

JHX Earnings Call Transcript

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Quarter: 2

Operator: Thank you for standing by, and welcome to the James Hardie Fiscal Second Quarter 2026 Earnings Conference Call. [Operator Instructions] I would now like to hand the call over to Joe Ahlersmeyer, Vice President of Investor Relations. Please go ahead.

Joe Ahlersmeyer: Thank you, operator, and thank you to everyone for joining today's call. I am joined today by Aaron Erter, Chief Executive Officer of James Hardie; and Jon Skelly, President of AZEK Residential. Before we begin the call, please note that during prepared remarks and Q&A, we may refer to non-GAAP financial measures and make forward-looking statements. You can refer to several related cautionary and other notes on Slide 2 for more information. Forward-looking statements made during today's conference call and in the earnings materials speak only as of the date of this presentation. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on forward-looking statements. Also, unless otherwise indicated, our materials and comments refer to figures in U.S. dollars and any comparisons made are to the corresponding period in the prior fiscal year. And with that, I'm pleased to hand the call over to Aaron.

Aaron Erter: Good morning, and thanks for joining us today. With me on today's call are Jon Skelly, President of our AZEK business; and Joe Ahlersmeyer, our Vice President of Investor Relations. Before we get into the second quarter results, I wanted to provide an update on some important developments for the company. Today, we announced the appointment of Nigel Stein as Chair of the James Hardie Board of Directors. Nigel's extensive Board experience, understanding of James Hardie and his leadership come at a transformative time as we focus on execution and long-term value creation for our shareholders. Our Board also announced the creation of an Integration and Performance Committee to support the successful integration of AZEK and the performance of the combined businesses. The committee will be chaired by Jesse Singh and will include Board members, Howard Heckes, Persio Lisboa and myself. I look forward to working with Nigel and the entire Board to advance our strategy and continue strengthening the company for the future. As you may have seen in our press release, Rachel Wilson will be leaving James Hardie to pursue other opportunities. Rachel has been a valued partner and an important part of our team during her tenure at James Hardie. I want to thank Rachel for her many contributions over the last 2 years. Finally, I'm very pleased to announce that Ryan Lada will join us as our new Chief Financial Officer. Ryan comes to us from Watts Water, where he recently served as CFO. Many of you know him from his prior role as CFO at AZEK. Ryan is a proven leader who brings strong operational and financial experience and a deep knowledge of the building products industry. He's the right person to partner with me in leading James Hardie in this next phase of growth. We have every confidence in a smooth CFO transition. We released our second quarter results yesterday, which were consistent with what we shared in our prerelease in early October. While we continue to navigate a dynamic market environment, we are actively focused on driving improved performance in our results. We have identified several opportunities to enhance how we operate today while positioning James Hardie to take full advantage of the favorable long-term fundamentals of the U.S. housing market. Our strategy remains grounded in profitable growth, disciplined execution and ongoing material conversion across our businesses from wood and inferior materials to composite alternatives and fiber cement. Before getting into the details of these initiatives, I

