleased with both our market share and our margins in our Roofing and our Insulation segment. So I think we work constantly to balance that approach in terms of the market where we want to continue to work with our customers, help them grow and win in the market. And that generally results in better volumes for us. And ultimately, we like that to lead to higher market share for our products. And so that's always a continued focus, but it always starts with an approach to how can we help our customers win and grow in the market. And the result of that being gains in market share, and the results of that being increases in margins because we're helping them be more successful in the market. So that's our general approach.

I think overall, in Roofing, I'll walk through the last few years. We've been very pleased with the performance of our Roofing business. We delivered another great quarter. But a lot of that work has been focused on commercially how we position the product line to succeed longer term. We've got a great duration product line, continue to invest in innovation around new colors, new styles. We've been growing our Roofing components business as part of that, and that's part of the mix related margin gains we're seeing in the business as we continue to grow share in that category. And we're seeing contractors increase their attachment rates and so multi material systems on the roof, we think that continues to grow. That also comes with a very strong margin, very consistent with our roofing margins. That's good for us. It's good for our distributors. It's good for our contractors as they sell into the home.

So we see and keep working on innovation and opportunities commercially that we think are going to continue to position us and put us in a position to continue to balance those, too, but also to see gains as we move forward. I think some of the near-term -- our performance relative to ARMA. Again, I think we got to step back and take a longer view. Our performance in Roofing has been very consistent over the last 3 years. And last year, in the back half of the year, we saw industry shipments start to decline a little bit, Our volumes stayed strong, solid because of that commitment to our customers, our contractor growth strategy, our components growth strategy. All of that resulted in fairly constant volumes and good share.

So we're seeing a little bit of that come back in the last couple of quarters with the increased storm demand. We're still on extended cycles. And so the last couple of quarters, we're a little bit under the ARMA shipments but over the long

term, we've been able to keep a very good market position and we're very pleased with the performance of the business. Todd, maybe I'll kick it over to you on Insulation.

Todd W. Fister

Executive VP & CFO

Stephen, I'll give a little bit of context on margin and then talk about the share as well. We view our margin improvement the last few years as being driven by a number of aspects. I mean certainly, the productivity and the network optimization moves that we've made but also our really strong commercial execution in the markets and the value that we brought to customers the last couple of years when market conditions were really strong. So we're happy with the improvement in margins that we've seen over time. When we look at share, we ran our assets very hard in 2022 in order to support our customers as much as we could in that environment. We've had some necessary downtime that we've had to take on some of our larger assets this year, which has impacted share a bit as we've got it into the back half of 2023. As Brian said, we're happy with our share positions. We're adding a lot of value to customers in the market, and by historic standards, these are pretty normal market shares for us in the residential business.

Operator

Our next question today is from Michael Rehaut from JPMorgan.

Michael Jason Rehaut

JPMorgan Chase & Co, Research Division

Great. My question has to focus -- is focusing on industry capacity. And over the next year, how should we think about -- across insulation and roofing, the potential for capacity additions across, again, both sectors, North American residential, insulation and roofing shingles, asphalt shingles. And against that, if there's any anticipated significant changes, let's say, in utilization rates?

Brian D. Chambers

President, CEO & Chair

Thanks, Mike. Again, I'll start, and then I'll kick it to Todd. From a roofing standpoint, we continue to see in the overall market, a continued product shift of more laminates and less strip shingles. And so this has continued over the last 5 or 6 years. It's actually accelerating. So I think there is a need in the roofing market for more laminate shingles. And I think you've seen and probably heard some announcements from other manufacturers, including ourselves for additional laminate capacity but I would say our belief is that continues to be adding capacity that's needed for the market conversion that we see taking place.

So we still feel like it's a well-structured industry and good balance in terms of the production capabilities to meet demand, but we are going to need to see some more laminate capacity being added. So our approach has been a pretty constant view over the last year or so to continue to go into each one of our facilities and find opportunities to unlock trapped capacity, to increase efficiencies and we've been doing that pretty steadily. And so we've been able to increase our laminate production over the last 12 months pretty dramatically. And we're seeing that in some of the growth were in our mix shift. We're seeing in the roofing business today.

