

Owens Corning NYSE:OC

FQ2 2025 Earnings Call Transcripts

Wednesday, August 6, 2025 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.82	4.21	▲10.21	3.77	13.49	14.69
Revenue (mm)	2705.97	2747.00	▲1.52	2690.82	10434.53	10640.81

Currency: USD
Consensus as of Jul-29-2025 4:26 PM GMT

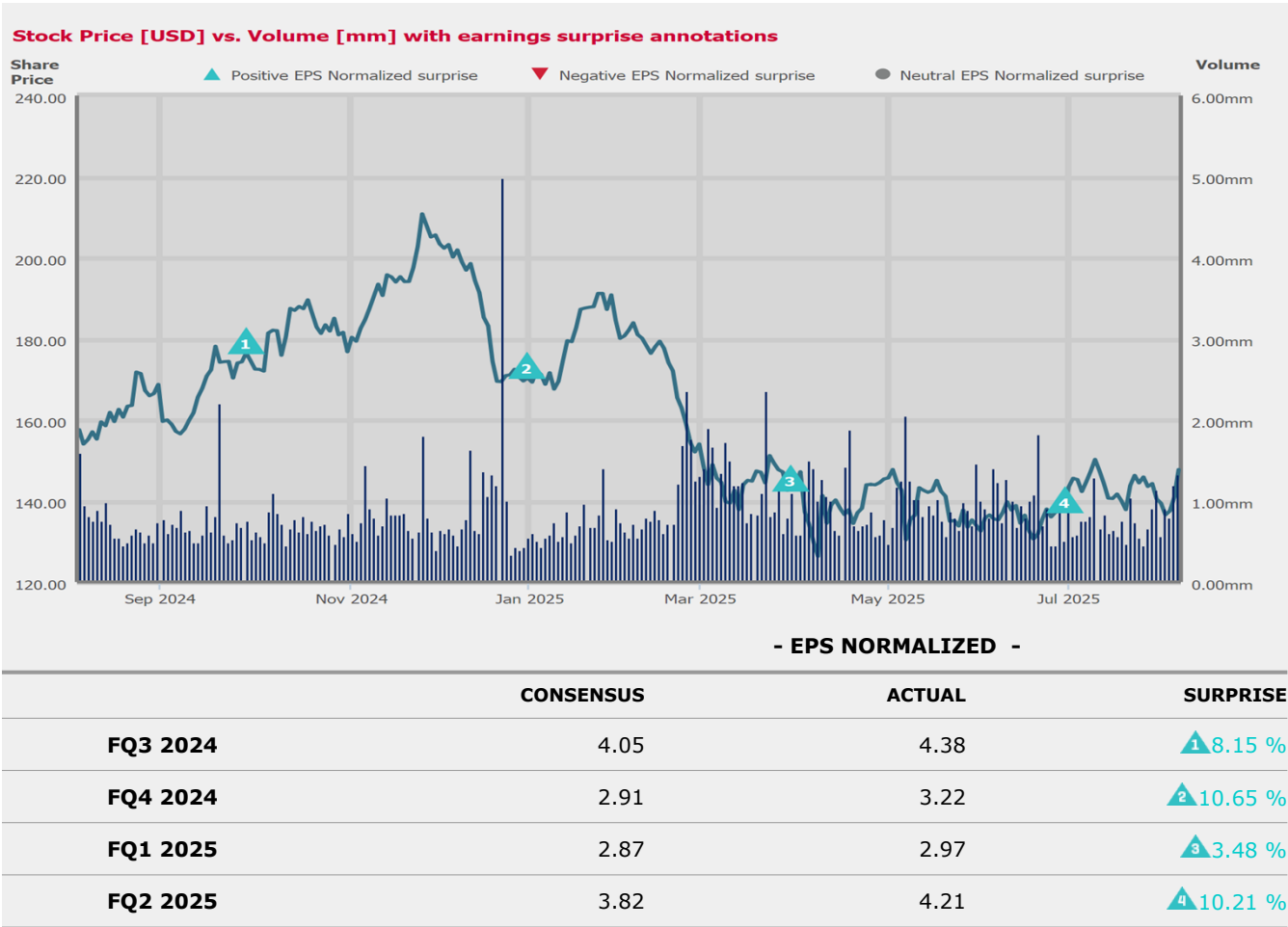


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Call Participants

EXECUTIVES

Amber Wohlfarth

*Vice President of Corporate FP&A
and Investor Relations*

Brian D. Chambers

President, CEO & Chair

Todd W. Fister

Executive VP & CFO

ANALYSTS

Anthony James Pettinari

Citigroup Inc., Research Division

Brian Biros

Thompson Research Group, LLC

John Lovallo

*UBS Investment Bank, Research
Division*

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

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*

Presentation

Operator

Hello, everyone, and welcome to Owens Corning's Second Quarter 2025 Earnings Call. My name is Lydia, and I will be your operator today. [Operator Instructions].

I now hand you over to Amber Wohlfarth Vice President of Corporate FP&A, Investor Relations, to begin. Please go ahead.

Amber Wohlfarth

Vice President of Corporate FP&A and Investor Relations

Good morning. Thank you for taking the time to join us for today's conference call and review of our business results for the second quarter of 2025. Joining us today are Brian Chambers, Owens Corning's Chair and Chief Executive Officer; and Todd Fister, our Chief Financial Officer.

Following our presentation this morning, we will open this 1-hour call to your questions. In order to accommodate as many call participants as possible, please limit yourselves to 1 question only. Earlier this morning, we issued a news release and filed a 10-Q that detailed our financial results for the second quarter of 2025. For the purposes of our discussion today, we have prepared presentation slides summarizing our performance and results and we'll refer to these slides during this call.

You can access the earnings press release, Form 10-Q and the presentation slides at our website, owenscorning.com. Refer to the Investors link under the Corporate section of our home page. A transcript and recording of this call and the supporting slides will be available on our website for future reference.

Please reference Slide 2 where we offer a few reminders. First, today's remarks will include forward-looking statements that are subject to risks, uncertainties and other factors that could cause our actual results to differ materially. We undertake no obligation to update these statements beyond what is required under applicable securities laws. Please refer to the cautionary statements and the risk factors identified in our SEC filings for more detail.