wanted to address the changes we made to our outlook since we lowered our full year guidance in August. At the time, what we were hearing from our customers and what was evident in their ordering rates was more cautious positioning and the possibility of additional inventory tightening in the channel. The magnitude of the August guidance reduction was deliberate and based on the information we had at the time. Since then, we've seen conditions stabilize with recent customer conversations and data shared by customers showing a more stable market and normalized inventory levels. And based on that, we're modestly raising our full year guidance. We still expect the broader market to be challenging in the near term, and that view is embedded in our guidance range. The variability in our guidance this year has highlighted the need for greater consistency and discipline in our financial forecasting process. We know we can do better, and we've taken decisive action to strengthen execution, improve predictability and drive consistency in our results. We have been working with our customers and are now receiving more frequent granular data from them, giving us a clear view of inventory and market demand. These improvements, among others, will help us deliver more predictable results going forward. Our 2 largest segments: Siding & Trim and Deck, Rail & Accessories, position the company with 80% of our net sales from North America with a strong record of structural growth and substantial material conversion runway across both segments of the business. The balance of our net sales are generated in Australia and New Zealand, where we run a highly profitable fiber cement business and in Europe with an improving financial profile and an attractive fiber gypsum business. In North America, our partnership with large one-step dealers and our success converting homebuilders from vinyl to fiber cement have driven new construction to approximately 40% of our North America revenue, inclusive of AZEK with repair and remodel at approximately 60% of sales. Over time, we expect repair and remodel to grow faster given favorable structural fundamentals and deliberate focus to accelerate fiber cement penetration in that end market. In Siding & Trim, current conditions remain mixed, reflecting the category's higher exposure to new construction in the Southern states. From a channel inventory perspective, customers are appropriately positioned for this time of year relative to forward demand expectations. And while the new home market is still uncertain, demand trends have improved relative to our expectations in August. We now expect mid-single-digit organic net sales declines for the full year. We are focused on returning our Siding & Trim segment to growth in the future. A few examples of our growth plan in the segment include on-the-wall cost reduction pilots in Detroit, Pittsburgh, Indianapolis and the Ohio area are delivering early wins. In some cases, we've cut the relative cost gap versus vinyl by about 50%, thanks to improved material availability and new installation methods. Statement Essentials with Boise Cascade simplifies our ColorPlus lineup, about a 90% SKU reduction versus the full statement collection with products reliably stocked at dealers in pilot regions. This improves availability and reduces project delays, which directly helps contractors win more jobs. Intuitive Edge training and productivity programs are expanding. We're teaching contractors the Trim-Over method, which can improve productivity by about 35%. That means less time measuring, cutting and caulking. These steps make it simpler and more affordable for contractors to install our products and help attract new users to fiber cement. We plan to scale these efforts across major Midwest, Northeast and Mid-Atlantic markets in early calendar year 2026 and close partnership with Boise Cascade. Based on the early results, we see meaningful expansion potential in those regions. Beyond installation, we believe ColorPlus is a differentiated product with large opportunities in repair and remodel, especially in the Northeast and Midwest, where aging housing stock supports conversion from vinyl. We continue to invest in contractor conversion, and we're seeing strong performance in ColorPlus versus prime products with growing momentum among our sales team and dealer partners. Organic net sales in the legacy James Hardie North America fiber cement business declined 3% in the second quarter, driven mainly by lower volumes, partly offset by higher average sales price. Single-family exteriors volumes were down mid-single digits with interiors down low double digits and multifamily up mid-single digits. On a pro forma organic basis, AZEK Exteriors grew revenue, up 5% in the quarter and up 7% in the first half. In Siding & Trim, which reflects both our core James Hardie fiber cement business and AZEK Exteriors, adjusted EBITDA was \$224 million in the second quarter, with adjusted EBITDA margin of 29.2%, down year-over-year, primarily due to approximately 400 basis points of margin decline in our North American fiber cement business, largely reflecting underutilization in our plants. We're not satisfied with our performance in the quarter, and we are taking action to