We announced a new laminator for our Medina plant that really services the Midwest. I think the other thing to keep in mind in roofing is that it's more of a regional business. This product doesn't travel long distances. So a lot of the capacity adds are going to be in regions that we see growth, regions where we see continuous laminate conversion and growth opportunities. And so that's what's driving our investment decisions to try to increase land capacity to maintain our position in the market.

Todd W. Fister*Executive VP & CFO*

I'll give a bit of context on the North America residential business as well. Right now, we view utilization rates as being very healthy for the industry. When we look at September's data on starts and completions and permits, as well as where this year is landing on a lagged starts basis, we're in this range of about 1.4 million starts in the U.S. We've shared before, we think the industry has capacity to serve a market in range of 1.4 million to 1.5 million starts. And I'd say that's inclusive of some of the announced capacity moves by competitors into 2024. As Brian shared, for roofing, it's a similar story for North America residential. We're very much focused on how we leverage process innovations and productivity work to unlock trapped capacity from our existing assets. We've had good success with that the last few years. We continue to focus on that as the most efficient and highest return source of capacity for us going forward.

Operator

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

Kathryn Ingram Thompson*Thompson Research Group, LLC*

A lot of focus on the commercial and nonres end market. And a question today, as you look across your major operating segments, both in the U.S. and Europe, could you give color in terms of where you see the commercial? What is working? What isn't working and how that colors your view over the next 3 to 9 months.

Todd W. Fister*Executive VP & CFO*

Well, let me start by giving some context on our markets outside of North America and then I can come back to North America. And I'll start with Europe. In Europe, it's important to understand the -- both last year, 2022 as well as this year, we were off to a really good start last year in Europe, really strong market conditions in Q1 and even into Q2 before we started to see the impact of energy and inflation and then more recently, interest rates impact construction activity in Europe.

So as we sit now, we've been sequentially pretty stable in terms of European demand. It's stable off of a low level, but it is stable from Q2 into Q3. And then we expect that stability again from Q3 into Q4. We continue to see good activity in Europe in certain end markets, in particular, for our FOAMGLAS business. We've had good demand for LNG and that's sort of a global phenomenon. But Europe, we see good stability into Q4. But then we need the economies in Europe to really sort through inflation and interest rates and perhaps also Ukraine, for us to see a return to where we were in the first half of last year.

Likewise, Asia is a very similar story. We are seeing weak end market demand broadly in our Asia business for Insulation. North America has real bright spots. When we look at North America activity for manufacturing construction, when we look at some of the larger projects, and again, LNG that we saw quite a bit of our FOAMGLAS business into, we are seeing good activity in pockets of commercial in North America. We're seeing stability in other pockets. And as you would expect, in smaller pieces of our business like office buildings, we're seeing some weakness. So overall, as we look forward, certainly for fourth quarter, we expect stability in our commercial business. And then we'll discuss 2024 more as we get into the February call.

Operator

Our next question is from Adam Baumgarten from Zelman & Associates.

Adam Michael Baumgarten

Zelman & Associates LLC

Just on Roofing, I was just curious what kind of demand trends you're seeing in the nonfoam-impacted markets at this point?

Brian D. Chambers

President, CEO & Chair

Yes. Thanks, Adam. I think when we look across the U.S., most regions of the country have been impacted in some form or fashion by some increased storm activity. I'd say the regions that probably stand out is -- the least impacted would be the kind of the Pacific Northwest and then the Northeast. There, we've not seen that kind of storm demand and volatility in terms of increase in demand. And I'd say that the remodeling and R&R activity has been steady. Again, a big part of our offering is a repair replacement model, and we still see those demand trends pretty solid.

So I think as we look through the incremental storm demand to your question as well, I think we see fundamentally underlying still good, strong repair remodeling activity going on across the roofing business. Now again, it's been accelerated through a lot of incremental storm demand. But I think the fundamentals are still pretty solid. And then a smaller part of the business is tied to new construction. We actually think going into 2024, that becomes more of a tailwind because we do think housing starts are going to continue to grow. So while I think the storm activity is carrying a lot of the headlines this year, and it is at an extremely high level, multiyear high. We think that's going to carry on into next year. We're still seeing good repair replacement activity in those non-impacted regions.