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

Third, financials and metrics for current and historical periods discussed on this call will be for continuing operations, except for capital expenditures and cash flow measures, which include amounts related to glass reinforcements until the closing of the sale of this business. 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 on our call today. At our Investor Day in May, we detailed how we are a new Owens Corning, a company that has been reshaped into a high-performing building products leader in North America and Europe, and structurally improved to drive above-market growth sustainable and more resilient margins and substantial cash flow, powered by the OC advantage, a set of capabilities that are unique to our company and central to our success.

Our team delivered second quarter results that continue to demonstrate how the new Owens Corning outperforms in any set of market conditions.

During today's call, I will share highlights of our second quarter results and discuss the strategic actions we're taking to continue to outperform the market and deliver long-term value. Todd will then provide

a detailed review of our financial results for the quarter. And I'll come back to share an overview of the current operating environment and our outlook for the third quarter.

As always, I will begin with safety. We maintained a very safe operating environment in the second quarter with a recordable incident rate of 0.60. In June, we hosted our first global Safety Week, a best practice adopted from our newly acquired Doors business that has been scaled across the enterprise and build on our Safer Together operating framework connecting processing and systems with behaviors and leadership to create a safer workplace.

Turning to our financial results. We continued our strong and consistent performance in the second quarter despite a more challenging environment. For the 20th consecutive quarter, we achieved adjusted EBITDA margins at or above 20%, an incredible milestone. Revenues were up 10% versus prior year, and earnings grew 30% year-over-year. Adjusted EBITDA in the second quarter was \$703 million, with an adjusted EBITDA margin of 26%. This performance is a direct result of the structural changes we've made and is another proof point our ability to deliver higher and more resilient margins even in the face of softening market conditions.

We also generated good cash flow and continue to return capital to shareholders through dividends and share repurchases. Through the first half of the year, we returned nearly \$440 million of the \$2 billion we committed to returning over this year and next. This commitment reflects our disciplined capital allocation strategy and confidence in our cash-generating capabilities.

As I shared at Investor Day, our performance as a result of a clear set of strategic choices and investments we've made that has shifted our product and geographic focus to high-value building materials sold in the most attractive markets. In short, we are a different company today than we have been historically, with a track record of growing revenues, increasing our margin profile and returning significant cash to our shareholders over the past 5 years.

One key driver of this performance shift is our strategic business mix, which positions us to outperform given our unique product and application exposure. Today, over half of Owens Corning's revenue is generated from North American repair and remodel activity, including more than 1/3 from nondiscretionary reroofing, which remained solid in the quarter.

In nonresidential markets, which makes up about 25% of our revenues, North America demand in the quarter was stable, and we continue to see encouraging improvement in Europe. So while residential new construction demand continues to face pressure, it represents only about 1/4 of our overall revenue. This strategic product mix positions us well to navigate near-term headwinds and to benefit from several longer-term secular tailwinds including an aging and underbuilt housing stock in the U.S. and Europe, growing demand for products that improve energy efficiency and increasing investments in North American manufacturing and infrastructure.

A second key driver of our strong performance is the strategic actions we've taken to concentrate resources on geographies and applications where we can build leading positions and deliver above-market growth. In July, we completed the sale of our building materials business in China and Korea to a member of the region's management team. The transaction included 6 insulation manufacturing facilities in China and a roofing manufacturing facility in Korea, and represented annual revenue of approximately \$130 million.

In addition, the sale of our glass reinforcements business is progressing, and we expect the transaction to close later this year, subject to regulatory approvals. Another key driver to our performance are the strategic investments and choices we are making to strengthen our market-leading positions by expanding capacity, modernizing assets and increasing operating efficiencies.

In our Roofing business, we started up our new laminate shingle line in Medina, Ohio during the second quarter. This line adds 2 million squares of capacity and has begun supporting current demand from our growing contractor network. In Fort Smith, Arkansas, we also commissioned a new nonwovens coating line co-located with our existing non-Women's plant.

Both of these investments are examples of how we're investing to deliver above-market growth while enhancing our winning cost position. In addition to these capacity expansions, we are investing in leading technology through the use of new pilot lines across our roofing and insulation businesses. These lines accelerate both product and process innovation, enabling us to bring new solutions to the market faster to help our customers win and grow.

We are also unlocking value through the integration of our Doors business, where we are leveraging our enterprise scale and capabilities to drive efficiencies. This past May marked 1 year since we closed the Masonite acquisition, and we've made significant progress applying the OC playbook to Doors. We are drawing on our unparalleled commercial strength deepen customer relationships and expand our reach as we structurally improve margins over time, like we have done in our Insulation and Roofing businesses.

We have already captured more than 75% of our enterprise run rate synergy target of \$125 million, the majority of which we committed to achieve by the end of year 2 of ownership. In addition, we are targeting another \$75 million of cost improvements, mostly through our Doors network optimization actions that will begin to make an impact in 2026. Through each of these initiatives, we are investing with purpose, to meet customer demand, modernize our production lines, improved capital efficiency and sustain strong margins and consistent returns.

As we move forward, we will continue to capitalize on our position as a building products leader serving North American Europe to execute our enterprise strategy to grow the company and deliver durable results across market cycles. Fueling our strategy is the OC advantage, which includes our iconic brand, unparalleled commercial strength, leading technology and winning cost position. These advantages form a playbook that can be scaled across the company to create multiple paths to generate value for our customers and shareholders.

Before I close, I want to highlight a few recent organizational moves. In July, we announced the appointment of Nico Del Monaco to the role of Roofing President and named Jose Canovas, President of the Insulation business. Both are seasoned leaders with a proven ability to strengthen customer partnerships and maximize operating performance.

Nico most recently led the insulation business. and his expertise in leveraging our high-value branded building products and customer engagement model to generate growth. Jose has held leadership roles at OC for more than a decade, most recently leading our nonresidential insulation business. and has demonstrated his ability to deliver value across dynamic markets.