improve future performance, including accelerating identified cost synergies from the AZEK combination, reducing variable costs in our plants and optimizing our manufacturing network to improve utilization. These steps are already underway and will drive meaningful margin improvement. Going forward, we expect utilization to improve and margin expansion as we move into fiscal 2027. For the full year, we now expect total raw material inflation in the organic business to run mid-single digits, better than the high single digits we expected earlier. Pricing is expected to offset cost inflation, while HOS or the Hardie Operating System will help dampen the impacts of underutilization. Now let's turn to Deck, Rail & Accessories. In Deck, Rail & Accessories, performance remains strong with mid-single-digit sell-through growth in a market that is down in the low single digits. TimberTech continues to outperform through our proven playbook focused on wood conversion, new product development, channel expansion and strong downstream execution. This business continues to demonstrate that we can deliver above-market growth and profitability through customer-focused execution. Demand in this segment remains solid, supported by a higher mix of repair and remodel work and a large presence in the North and Midwest regions. We delivered mid-single-digit sell-through growth in the quarter, again, outperforming the broader market by several hundred basis points. TimberTech continues to drive conversion by doing what it's always done well, consistent downstream execution, focusing on material conversion, deeper engagement with TimberTech Pros, expanding our channel presence with dealers and distributors and new product development. Over the last 12 months, TimberTech's brand awareness has increased by 7 points to its highest level since we began tracking this measure 5 years ago. New products are also adding momentum. The recently announced TimberTech Advantage Rail is a great example of how we continue to innovate and strengthen our position in outdoor living by launching products that provide the highest levels of quality, style and design while improving contractor productivity. Our quarterly survey of TimberTech Pros shows a stable market. Our contractors continue to report approximately 7 weeks of project backlog, consistent with both prior quarters and the same period last year. They also expect future market conditions to remain relatively stable, in line with recent quarters and the prior year's outlook. Based on this and other data points, we expect both sell-through and net sales to grow low to mid-single digits on a full year basis in FY '26 for the post-close period, July 1 through March 31 compared to the same pre-acquisition period. We expect sequential growth from the December to March quarter, boosted by new product launches and expanded distribution ahead of the spring season. And we are anticipating our partners to carry a seasonally normal level of inventory through the balance of our fiscal year. The integration with AZEK remains on track. We've already aligned key functions like marketing and operations under single leadership. Most recently, we appointed Sam Toole as Chief Marketing Officer of James Hardie. Sam has done an outstanding job leading AZEK's marketing organization for the past 4 years. Under her leadership, we'll strengthen our marketing capabilities, deepen customer engagement and expand our reach across North America. On cost synergies, we've moved quickly on G&A; opportunities while being deliberate in how we integrate manufacturing and commercial operations. With 6 months left in FY '26, we've already surpassed our first year cost synergy goal, and we're pushing hard toward our \$125 million total cost synergy target. Dealer feedback has been very positive. Several key partners have already chosen to make AZEK their exclusive PVC trim brand, drawn by the combination with James Hardie and the strong loyalty contractors have to our combined portfolio. Our sales teams are leaning in, turning these opportunities into revenue and setting us up for faster growth ahead. Distributor feedback has also been positive. Last month, we announced a multiyear expansion with Boise Cascade in select markets. This agreement expands our strategic statement essentials offering and adds the TimberTech and AZEK exterior brands into our long-standing relationship with Boise. The strong feedback we are hearing across every level of the channel reinforces our confidence in delivering over \$500 million of revenue synergies over the next 5 years from the AZEK combination. And it's important to note that this isn't coming from one group or one region. It's broad-based across our dealer network and the contractors and builders who use our leading brands every day. Through countless meetings over the past few months, we are seeing firsthand how the combined portfolio is resonating, how our teams are executing together in the field and how we can bring to bear the relative strengths of the 2 companies. Those early signals give us conviction in the value creation opportunity ahead. I will now turn it over to Joe to run through the financials. Joe?