Operator

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

Richard Samuel Reid

Wells Fargo Securities, LLC, Research Division

Awesome. Quick one on Insulation. You guys have been calling out favorable mix now for several quarters, and it looks like that continued this quarter in Insulation. Just curious as to how sustainable you think those mix benefits could be? And then maybe could you break out some of the mix tailwinds that you might be seeing on the technical side versus the residential side as well.

Todd W. Fister

Executive VP & CFO

Great. Thanks, Sam. Sure, I'd be happy to give more context on mix and what we see going forward. A big part of our mix really relates back to the previous question on commercial end markets. And we're seeing good mix out of Europe right now, in part because we've seen good stability in our FOAMGLAS business and some of our technical insulation product lines within the mineral wool category in Europe.

As we've talked about technical and global businesses before, we've talked about the properties of these products being a little more complex than the properties of our residential products, where we deliver thermal performance. But we also deliver other properties with our insulation material that tends to create really close partnerships with customers and contractors on the use of our materials in these end markets. So we've seen relatively stable demand in some of those categories compared to overall conditions in Europe that's driving favorable mix. And our growth in Technical & Global continues to be a priority for us. We continue to invest in innovation as well as our own processes in order to support growth in that business going forward. So I would continue to expect those to be strong pieces of our business.

Operator

Our next question today comes from John Lovallo from UBS.

John Lovallo

UBS Investment Bank, Research Division

Maybe just switching gears to Composites. It looks like Composite volume is expected to be down in the fourth quarter on a year-over-year basis. But I guess the question is, should it be down less year-over-year than what happened in the third quarter given the easing comps in Europe and Asia? And along the same lines, contract pricing seems like it held up but it sounds like it may turn negative in the fourth quarter. Is that the right way to think about it?

Brian D. Chambers

President, CEO & Chair

Yes. Thanks, John. Let me start this overall Composites or Composites -- we delivered a good quarter relative to some of the glass-reinforced volume weaknesses that we're seeing in the market. And really, I think we continue to face headwinds in our industrial markets and in our international markets. So Kathryn had asked about that a little bit earlier as well in terms of Europe and Asia. So I think the volume decline we're seeing is across the board. But I would say that we are starting to see some stabilization in several regions.

So the volume declines, we would expect would start to be less severe than what we saw in Q3, in terms of some of the year-over-year comps. But it is a headwind that we continue to face in the market. And really, when we look at industrial production globally, we still see that pretty weak in several regions. It's still negative. I think probably the bright spots, I'd say we see is North America. We've seen volumes hold up better in North America. We've seen volumes hold up better in India in terms of performance. So regionally, I think we are seeing some areas that are stabilizing but we're still seeing weakness in Europe. We're still seeing weakness in China, and those are going to be some of the headwinds that we face going forward in terms of volume opportunities.

Just to finish that cut though. I would say part of our strategy has been to focus on applications that we think we can have unique advantages, primarily building and construction, renewable energy, infrastructure. I'd say our Building & Construction segments, though, particularly in Europe and North America, are holding up very well. We talked about that in our comments around our glass nonwovens business, our WearDeck, our structural lumber business. Those are applications inside building construction that are actually holding up very well, relative to some of the other industrial applications in some of the other regions.

So we expect to see some volume headwinds. But again, that should comp a little bit better as we go forward. The downside and knockdown effect of that is we are starting to see continued pricing pressure, particularly in our spot pricing business. That's primarily in Asia Pacific, primarily in China and Korea and Japan, but we are starting to see that now with weaker volumes in Europe and North America starting to impact price points in those 2 regions, as well these other 2 regions. So our guide was then around contract pricing in Q4. We still think it holds up well, but we are also facing some inflationary clauses that are going to start to be impacted where we are seeing deflation in energy.

A lot of the contracts that we talk about have those kind of energy inflation, deflation clauses in them. So the market price that's established in the contract is still holding, but there are some deflationary causes kicking in. So we see a combination of that in Q4 and then more pressure on spot pricing, which is turning the overall pricing negative in the quarter. And those are going to be some headwinds that we're going to face as we start 2024 in glass reinforcements.