We are excited to leverage their expertise to drive strategic growth within their businesses and across the enterprise. I also want to thank and recognize Gunner Smith who is leaving to pursue another professional opportunity for his countless contributions to Owens Corning. Under his leadership, the roofing business achieved outstanding results through an incredibly talented team, broad product offering and durable contractor engagement model, which will leave a lasting impact on our customers and our company.

And finally, I want to recognize our team for earning the spot on the Fortune 500 list for the 71st consecutive time, one of only 49 companies to appear on this prestigious list every year since its inception. This achievement reflects the company's depth and breadth of talent, the strength of our iconic branded products and unwavering focus on our customers' success, and a commitment to winning in the right way.

With that, I'll turn the call over to Todd to discuss our second quarter in more detail.

Todd W. Fister

Executive VP & CFO

Thank you, Brian, and good morning, everyone. As Brian mentioned, our results in the second quarter and through the first half of the year demonstrate the value we are creating through the OC advantage in our overall enterprise strategy. We continue to demonstrate the strength of the enterprise as we sustained higher and more resilient earnings in softening markets.

I'd now like to turn to Slide 5 to discuss the results for the quarter. As a reminder, these results are for continuing operations. In the second quarter, we built on our strong Q1 performance. Revenue increased 10%, driven by the strategic addition of our Doors business last May. Our unparalleled commercial strength, coupled with our winning cost position, generated adjusted EBITDA of \$703 million and an adjusted EBITDA margin of 26%.

The sale of our Building Materials business in China and Korea is another step in sharpening our focus on what we do best, building products in North America and Europe. In the quarter, we had adjusting items of \$26 million driven by an additional held-for-sale loss of \$24 million on this business. Adjusted earnings per diluted share for the second quarter were \$4.21, reflecting both the strength of our earnings as well as the continued capital allocation commitment and ongoing share repurchase activity.

Turning to Slide 6, to go further into our cash generation and capital deployment during Q2. Free cash flow for the quarter was \$129 million compared to \$336 million in the same period last year, driven by the timing of working capital, including an increase in inventory as a result of our ongoing tariff mitigation efforts and higher capital additions.

As we have shared, we are investing in capital projects at elevated levels in the near term to expand capacity and drive improvement in long-term capital efficiency. As a result, capital additions for the quarter were \$198 million, up \$41 million from the same quarter prior year. Our return on capital was 13% for the 12 months ending June 30, 2025.

At quarter end, the company had debt-to-EBITDA of 2.1x at the low end of our targeted range of 2 to 3x. During the second quarter, we returned \$279 million to shareholders through share repurchases and dividends. We repurchased common stock for \$220 million and paid a cash dividend totaling \$59 million. We also received Board approval for a new share repurchase authorization for up to 12 million shares. This authorization supports our commitment to a \$2 billion return of cash to shareholders through 2026. We are still on track for this level of return as we expect seasonality to create a step-up in free cash flow generation in the second half of the year.

Our capital allocation strategy remains focused on generating strong free cash flow delivering mid-teen returns on capital, returning cash to shareholders and maintaining an investment-grade balance sheet, while we invest in attractive capital projects for growth. Our capital allocation strategy is focused on compounding long-term value for shareholders.

Now turning to Slide 7, I'll provide additional details on our segment results. Our Roofing business continues to exemplify the strength of our enterprise model, leveraging our contractor engagement strategy and vertically integrated cost position to outperform the market and deliver resilient earnings in the second quarter. Sales in the second quarter were \$1.3 billion, up 4% from prior year.

In the quarter, revenue growth was primarily driven by positive price realization on our April increase. Components volume was in line with prior year, and we saw growth in nonOwens, where we've been investing in capacity. The U.S. asphalt shingle market on a volume basis was down mid-single digits compared to the prior year on less storm-related demand.

Our U.S. shingle volume outperformed the market as demand for our shingles continue to be strong. EBITDA was \$457 million for the quarter, up 5% versus prior year. Positive price more than offset the impact of modest cost inflation and higher manufacturing costs as we continue to invest in our assets to meet the high level of demand for our products.

Overall, for the quarter, we delivered EBITDA margins of 35%. Now please turn to Slide 8 for a summary of our Insulation business. Our Insulation business demonstrated the impact of structural improvements and disciplined execution, sustaining 20-plus percent EBITDA margins despite market headwinds. This highlights our ability to win with customers and deliver results well above historical performance in similar markets. Q2 revenues were \$934 million, a 4% decrease from Q2 last year.

In North America residential, volume was down due to market uncertainty and a weaker demand in residential new construction. In North America nonresidential volume was up, including demand to service

data center construction related to AI, as well as demand for our FOAMGLAS product being used in commercial and industrial applications.

In Europe, we continue to see market stabilization. These businesses both recognized positive price in the quarter. Insulation EBITDA for the second quarter was \$225 million, down \$21 million from prior year. Strong operational performance partially offset the impact of lower demand and the corresponding production downtime, as we remain disciplined in our inventory management.

Additionally, positive price nearly offset the impact of cost inflation. Insulation delivered EBITDA margins of 24% in the second quarter.

Moving to Slide 9, I'll provide an overview of the Doors business. Overall, the business continued to perform well in a challenging market. In the quarter, the business generated revenue of \$554 million, in line with the outlook we provided on our last call. Revenue was up modestly from Q1, primarily on higher volume in North America.

EBITDA for the quarter was \$75 million with EBITDA margins of 14%. The integration is progressing well, reflecting our ability to apply our unique capabilities. When we closed on the acquisition, we had line of sight to delivering \$125 million of enterprise synergies with about half hitting the Doors business.

To date, we have seen about 40% of our synergies captured in the business and the other 60% across the remainder of the enterprise. This reflects our ability to scale the OC advantage while applying the same playbook that structurally improved margins in Roofing and Insulation.

We are on track to exceed the original enterprise commitment with an additional \$75 million of structural cost savings generated through operational improvements. We have already begun taking actions to achieve these savings, including a recent example where we made the decision to close a components facility in Oregon in the second quarter.