Joe Ahlersmeyer: Thanks, Aaron. Starting with consolidated results for the second quarter. Total net sales grew 34% to \$1.3 billion, including \$345 million of acquired AZEK sales. Organic sales declined 1%. Adjusted EBITDA was \$330 million with a 25.5% adjusted EBITDA margin. Adjusted general corporate and unallocated R&D; costs totaled \$39 million in the quarter, benefiting from favorable stock-based compensation expense. During the second half, we anticipate around \$50 million per quarter of general corporate and unallocated R&D; costs. Corporate expense is where the majority of our \$24 million P&L; benefit from cost synergies resides for FY '26. Adjusted effective tax rate was 16.9%, reflecting our updated expectation for FY '26 of approximately 20%. Adjusted net interest was \$68 million and weighted average diluted share count used for adjusted diluted EPS was 582 million. We anticipate these items will remain consistent throughout the third and fourth quarter. Adjusted net income was \$154 million and adjusted diluted earnings per share was \$0.26. Year-to-date free cash flow was \$58 million, reflecting transaction and integration costs, partially offsetting strong cash generation and reduced capital spending. Turning to our Siding & Trim segment, which combines our North America Fiber Cement business with AZEK Exteriors. Net sales were up 10%, including \$89 million from a full quarter of AZEK. AZEK Exteriors grew net sales 5% for the quarter and 7% for the first half on a pro forma basis. Siding & Trim organic net sales declined 3% in the quarter as lower volumes were partially offset by a 2% rise in ASP with solid single-family realization. Adjusted EBITDA was \$224 million, with adjusted EBITDA margin of 29.2%, down 530 basis points year-over-year, including over 100 basis points of impact from \$8 million of R&D; costs previously expensed within corporate and now allocated to the segment. Excluding the impact of this allocation, adjusted EBITDA margin would have been approximately 30.2%, a decrease of around 430 basis points. The key drivers of the comparable change in margins were lower volumes, unfavorable absorption and raw material inflation. In the quarter, we experienced a \$25 million underutilization impact, partially offset by \$10 million in efficiency gains from the Hardie Operating System. We're addressing the margin decline aggressively through network optimization, cost synergies and structural efficiency improvements. These actions will position the business for margin recovery and stronger performance going forward. For Deck, Rail & Accessories, which includes AZEK's residential decking, railing and pergola lines led by TimberTech, net sales increased 6% on a pro forma basis and sell-through was up mid-single digits, consistent with performance in the first quarter. Adjusted EBITDA was \$79 million, resulting in a 30.7% adjusted EBITDA margin. The Deck, Rail & Accessories margin outlook remains strong with upside from recycling initiatives, improved absorption at our Boise manufacturing location and the application of the Hardie Operating System across the manufacturing base. Our fiscal third quarter has historically been the smallest seasonal period for our Deck, Rail & Accessories business, and we anticipate a sequential step down in margins consistent with these historical patterns. Turning to Australia and New Zealand, formerly Asia Pacific Fiber Cement. Including the impact of winding down operations in the Philippines, net sales declined 10% or 8% in Australian dollars due to a 20% decline in volumes, partly offset by a 14% rise in ASP. Adjusted EBITDA was down 19% to \$44 million, with adjusted EBITDA margin down 380 basis points to 32.7%. Excluding the impact of the Philippines, Australia and New Zealand net sales declined low single digits in Australian dollars with a low single-digit volume decline partially offset by modest ASP growth. Lower margins reflect softer volumes, R&D; allocations and higher SG&A; expense, including lease exit costs and added growth investments. And in Europe, net sales were up 18% or 11% in euros, driven by strong fiber gypsum volume and average net sales price consistent with the prior year. Adjusted EBITDA margin was up 80 basis points to 15.3%, helped by volume leverage, lower freight and paper costs and solid manufacturing efficiency. We're continuing to invest in sales and marketing in Europe to support higher-value product growth and drive long-term margin expansion. And with that, I'll turn it back to Aaron.

Aaron Erter: Thanks, Joe. Turning to our full year outlook. For Siding & Trim, we expect continued challenges in our end markets to result in mid-single-digit organic sales declines in the second half, with Q3 net sales dollars below Q4 due to normal seasonality and the timing of our annual price increase. Based on updated planning assumptions, we are raising our Siding & Trim net sales guidance to \$2.925 to \$2.995 billion. And today, we are issuing Siding & Trim adjusted EBITDA guidance of \$920 million to \$955 million. At the midpoint, this implies a full year organic net sales decline of approximately

6% and an adjusted EBITDA margin of just over 31.5%. For Deck, Rail & Accessories, we are modestly increasing the low end of our net sales guidance to \$780 million, with the high end remaining at \$800 million for the post-close period of FY '26. This assumes sell-through up low to mid-single digits, consistent with recent quarters and above prior expectations, reflecting outdoor living tailwinds and continued material conversion. Based on these demand expectations, we expect Deck, Rail & Accessories adjusted EBITDA of \$215 million to \$225 million. For the total company, we now expect FY '26 adjusted EBITDA of \$1.20 billion to \$1.25. We're confident in our long-term cash generation. We expect it to accelerate as integration costs wind down and interest expense declines with debt paydown. Our capital expenditures outlook remains unchanged at approximately \$400 million for FY '26, including \$75 million for AZEK investments. Over the long term, we expect CapEx across our North American businesses to run around 6% to 7% of combined North America sales. We still expect to generate at least \$200 million in free cash flow for the year. Net debt ended the quarter at \$4.5 billion. Pro forma for the AZEK acquisition and the midpoint of our updated guidance, FY '26 net leverage stands at approximately 3.2x. We remain committed to getting our leverage under 2 turns within 2 years post close as we grow EBITDA, generate cash and pay down the debt. So to wrap things up, looking ahead, our priorities are clear: continue driving material conversion from wood and inferior materials to composite alternatives and fiber cement, sharpening execution across the business and delivering on synergy and deleveraging commitments. Only 4.5 months post-closing, we are more optimistic than ever on the opportunity in front of us and remain confident that our strategy, our team and our leading brands put us in a strong position to deliver consistent long-term value for our shareholders. With that, operator, please open the line for questions.