But I'd say outside of glass reinforcements, our nonwovens business, our other downstream products, we see good volumes. We see good pricing strength there. So that's going to be a tailwind in the business that we're going to continue to invest and grow in.

Operator

Our next question today is from Joe Ahlersmeyer from Deutsche Bank.

Joseph David Ahlersmeyer

Deutsche Bank AG, Research Division

Sorry, I was on mute. I'll get right to my question then. The 4Q margin guide, just following up on Composites. Is it right to think maybe that, that margin in 4Q that you've guided do not necessarily representative of what full year next year could look like. I recognize you don't get in to guide beyond the quarter, but maybe there's 2 things. The price might be hitting you a little bit quicker than the deflation works through inventory. And then on that inventory point, maybe your near-term production under absorption is also more severe upfront as you're managing those inventories. Is that the right way to think about it?

Brian D. Chambers

President, CEO & Chair

Yes, Joe, it is the right way to think about it. I wouldn't -- we're not guiding out to 2024, but I wouldn't want anybody taking that fourth quarter performance and thinking that's a long-term guide, in terms of what the performance of the business can deliver on into next year. But certainly, in the quarter, you're right, we're facing some downward price pressure incrementally. We're also very conscious and focused on managing our inventories and our working capital to generate strong cash flow. So we are going to manage those inventories against this current demand environment. That's going to lead to some incremental production downtimes.

Now we'll leverage those downtimes to do maintenance and other things. So we take advantage of that. So when volumes do come back, we're in a great position to service that demand going forward, but that is going to be something that impacts us here in Q4 incrementally in terms of that downtime. So that's the combination that we're working through in the near term. But yes, I wouldn't want that to be perceived as any kind of a guide going into 2024.

Operator

Our next question today comes from Matthew Bouley from Barclays.

Matthew Adrien Bouley

Barclays Bank PLC, Research Division

I wanted to ask on Roofing margins running over 30% in the past couple of quarters. Think your fourth quarter guide implies you may settle around somewhere in the high 20s for the year. You've, obviously, made a lot of investments in Roofing and Components and your contractor network. So really, the question is the longer these margins stay where they are, it begs the question of what is the new normal. Maybe oil prices are rising. My question is mechanically, what would it take for Roofing margins to normalize from here? And do you have any kind of color around where those margins may settle over time.

Brian D. Chambers

President, CEO & Chair

Yes. Thanks, Matt, and I appreciate you calling out the strength of the margins that we're seeing. And I guess I'd answer it this way. I mean, when we look at what's driving the margin performance in the business, I'd say we are very focused on what we have done and are doing to the business to drive incrementally higher margins. It is around our product mix and more laminates versus strips. It is around our components growth and the actions we're taking there to expand the product line that also generates very strong margins. We're getting great manufacturing performance. We're getting good price realization for the value of the products we're bringing to our customers and how they're growing.

So all those are things that we control in terms of our investments in commercial tools and digital tools and innovation and new products and helping our customers in the market. So we think those are sustainable in terms of margin performance in the business in the space. I think we are benefiting this year with some deflation, particularly in asphalt. That is always kind of moves around in terms of inflation and deflationary environments, but we've got a great track record of managing the performance of the business through those dynamics. But that's always going to be something that fluctuates margins as we go forward in terms of input cost materials primarily in asphalt and then overall volume in terms of the demand environment.

So those are all the factors that kind of go into the margins. And certainly, we're seeing a lot of those swing towards a very positive away here in the last couple of quarters in terms of not just great operational performance by our team, but then the price/cost dynamics and some very strong volumes that are playing in. But as we go forward, I think we continue to look at what is that right long-term performance that we should expect, accounting for some of the market dynamics around inflationary pressures or volumes. And I think we'll be prepared to talk more about that as we move into next year but we feel really good about how the business is positioned to finish this year strong, start next year strong and continue to deliver very high margins.

Operator

Our next question today is from Keith Hughes from Truist.

Keith Brian Hughes

Truist Securities, Inc., Research Division

A question on residential insulation down, as you mentioned in the prepared segment. Can you talk about how much of a sell-through or was there an inventory adjustments on any of the channels in that product?