Overall, for the company, there was minimal impact from tariffs on our financial results in Q2. Our sourcing and supply chain teams have continued to demonstrate agility and discipline mitigating tariff exposure in preserving margins. As a result, we expect the third quarter to be similar to the second quarter with approximately \$50 million of gross tariff exposure reduced to a net impact of around \$10 million, primarily in the Doors business. This impact is included in the outlook Brian will share in a moment.

Owens Corning is well positioned to address rising tariffs with our primarily local for local manufacturing and U.S. MCA compliant product portfolio, but we expect a small step-up in net tariff exposure in the fourth quarter. With the latest round of tariffs in our mitigation efforts, we expect the net tariff impact to be less than 1% of COGS in the second half, favorable to our previous guidance of 1% to 2% COGS exposure.

Moving on to Slide 10, I will discuss our full year 2025 outlook for key financial items. General corporate EBITDA expenses are expected to range from \$240 million to \$260 million. As a reminder, this year-over-year increase includes our best view of expenses for the glass reinforcements business that will not be included in discontinued operations.

We expect our 2025 effective tax rate to be 24% to 26% and anticipate a cash tax benefit of more than \$90 million in the year from the recent tax bill. Capital additions are expected to be approximately \$800 million. This level of capital investment reflects the strategic investments we are making to expand capacity and drive improved efficiency.

This CapEx continues to include glass reinforcements, which is expected to be approximately \$80 million in 2025. We expect CapEx to remain elevated in the near term as we work towards completing the high-return capital efficient projects we have in process.

Now please turn to Slide 11, and I'll turn the call back to Brian to further discuss our outlook. Brian?

Brian D. Chambers
President, CEO & Chair

Thank you, Todd. Our second quarter results reflect the strength of our company and the disciplined execution of our strategy, even as we navigate a more challenging macro environment, with leading positions in roofing, insulation and doors, our product and application diversity continues to support good margin stability even as we face tougher market conditions.

In the third quarter, we expect overall market demand for nondiscretionary roofing repair activity to remain solid, but declined versus prior year, driven by lower storm activity. We expect residential new construction and discretionary R&R in the U.S. to remain challenged.

In North America nonresidential construction, we expect a relatively stable market. And in Europe, we expect market conditions in the second half to gradually improve with the broader economic recovery in the region. Given this near-term outlook, we anticipate third quarter revenue for continuing operations to be approximately \$2.7 billion to \$2.8 billion, slightly below to in line with prior year.

For adjusted EBITDA, we expect to deliver another strong quarter with margins of approximately 23% to 25% for the enterprise.

Now consistent with prior calls, I'll provide a more detailed business specific outlook for the third quarter. Starting with our Roofing business. We anticipate revenue growth of low to mid-single digits. While market demand for shingles in many regions should remain solid. We expect ARMA shipments to decline from prior year, assuming normalized storm demand versus elevated levels in 2024.

We expect our shingle volumes to remain relatively stable versus prior year as we continue to see strong demand for the OC brand and our roofing products. We anticipate normalized attachment rates and components to continue and another quarter of top line growth in nonwovens.

In the third quarter, we expect moderate cost and delivery inflation. We also anticipate manufacturing costs and SG&A to be up as we invest in our assets and absorb the necessary maintenance cost. For the business, we expect positive price from our previous announcements to drive year-over-year top line growth and positive price/cost.

Overall, for roofing, we expect to generate an EBITDA margin similar to prior year, which was 34%.

Moving on to our Insulation business. We anticipate overall revenue to decline mid- to high single digits compared to the prior year, primarily due to a volume decline in North American residential and the sale of our building materials business in China. As a reminder, this business had approximately \$130 million of revenue annually.

In our North American residential insulation business, we expect revenue to be down low double digits versus prior year due to lower demand as we work through a step down in housing starts and lower backlog.

For North American nonresidential, we expect revenue to be up slightly versus prior year. And in Europe, we anticipate revenue to be up versus prior year as we see gradual market recovery and currency tailwinds. Overall, for the Insulation business, we expect ongoing cost inflation, resulting in negative price cost in the quarter.

Additionally, with the volume pressure in North American residential, we anticipate incremental production downtime, partially offset by productivity. Given all this, we expect EBITDA margin for insulation to be in the low 20% range.

Turning to our Doors business. We continue to perform well relative to market conditions as we realize synergies and drive ongoing network optimization. Now that we have operated the Doors business for a full year post acquisition, we will begin providing guidance versus prior year.

In Q3, we expect challenging market conditions to continue, resulting in a revenue decline of low to mid-single digits versus prior year, driven primarily by lower demand and pricing down slightly. While we anticipate synergies and cost control realization to continue, we expect EBITDA to be impacted by inflation, including the ongoing impact of announced tariffs.

In the near term, Doors faces more tariff exposure than our other businesses due to the cross-border product moves into Canada, which we are actively working to mitigate. Overall, for Doors, we expect EBITDA margin of low double digits to low teens for the quarter.

As Todd mentioned, another factor that could impact our enterprise results in Q3 is the implementation of additional tariffs. We expect the net impact of tariffs for Owens Corning in the third quarter to be similar to what we incurred in Q2. In summary, our team delivered strong performance in the second quarter with an outstanding response to a dynamic market, executing with discipline and focus.

The strategic choices and structural improvements we've made over the past several years have created a new Owens Corning, a more focused, resilient company that is built to outperform. We remain confident in our ability to deliver higher, more durable margins through a cycle generates strong free cash flow and create long-term value for our shareholders.

As we move through the second half of the year, we will continue to invest in our people, our capabilities and our customer relationships while maintaining a sharp focus on execution and operational discipline. With that, we would like to open the call up for questions.

Question and Answer

Operator

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

John Lovallo

UBS Investment Bank, Research Division

The question is on North American industry capacity utilization. I think it was in the low to mid-80% range. I think you guys highlighted that 90% is typically kind of the pricing trigger point. The question is how has capacity utilization trended since last quarter? And how are you thinking about pricing, especially considering the expectation for negative price cost in the third quarter?