Operator: [Operator Instructions] The first question today comes from Trevor Allinson with Wolfe Research.

Trevor Allinson: First question is on some of the trends you're seeing in Siding & Trim, particularly with your builder customers in the South. I think last quarter, you mentioned about 1/3 of your reduced guidance was due to slower market conditions. Now it seems like perhaps your expectation is for market conditions to not be quite as bad as you were previously anticipating despite the builders continuing to reduce starts here. So can you just talk about from an end market perspective, what's different than what you previously expected? Perhaps any differences by geography worth noting that is supporting your outlook?

Aaron Erter: Yes. Sure, Trevor. Thanks for the question. I think very simply, just to begin, the magnitude of that deterioration has been less severe than what we embedded in our guidance. I mean, for instance, the South, single-family new construction, for instance, the declines were less severe than the 20-plus percent declines that we previously embedded. But let me take this opportunity since you threw the question out there, just to give you a little bit of a lay of the landscape here as we think about new construction. Look, starts activity really remains challenging for most of the country. We've cited this before, and it continues, particularly Texas and the Southeast are really having the greatest impact, particularly given their relative size and how indexed we are to new construction in these areas. So Texas, for instance, we see builders continue to manage their inventory levels. Builder activity continues to slow with builders starting homes at a slower pace than they are selling homes. In the second quarter, we again saw double-digit volume declines in this market. The second quarter declines reflect an even softer market than 1Q, even as 1Q was more impacted by the channel inventory impacts. And we've seen continued weakness and deterioration in October with even stronger double-digit volume declines. If we shift over to Florida and Georgia, which is a big market for us as well, demand similarly remains challenging with the volumes down year-over-year in 2Q. Housing inventory, we do see some mix there. Housing inventory across key markets like Orlando and Jacksonville remains elevated and builders continue to manage their inventories. And then in areas, housing inventories have begun to approach normal such as Southwest Florida, we've seen some relief. So we're continuing to see more stable activity in areas like the Carolinas, a market where we're outperforming as we convert builders from vinyl to color. In the West, we expect starts to be down high single digits to low double digits for the year as builders across the Southwest and the Mountain States also slow their starts. And then if we look at areas like the Midwest, we continue to see more resilience in activity, particularly at what we would call the barbell ends of the market. So more affordably priced

homes and then top of the market. So look, just to sum it up, generally speaking, new construction has softened -- continued to soften across our key regions. But as I started out and begin with, not as significantly as we factored in our previous guidance. But look, even with that said, we continually strive to figure out ways to continually bring value to our builder customers, to our dealer partners and try to outperform the market.

Trevor Allinson: That's super helpful. And then switching to decking and railing. A peer of yours recently talked about seeing a more competitive environment. They're talking about an expectation for SG&A; spend to ramp meaningfully here versus where it's trended in recent years. Are you also seeing market conditions become more competitive? And are you expecting marketing spend or rebates to be materially higher moving forward versus what you would have expected 6 or 8 months ago? Any color on the competitive dynamics within decking and railing would be helpful.

Aaron Erter: Yes, Trevor. I think to start out, when we introduced this deal, one of the things that was interesting and similar with James Hardie and AZEK is how we went to market. And we focus on the entire customer value chain. We always say homeowner-focused, customer and contractor-driven. And I think you see that with what we've been doing with AZEK and we've been doing it for years. Look, our strategy with AZEK has been consistent and it's been working. And I don't see a need to change that. So as I said, we've been focused on downstream marketing. But look, I have Jon, who runs the business for us and has for years. He can give a little more color there.