Todd W. Fister

Executive VP & CFO

Thanks, Keith. Really, we're not seeing a lot of inventory adjustments in the channel right now. We've seen relatively normal inventory levels in the channel this year. So a lot of what we're seeing is sell-through. And as we shared, we're starting to see demand track a little closer to lagged housing starts as we work through a bit of the backlog in starts earlier this year. And so really it's more of a sell-through story than it is an inventory adjustment story.

Operator

Our next question is from Phil Ng from Jefferies.

Philip H. Ng

Jefferies LLC, Research Division

My question is on Insulation. I just want to get a sense how much line of sight do you have? And how should we think about the volume cadence progressing in that business in the next few quarters with interest rates approaching 8%.

Brian, you sounded pretty optimistic on the new construction piece. Certainly, the public builders are calling for growth in 2024, but multifamily looks a little softer. And then Todd, you highlighted how you're upbeat on the commercial industrial side in the U.S. So kind of help us unpack all those components. How we should think about the volume cadence, call it, the next 6 to 12 months in your Insulation business?

Todd W. Fister

Executive VP & CFO

Sure. Thanks, Phil. I'd be happy to give a bit of context here. So let me start with what's really happened this year is we've seen mortgage rates increase through the year. I think it had a bit of a surprising impact on the market, which is the resale -- the availability of resale homes is so limited now that is actually pushing demand towards new residential construction. And I think the builders have done a great job in a 7% to 8% mortgage rate environment of finding ways to get homeowners into new homes.

As we see mortgage rates continue to increase around this 8% range, again, it makes it even more difficult for existing homeowners to leave really low rate mortgages and move, and have those existing homes on the market. So as we look at -- our single best number would be the starts and permitting activity that we saw last month, which incorporates a lot of this new news around interest rates and mortgage rates.

Starts activity remained pretty solid at about 1.35 million starts. And permitting activity, as you've commented on, was a bit above that. We actually benefit as well from the shift to single-family. So when you look at take per unit for Insulation, it's structurally higher on single-family properties than it is on multifamily properties. So this mix shift as well within the starts number towards single-family, ultimately, is a net positive for us. So we've guided to relatively stable demand in the fourth quarter. We'll know more as we get into next year on starts through the next quarter. But certainly, we've seen the builders and new construction be more resilient than I think a lot of folks expected coming into 2023.

Operator

Our next question today is from Truman Patterson from Wolfe Research.

Truman Andrew Patterson

Wolfe Research, LLC

Could you talk about the success you've had so far in your -- both your August Roofing price increase as well as your fall insulation price increase. I'm just trying to understand what assumptions you made in regard to both of those in your fourth quarter guidance?

Brian D. Chambers

President, CEO & Chair

Thanks, Truman. Yes, in terms of the Roofing price increase, and I'll have Todd comment on Insulation. But on the roofing side, we announced that early August. And we're seeing good realization on that, and I put that into the guide in terms of the expectation in Q4 to close out the year. So we've seen good demand in the market for the products. And I think part of this is also we're seeing asphalt deflation, but asphalt costs have been running pretty stable. And normally, we'd expect to see a little bit of a decrease even in Q4. We're not seeing that. I think that's tied a little bit to WTI oil prices moving up a little bit, and I think that's creating some uncertainty as we go into next year in terms of oil cost, asphalt costs. So overall, we're seeing good realization of that August increase.

Todd W. Fister

Executive VP & CFO

From an insulation standpoint, we announced an increase effective September. It's going to have a pretty modest impact here on Q4 but really starts to set up the conversations with our customers for 2024. It's pretty unusual for us to have a Q4 increase. We saw some expectations for some inflation and some of our costs heading into Q4 and we announced, but the net impact of it is going to be pretty modest in the quarter and included in the discussion Brian had of our expectations for Q4.

Operator

Our next question is from Susan Maklari from Goldman Sachs.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Maybe thinking more strategically about the business. You've made a lot of changes in the last couple of years between acquisitions and some divestitures. As you think about a slower global macro environment, are there opportunities that you can take advantage of within that and perhaps maybe even build on some of these smaller bolt-ons that you've done more recently?