Todd W. Fister

Executive VP & CFO

John, this is Todd. Happy to provide more color on res pricing and market conditions. Let me start at the highest level for the enterprise because we've done a lot of work over time to grow into the repair and remodel space in roofing with nondiscretionary remodel as well as repair and remodel elsewhere. And we're at a point where the res exposure on an enterprise basis is a lot smaller than it used to be historically. We're down to about 13% of enterprise revenue in North America res in Q2.

So with that as the backdrop, when we look at the second quarter, we had another quarter of weak leg starts, and that's following a weak quarter that we had in Q1. So we were down about 5% in leg starts in Q1, down 1% in Q2, and then legs start to be down another 1% for Q3.

When you look at what TopBuild announced earlier this week, they showed 11% lower volume in Q2 in their TruTeam business, which is the installation business that handles a lot of the res fiberglass. And they guided to low double-digit declines in res for 2025.

We're seeing then market volumes be a little worse than leg starts, is a result of a couple of things. One is we're seeing completions decline at a faster rate than leg starts. We're also seeing a shift away from single-family construction towards multifamily in the back half of this year. And we have a higher take per unit for single-family than we do for multifamily.

So if I step back up with that context to industry utilization, we still believe the industry can support between 1.4 million and 1.5 million housing starts, depending on the mix of single-family, multifamily and that does imply first half utilization that was below 90%.

What we've shared is above 90%, typically has been a market where we're able to get positive price. But there's no conclusive trends below 90%. In some of those markets, we're able to get positive price in other markets, price is neutral and price can decline as well below that 90% utilization level.

So what we're seeing right now is we saw limited traction on the price increase that we took this year for res, fiberglass. We're still seeing a lot of inflation come through in the business. We have inflation on materials, some longer contracts that didn't reset in the peak inflationary period. We're starting to absorb some of that inflation now. We're seeing inflation in labor. We're seeing inflation and warehousing expenses. And we're not seeing much positive price in the market to offset that.

We are making very surgical price moves as needed in the market for certain products, in certain markets. But again, they're very targeted and they're very surgical moves to meet competitive situations with pricing. So overall, we are seeing a market where there is free supply. We're not sold out as we have been in recent quarters.

We're navigating through that effectively with our teams. We're maintaining a price premium over competitors. We're maintaining a relatively stable share in the market. So we're doing the things we want to do commercially in this market. and we know how to navigate through this. We've seen this multiple

times before with utilization at this level. So nothing unusual for us and our teams. Thanks, John, for the question.

Operator

Our next question today comes from Anthony Pettinari with Citi.

Anthony James Pettinari

Citigroup Inc., Research Division

Maybe sticking with insulation, but nonres in Europe. I think you expect revenue to be up for both of those businesses in 3Q. I'm wondering if it's possible to kind of size that and then talk about the price/cost dynamic that you're seeing in commercial and Europe installation.

Todd W. Fister

Executive VP & CFO

Thanks, Anthony. I'd be happy to give more color on nonres in Europe. When we look at revenue dynamics in those 2 markets, we are guiding to positive growth in Q3. It's fairly modest growth in both I'll talk a bit about North America and then we can talk about Europe.

In North America, the overall backdrop for the market is a bit of a decline in construction spending in the nonres space. What's interesting is we're seeing growth in the market in some of the end markets where take per unit is higher for insulation. So we highlighted data centers in our prepared remarks. But that's a really important one because the take per unit is really high for data centers. And we know there's a lot of construction occurring to support the boom in AI.

But we're seeing the same thing in some of the process insulation we sell for manufacturing and an insulation for oil and gas, all of those are good end markets for us now. So we're seeing relatively good conditions for our products in market. I'll remind everybody in the nonres space, these products tend to be more specified into the applications. And we tend to compete on multiple performance attributes.

What that means for us practically is pricing tends to be a bit more stable in this space. And we're seeing that come through our Q2 results where we are seeing positive price in nonres. We are seeing inflation come through in this market. Similar dynamics to what we've seen in many of the product lines to what I described in res, but pricing isn't -- typically has not moved the same way we've seen it move in the nonres space in North America -- or in North America res space compared to North American nonres.

When we look at Europe, Europe overall, we're seeing green shoots and especially in some of the markets where we've got a strong position in the Nordics, in the U.K. We're seeing pockets in Southern Europe be strong. We're seeing others in the industry share that on their earnings calls. Our revenue was down in Q2 in Europe, largely due to a couple of product lines that we chose to exit in the region.

But overall, we're encouraged with the trends off of a low base in Europe. Europe has been weak since we saw the Ukraine invasion. Our teams have done a great job in Europe getting costs out of our business and driving productivity. We're in a really good position now with capacity to sell and to grow into where we're going to like the incremental margins on that business as the market recovers.

So it's early days in the European recovery. But we're encouraged with what we see with the green shoots. Thanks, Anthony.

Operator

Our next question comes from Michael Rehaut of JPMorgan.

Michael Jason Rehaut

JPMorgan Chase & Co, Research Division

Nice results. Wanted to shift gears a little bit to the Doors business. You guided for the third quarter low double digit to low teens, which might imply slight improvement, if I'm reading into that correctly from the 2Q performance.

Just wanted to get a sense of what's driving that if it's the ongoing cost synergy realization? And kind of bigger picture, when you look at this business, pre-acquisition. If you look at North America, Europe blended, they did about a 19% EBITDA margin. Obviously, over the last year or 2 has taken a real hit from the new res market, but how do you see line of sight back to that? Obviously, the 75 additional synergies may give you another 3 points. But how would you see line of sight back to like a 20-ish type of EBITDA margin?

Brian D. Chambers
President, CEO & Chair

Mike, thanks for the comments and the questions. And we are really pleased overall with the performance of the business. Every business, I think, is outperforming the market, even with the tough res market environment, as Todd pointed out, our res business is still performing at a very high level, very blended in terms of our noncommercial Europe residential rates.

Our Roofing business is performing at a probably high level. In our Doors business, continues to perform at a really high level relative to the market challenges we're facing into. So in terms of our Q3 guide versus Q2, to answer your first part of your question, we're actually guiding to pretty much in-line performance to Q2. So while this is going to be the first quarter, our Q3 guide on a year-over-year basis. And while we're seeing volumes kind of step down on the year-over-year, sequentially, we've seen really good volume stability through the first half of the year, and we expect that to continue.