Jonathan Skelly: Yes. So Trevor, again, I think it's just pretty consistent execution of the playbook. And we haven't seen any reason why we need to alter that, right? So we've consistently communicated externally that we believe we can beat the market by 500-plus basis points of growth. And that's been our experience, and the recent quarter is another example of that outperformance. New product development, downstream sales and marketing, execution, channel expansion and just getting really sticky with our customer base. That's proven to be a successful formula for us. So we're just going to continue to execute that playbook, continue to take care of our customers and continue to take care of our people. If we keep doing that, we'll continue to outperform.

Operator: The next question comes from Keith Hughes with Truist.

Keith Hughes: Let me go back to the question. Building on the last question, you saw a couple of points of price, I believe, in the decking business. If you could talk more about price as we end the year and potentially to next year, as you said, the previous questioner said, the largest competitor has said a dynamic like there's going to be discounting in this market. What is your expectation for price for the next year or so?

Aaron Erter: Yes. Keith, are you talking specifically of DR&A; or fiber cement?

Keith Hughes: Specifically decking.

Aaron Erter: Yes. Yes. Look, I'll take that. And Jon, chime in here if you feel the need. Look, we've taken price. We've seen other competitors take price as well. And we'll continually remain consistent in our actions and our approach to price. We don't see that changing at all.

Jonathan Skelly: Yes. I mean, Keith, nothing's changed versus what we've communicated to you over the last multiple years, right? I mean we believe we can continue to take inflationary pricing in the marketplace. That hasn't changed, and we continue to execute and realize the price.

Keith Hughes: Okay. And let me switch to railing. What are your plans in the future for Railing? Are we seeing any new launches of different substrate materials? The question is around new introductions.

Aaron Erter: Jon, do you want to talk to some of our new product introductions? We've had some exciting ones that just came out.

Jonathan Skelly: Yes. So the most recent one we just talked about in the prepared remarks is Advantage Rail. And what that is, Keith, is consistent with our decking portfolio where we have good, better, best, premium, consider this a better/best offer in the composite category. And one of the things we've been doing over the last multiple years with rail is filling out the portfolio. So again, as we look for those continued shelf space gain opportunities, when we can walk into one of our dealer partners with a full portfolio, historically, our portfolio was much more driven around composite and aluminum. But now we have a complete portfolio. You've got entry-level, so your good category with a differentiated vinyl product. You've got a step up into the steel category, sort of that's better. And then the best of the premium is rounded out with our aluminum offer and with a few different versions of composite and

then our most premium and PVC. So that really provides us with a great opportunity to help our dealer partners consolidate the number of rail types they have on offer with the full portfolio. And then they get the strength of the TimberTech brand and all the demand generation -- downstream demand generation we provide them behind that brand. So we think that's a really powerful opportunity for our customers.

Aaron Erter: Keith, what's been interesting as we've learned -- as I've learned this business more and more and been out with our customers with Jon and the team. As Jon mentioned, it is a very fragmented category. You go into a dealer partner, you go to dealers and you see many different types of railing out there. So to Jon's point, we're trying to be able to bring the complete offering and be able to make it simpler for our dealer partners, make it simpler for the customer as well. And look, just like we did in fiber cement, if you sell a fiber cement job, you're going to sell the trim with it. It's the same thing. We sell a TimberTech decking job, we're going to sell the rail with it as well. That's a focus of ours.

Operator: The next question comes from Lee Power with JPMorgan.

Lee Power: Aaron, the organic strategy piece that you've kind of outlined again, there's obviously a few moving pieces there just around ColorPlus. Some of it goes to productivity, some of it goes to the price gap versus vinyl, some of it goes to the dealer and the contractor network. What do you think is the core reason that you have struggled probably in the Northeast with ColorPlus in the past. Is it one of those more than the others?