Brian D. Chambers

President, CEO & Chair

Thanks. Appreciate the question. The answer is yes. I think we see opportunities both within our core businesses in terms of where we see continued organic growth investments we can make. I think we see additional investments we can make to improve the efficiencies of our operations that even further strengthen our margin profile within our core businesses. So when we think about just broad capital allocation, I think we focus on organic growth and productivity. And given our returns on invested capital, I think we continue to look even more on where we can make investments organically to drive growth, also to drive productivity through our existing assets. So I think that's a big focal point of investment opportunity.

And we continue to look for acquisitions where we can leverage our material science capabilities, our market and channel knowledge, our manufacturing expertise. And we think we've got a broad set of capabilities that we could apply to additional product categories. The one that -- we've demonstrated that through some of the smaller acquisitions in terms of expanding into new categories WearDeck and decking and structural lumber is something we're excited about can grow. We've expanded into some different insulation products.

So we do see opportunities to deploy capital to acquisitions. Now we're going to be very disciplined in that approach in the space in terms of how we allocate capital to that. But I think, again, we've got a core set of capabilities now. I think we've got a proven track record around execution and operational performance that we think we could utilize in some new product categories, and that's going to be a part of our focus around capital allocation as we go into next year.

Operator

The last question we have time for today is from Mike Dahl from RBC Capital Markets.

Michael Glaser Dahl

RBC Capital Markets, Research Division

I want to go back to Roofing and talk about kind of the top line and the industry environment. Our sense is the sell-through trends have been in excess or in line with the industry's capacity to ship units, and that looks set to continue in the fourth quarter. I know there's always some seasonality. Your guidance is for revenues to be down about 20% sequentially 3Q versus 4Q. So again, I understand the difficult year-on-year comp versus the market, but you did just deliver a quarter that was just under \$1.1 billion in revenues, and the demand seems to be there, in terms of kind of stable sequentially.

So help us bridge the difference. Like what -- do you not see the market that way? Are you baking in some seasonality or unfavorable weather? Is it the downtime? If it's the downtime, I know there's multiple parts, but if it is the downtime, why take the downtime now when demand is strong versus waiting until some of the storm demand subsides. Just help us think through that kind of sequential trend a little bit more in Roofing and your expectation versus the market?

Brian D. Chambers

President, CEO & Chair

Yes, sure. Thanks, Mike. Yes, and it's -- I guess I'll start with we expect that the market demand is going to stay strong, okay? There's incremental storm demand. That demand, we don't believe, based on material and labor availability is going to get all serviced this year and going to carry over into next year. So what you're seeing in our guide is not a reflection of a market slowdown. It is exactly, as you said, a reflection of 2 fronts. One is that there is expected seasonality. We are going to come into a time of year where just historically, we've seen more rain and snow that impact the ability to get roof work done on a broad scale and we think that is going to slow down a little bit.

We also do see the impact of -- and that's, I'd say, the primary impact. We just think there's going to be a seasonal effect to that. So that could vary a little bit depending on how weather patterns play out. But that would be into our guidance, we would expect a more normal seasonality in terms of where regions are going to slow down. We are embedding into that a little bit of our own downtime, but I'd say we're still going to produce and ship more shingles in the fourth quarter than we did last year. So we are trying to keep pace with that demand. But some of the downtime, unfortunately, is something we just have to do in terms of just equipment upgrades and maintenance. So we just can't run the assets beyond certain maintenance schedules, and we need to be particularly sensitive to that. So we're able to actually service and run at the efficiency levels we need to when demand ramps back up in the first part of next year.

So -- but I wouldn't want there to be any confusion that our guide is set around a slowdown in the market. But the bulk of that outlook is really based on seasonal weather patterns in terms of what we would normally see and what we're expecting to see here in Q4.

Operator

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

Brian D. Chambers

President, CEO & Chair

Thanks, Daisy. Let me just say I want to thank everyone for making time for joining us on today's call and for your interest in Owens Corning, and we look forward to speaking with you again during our fourth quarter call. Thanks, and take care.

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

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