So I think we're seeing that kind of continued volume stability, which is the core of why we're giving a guide that's pretty much in line with Q2. We're seeing good market pricing stability and good pricing stability. We're seeing good mix staying pretty constant. So we've seen certainly a step down in both the new construction and R&R part of the business year-over-year, but some good stability month-over-month and quarter-over-quarter.

And we think that gives us confidence we can sustain that kind of margin performance. We do expect to see a little bit of tariff headwind in Q3 with some of the step-up tariff rates, particularly around steel and aluminum. And we're also starting to work through some of the inventory pre-buys and some of the materials we're bringing in to be in front of that. So that's going to be a little bit of headwind, that we think is offset through some of the continuing cost optimization work through our network integration.

So back to your second part, you're right in terms of how you characterize the long-term performance in that high-teen EBITDA margin performance, we feel that the business can perform at or above that level. That was what made it an attractive product category for us to get into. It is a category that we could scale up. We could grow -- and we felt we could really improve the margin performance with our ownership advantages, kind of applying the same playbook around commercial execution, operational execution that we've done in Roofing and Insulation to improve the margin performance in those businesses within Doors.

And that's the path we laid out at Investor Day around the long-term guide that we can see an EBITDA margin performance in this business 20% or above. In the near term, there's going to be a lot of work around the cost optimization side. Network integration is tracking on path to our \$125 million. We also then continue to see network optimization opportunities. That's going to be another leg up. We're just getting started with that.

We did announce the closure of a facility in Oregon, that's part of that network optimization as we think about where we can realize productivity benefits and drive more scale efficiency inside the network, so that's going to be another big leg up in terms of margin improvement as we optimize the production network.

And then we continue to make great progress commercially. In terms of how we're looking at positioning this product along with roofing and with insulation on a more integrated basis to some of our larger distribution partners. And we're starting to see a little bit of traction in that work where we can take a more integrated product offering to our contractor base, our builder base, our dealer base and then that

gets pulled through distribution, and we think that's the third piece of this in terms of the commercial execution side that drives margin performance.

But certainly, in the near term, we're going to work through a choppy environment. A lot of the cost optimization and network realization work we're seeing is being consumed by kind of tariffs and some of the volume headwinds we're facing into the market today. But we're really set up with an improved cost structure, I think, an improved commercial position that once we start to see market conditions come back, I think we really can accelerate the earnings at a pretty fast pace going forward.

Operator

Our next question comes from Stephen Kim with Evercore ISI.

Stephen Kim

Evercore ISI Institutional Equities, Research Division

Appreciate all the color here so far. I wanted to ask you guys about mix. In Insulation, just kind of starting there, I think you'd indicated that there was overall some negative mix, which offset some of your positive pure price. But I think you also indicated that FOAMGLAS sales were stronger, nonres is performing well, and the North American residential was kind of pulling of some softness, which I think everybody understands. But is it nonres and FOAMGLAS kind of higher mix. So I was wondering if you could provide a little more clarity on the negative mix in insulation.

And then in Roofing, I wanted to kind of get a sense for what you're seeing there in terms of mix. You've had a lot of really good mix. Some of that was due to the Protective Packaging going away. Some of that was the increase in laminated shingles. Kind of curious what we should be thinking there? And is there any impact from the reclass of nonwovens that might pull out the numbers a little bit. Just help us understand mix broadly in roofing as well.

Todd W. Fister

Executive VP & CFO

Stephen, I'll take insulation first, and then Brian can step in on the roofing piece. So we did see negative mix in Q2. We believe it's mostly timing related to some projects and when they hit compared to prior year. So we don't see it as an ongoing dynamic. We don't think this is something that is permanent. Just a little bit of noise in Q2 as a result of that timing.

Brian D. Chambers

President, CEO & Chair

Yes. And Stephen, on Roofing, we're really not seeing big variations in terms of overall mix. That's impacting the results. We've continued to see a step-up of laminate shingle demand in the market, and we've been keeping pace with that, with our investments. It's why we've been investing to increase our land capacity at Medina and the new facility in the Southeast. So we've seen that continue to tick up, but continue to support that in components.

We've really have settled into a really nice attachment rate, so part of that is the branded roofing system we can offer contractors can take into the home where they buy our underlayments or starter or hip and ridge rigs all part of a complete system in package, OC branded. And that has really driven a lot of the components volume. But we've seen those attachment rates stay fairly steady, a little bit of positive momentum, but in increments.

And then to your other question on the nonwovens bring that in, that really is not having any impact in terms of the mix overall. Part of the focus and desire to bring that into roofing is it really is an integral part of the vertical integration strategy in roofing, to have that nonwoven seeding in and gives us great opportunities, driving productivity in our manufacturing processes, driving innovation with the structural design of the shingle.

And then the external sales carry a margin profile very similar to our overall roofing business. So it's a great fit in terms of the complements the vertical integration piece and gives us a good margin structure

very similar to components and in the roofing business. So really no impact in terms of overall mix with the nonwovens business coming in.

Operator

P1 Next question comes from Sam Reid with Wells Fargo.

Richard Samuel Reid

Wells Fargo Securities, LLC, Research Division

It sounds like you're planning to drive roofing volumes ahead of ARMA in the third quarter. maybe just contextualize what you mean by industry single market down. Does it mean down low single digits, down mid-single digits? And then maybe talk through your outperformance. Is that just better execution on your part? Or would you also characterize that as some incremental volumes coming out of Medina, would just love to get a sense of the contribution from that new capacity on roofing and how plays into your guidance?

Brian D. Chambers

President, CEO & Chair

Yes. Thanks, Sam. Overall, we came into the second quarter expecting to see a step down in market shipments based on a more normalized storm season. And that's really what we think happened in Q2 and what we expect to continue to happen here in Q3. So in the third quarter, while we expect it to be very solid from a historical standard, it could be down mid-single digits depending on storm activity as well. So we could see a similar evolution of that.

Again, overall in the market, good conditions, but it's a step down to more normalized storm volume. So the last time we saw this was in the back half of 2022, and this is where you saw the strength of our contractor engagement model. And that's really the success of our business is centered around that model where we go out, we convert contractors to our brand, our products.

We help them win and grow in the market through our marketing tools, our digital tools, our commercial and training capabilities, all those things that really drive the contractors' success helps them grow their businesses. And then in turn, that creates a loyalty to our product brand and also creates demand for our distribution partners. So it's a win-win across the channel in terms of how we focus that.

And we continue to invest to improve and increase that contractor engagement model and add contractors to the network. So when we talk about outperformance relative to the market, what we delivered in Q2 and what we expect to deliver in Q3, we're really not driving volume. We're just responding and servicing the contractor base that has built their business around our products and brands. and are continuing to grow in the market. So it's really servicing that base overall.

It is why we've invested in increasing land capacity. You mentioned Medina. So we were able to start that up towards the end of the second quarter. That volume is ramping up and getting into the market, but that's going to be a ramp-up over the back half of the year, really won't get to full capacity utilization until we get to the first part of next year when we hit that spring selling season, but it absolutely is a big part of now having more land capacity to service that contractor demand that we've seen.

And frankly, we have been lagging in service to our distribution partners as well as our contractors. So we expect that even if the market conditions shift down a little bit like we would expect to see, we're going to see good demand for our contractors that's going to drive volume through distribution. We also think across the board, we probably have some lean inventories in several regions of OC product, relative to other brands in the market. So we think there's going to be some inventory buying there.

And then lastly, we're going to continue to operate our facilities full out in the quarter because we're operating with very, very low inventory levels. We've been doing this for several years. And we would actually like to be able to rebuild some inventory levels in our facilities just to improve our service and commitments and service cycles to our customers. So that's all work that's kind of going in as we work through Q3 and finish the year.

Operator

Our next question comes from Brian Biros with Thompson Research Group.

Brian Biros

Thompson Research Group, LLC

I guess can you talk a little bit more about the specification in your nonres insulation nonres in our view as a long outlook for good growth. You talked a little bit about it earlier. But if you could expand on, I guess, how your products play into that opportunity in data centers and manufacturing that you mentioned? And maybe Sure, if you have any metrics around win rates or market share in those specific end markets would be great.

Todd W. Fister

Executive VP & CFO

Thanks, Brian. We don't share a lot on win rates or market share within the verticals. But I can give more context on how our insulation is used on the nonres side. There's 2 major areas that you would see our insulation in, for example, a data center or in a manufacturing facility.

One is in the building envelope itself to make sure that we control temperature, but also moisture within a data center, which tends to have pretty extensive HVAC requirements associated with all the equipment that's there. And Insulation plays a really big role in making sure that the building itself performs at a high level. These also are mission-critical facilities. We're making sure that you control moisture, especially in the roofing system is important. In a couple of our products, in particular, our XPS foam product and our cellular glass product performed really well when it comes to moisture performance. So the building is one piece of it.

The other piece is process equipment. So when you think about HVAC itself or when you think about hot or cool air liquid in a manufacturing plant or a data center or other facility, it is important to insulate pipes and pieces of process equipment. And you would see our products go into those markets as well, either directly with us selling a final product that goes into the application or indirectly as we sell a product into someone that then converts it into a final product for the application.

So we're encouraged with what we see as the long-term secular trends towards onshoring of manufacturing as well as the growth in oil and gas as well as the growth in data centers. All of that plays well to the products that we have. Typically, our products are designed. They're engineered for the application that they're in. So in some cases, we have hard specifications where our product is specified by name.

In other cases, our product is designed for that application, which makes it a stickier relationship with the customer going forward. and also creates the more stable pricing dynamics we see in that space.

Operator

Our next question comes from Matthew Bouley with Barclays.

Matthew Adrien Bouley

Barclays Bank PLC, Research Division

I wanted to ask about sort of high level on insulation and margins specifically. I'm wondering if you can either quantify or maybe speak directionally to the difference in margins between the residential business and the nonresidential businesses within insulation. And I ask because once upon a time when the segment was much heavier residential and you saw these type of double-digit declines in residential revenues, the margins would have been, I'll say, significantly more volatile, but today, you're holding these EBITDA margins at 24% in Q2 and guiding to low 20% range in Q3. So how do you explain that change today versus then? And kind of any color on that relative profitability between residential and nonresidential.

Todd W. Fister

Executive VP & CFO

Thanks, Matt Happy to add more color on why we're delivering stable margins in the business. What you're seeing on the res side is the culmination of the work we've been doing for really a decade now in restructuring that business. And making sure that we've got a flexible and cost-efficient network to serve our markets and our customers.

It was actions like the sale of our Santa Clara plant, starting up a lower cost, more flexible facility in Nephi, Utah to serve that market, leveraging our capacity differently and focusing on both our plant overhead costs as well as our variable cost in our network.

So we've done all of that. At the same time, we did a lot of commercial work to make sure we serve customers that we're really happy to be positioned with long term. And all of that has created a business that we believe is more resilient and could perform at higher margin levels than we have historically in similar types of markets.

The additional color I would add for the second quarter is while we were able to rebuild inventories in insulation in the quarter, which we sought to do for actually a number of years as we were sold out in that business. We also saw some curtailment impacting our results, our margins in Insulation in Q2, and we would expect to see that again in Q3.

So the margin results, you commented on are actually inclusive of taking idle to make sure we remain disciplined from a working capital standpoint in our insulation business around inventory in the quarter. So we're not sharing the margins specifically by subsegment as we have historically. But certainly, all of the work that we've done to position in our res business, but then also to grow our nonres business and create higher and more durable margins there, is paying off in terms of really strong insulation EBITDA margins and what are weakening residential markets, and we're happy with that result.

Operator

Our next question comes from Philip Ng with Jefferies.

Philip H. Ng

Jefferies LLC, Research Division

Another question on Insulation, sorry, guys. I guess on North America, Todd, you kind of hit it on taking some downtime. Can you expand on that? Like are you taking -- and have you have any comp, are you contemplating taking more extended downtime? What are your carriers doing I suspect some of the weakness you're seeing in North American resi destocking, where kind of we in that destocking cycle?

And just lastly, when you look at your price gaps for pricing for North American resi insulation, have the gap widened this year? Any color would be really helpful.

Todd W. Fister

Executive VP & CFO

Thanks, Phil. Happy to add more color. Let me start with the market and what we're seeing, and then I can work into what we're doing within our business. As I shared before, we are seeing volumes in the market, we believe, for the industry, trend down at a greater rate than leg starts.

And in part, that's driven by completions declining at a greater rate than leg starts are declining. It's also the shift towards multifamily away from single family. I also believe it is destocking that we're seeing because we shifted from an industry that was tight in terms of supply, not that long ago, to an industry that now I would characterize as being in free supply.

So we are seeing an environment where inventories through the channel, we believe, have been destocked in the quarter. In terms of price gaps, I'd characterize it as we're roughly in line with where historic gaps have been. I don't think we're seeing a real shift in either direction in terms of the gaps. Those gaps are a function of the value we provide to customers, and that value is still there today as it was a year ago and 2 years ago and 5 years ago in terms of what we provide.

What we're doing now for curtailment is we have a target inventory that we wanted to rebuild in the second quarter to make sure we can service our customers well. And we were light on inventory quarter after quarter of the last few years. So we wanted to rebuild that and we were able to rebuild that in the second quarter. But we also want to make sure we're disciplined in terms of free cash generation and working capital. So we started to take curtailment.

The form that's taking for us now is what we would call hot idle curtailment, which is the lines are still operational, but we're taking longer maintenance downtime. We're slowing down lines. We're doing the normal things we do to build curtailment into our business. We still have optionality to move to what we would call cold idle, which is where we take a line down completely, where it takes a while for that to restart.

We tend to look at longer-term supply-demand dynamics within the industry before we make those more permanent or semi-permanent capital and capacity decisions. So that's still possible for us to do. But right now, we're managing curtailment through hot idle and trying to manage it through longer maintenance downtime and other kind of normal course actions. Thank you, Phil.

Operator

The next question comes from Susan Maklari with Goldman Sachs.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

My question is on the SG&A. You mentioned in your prepared remarks that you are looking to increase spend there, especially in roofing. When you consider the current operating environment, how do you think about measuring the returns on the investments that you're making in there? And also, what is your ability to flex that spend depending on how things change in the broader housing and macro in the next couple of quarters.

Brian D. Chambers

President, CEO & Chair

Thanks, Sue. We are seeing some step-up of very specific investments, particularly in roofing, where we've built really a great model. I'll go back to the center of our success is that contractor engagement model we have built. That's really driving the margin performance of the business going forward.

So we will continue to invest in the right commercial tools, marketing tools, digital tools and commercial resources to support a growing contractor base. That would be an example of a very targeted investment to drive revenue growth and to support margin growth as well in the business. And that's how we really look at it across the enterprise. We are looking very surgically to where we want to make investments around our commercial strength, our brand, our technology and innovation efforts that we've stepped up to drive product and process investment innovations at a faster rate.

So those are investments that we make that really come through then the business returns. So how we measure success is in the margin profile than the business that we're investing in. And do we continue to see opportunities to grow revenues and expand the margin rates inside the businesses based on those investments.

We always look at the overall market environment. So we want to be aware of how dynamics are shifting, how that might impact volumes, price, margins, and performance of the business. But the investments we've made on both the CapEx side, you've seen us making, are really focused on productivity investments around automation and modernization of our assets and on growth, that we think supports our market positions over time.

And then you're going to see us invest in very specific market commercial initiatives where we can drive again and support that revenue and margin profile within the businesses through those investments going forward.

Operator

Our next question today comes from Mike Dahl with RBC Capital Markets.

Michael Glaser Dahl

RBC Capital Markets, Research Division

Just wanted to ask on resi shingle pricing. It seems like there was a pretty healthy uptake on the April increase. Our sense is maybe some like slight regional variations just given the differences in demand that have emerged. So as you think about the market being down in the back half of the year, how would you characterize pricing sequentially? And what are your expectations embedded in the guide for price maybe more specifically for resi shingles at least through 3Q?

Brian D. Chambers

President, CEO & Chair

Thanks, Mike. Yes, we have seen good price realization of our April increase. We saw that materialize through Q2. And embedded in our guide is a continued realization of that pricing as we see good demand for our product, as I talked about earlier, in terms of the contractor demand we're still seeing outdoor sales of our products are strong, and we're seeing just good overall market demand.

So as the markets play out in terms of the back half of the year, I would expect that we would continue to see good price realization. We are lapping August 24 increase from last year. that will have a little bit of an impact as we go forward. But in terms of the April increase, we continue to see good price realization in the market and expect that to continue through Q3.

Operator

Our next question comes from Keith Hughes with Truist.

Keith Brian Hughes

Truist Securities, Inc., Research Division

Thank you. Just shifting over to the domestic commercial industrial insulation. You said some positive comments here around several ag markets we always focus on. If you could speak a little bit more some of the light commercial -- it seems like it's been a little more pressured than some of the heavy. What's -- how's your results been there? What's the outlook?

Todd W. Fister

Executive VP & CFO

Keith, when we look at light commercial, we do sell insulation into some of those markets, retail, health care, office buildings, warehouses -- there is a mixed outlook there depending on the specific end markets. And I would say that the take per unit for insulation in those kind of facilities compared to the ones that I talked about earlier is a lot less. So while we do see mixed results in some of those end markets, overall, we're seeing enough strength in the high-tech per unit end markets that are growing at an accelerated rate. we like the overall answer for that domestic commercial and industrial exposure.

Operator

Thank you. We're unfortunately out of time for any further questions today. So I'll pass back over to Brian Chambers for any closing comments.

Brian D. Chambers

President, CEO & Chair

Thanks, Lydia. I'd like to thank everyone for making time to join us on today's call and your ongoing interest in Owens Corning. We look forward to speaking to you again on our third quarter call. Thanks, and have a safe day.

Operator

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

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