Aaron Erter: Yes, Lee, good question. Look, I think if we look at our opportunity to grow the organic fiber cement business, it's a couple of things. If we look at the Northeast and we look at the Midwest, those are the areas from a repair and remodel standpoint that have the most opportunity because you have an aging housing stock out there. The big challenge for us or I should say, opportunity is how do we decrease the price differential versus inferior substrates. So vinyl, for instance. What we know is if our contractors are sitting at a kitchen table and trying to sell a James Hardie job, if we can get that price differential versus, say, vinyl, for instance, about 50% to a premium, we're going to win the majority of those jobs. So as we walk through the presentation and we talked about reducing on-the-wall cost, we firmly believe and are confident we have an answer to that. This has been one of the biggest combined R&D; efforts, supply chain efforts and also working with our customer partners to bring this all together. And over the last year, we've had this pilot out there. And what we're seeing in this area where we're having the pilot, call it, the Central Northeast is we're seeing our ColorPlus volume up 17%. So that's giving us tremendous amount of confidence to wheel this out to more locations like the Midwest, to the Carolinas, to the Mid-Atlantic. And what's been critical, you saw the announcement with Boise. A lot of that has been focused on TimberTech and AZEK in some regions. But what's critical in that announcement is Boise partnering with us to get this extended statement collection out there to more areas of the country. So that allows us to really be able to accelerate our repair and remodel conversion out there. And look, we believe from a ColorPlus standpoint, the methods that we have, this Intuitive Edge program that we're going to be able to double our ColorPlus volume just with this program. So we're really excited about it. I know we've talked about it, but we're seeing it working, and we're going to have it be launched to a couple of different areas and continue to launch appropriate areas across the country as we get into the back half of our year.

Lee Power: And then just a follow-up. You talked to trim attachment rates before. Can you just tell us where you are tracking now trim attachment rates in new housing and R&R; and maybe how AZEK has helped that?

Aaron Erter: Yes. Good question, Lee. Look, we continue to see progress in our trim attachment. And a lot of our agreements with our large homebuilders, which has been new over the last couple of years have included adding trim attachment as well. We see a tremendous amount of opportunity, just synergies in total, obviously, with AZEK, but areas of the country that are not utilizing fiber cement. So take, for instance, the Northeast, that's where we think we have opportunity to be able to bring AZEK in and VERSATEX as well. And look, I think what's been really encouraging as well as we brought this complete proposition to some of our large one-step dealers out there, they're excited about it, and they're adopting it. So we're seeing progress.

Operator: The next question comes from Ryan Merkel with William Blair.

Ryan Merkel: Nice job this quarter. My first question is on margins. It looks like guidance implies the second quarter EBITDA margins at the bottom for the year. Can you talk about what's driving the improvement in the second half and, particularly, because it looks like Siding volumes might be a little worse in the second half year-over-year?

Aaron Erter: Yes. Ryan, good question. Look, we're continue to -- we're going to have soft volumes, we think, in the back half. I mentioned that in the beginning when we think about fiber cement. Even still, our guidance shows more modest margin compression on a year-over-year basis. I think it's important to contextualize that our second half expected margin performance would be more consistent with what you would expect with our cost structure and decremental profile. We've seen a lot of inflation headwinds continue from FY '25 that we flagged and have carried over. So there were impacts related to short-term under-absorption and variable costs that really weighed on the first half. But as we get into the second half, we expect to see more pronounced benefits from some of our cost initiatives, healthy price/mix benefits, some incremental benefits of cost synergies and really some potentially early improvements from the actions we're taking to really optimize our manufacturing network. So as I think about margins moving forward, we're not giving guidance, but I would expect if we continue to see the same type of volumes that the second half is going to be more representative of what we would see, if not a little better.

Ryan Merkel: Got it. All right. That's helpful. And then just stepping back, Aaron, if I go back to the guidance cut in August, there were a lot of fears that fiber cement was losing share. It now seems like your exposure in the South and a cautious guide were really the key issues. So my question is, can you comment on how fiber cement is performing versus other materials in a market where affordability is a big issue? Are you taking share? Are you holding share?

Aaron Erter: Yes. Good question. Look, as we look at share, I mean, certainly, we are not happy or satisfied with our performance. We need to be growing. Now with that said, and not using an excuse, but we do face some challenges with our exposure to new construction and certainly areas like the South. But I talked about some opportunities that we have moving forward. Lee had just asked me the question about the improvement on the wall cost. We think that's a game changer for us, and we expect to really accelerate that. I think the other thing is the momentum behind resilient materials is structural. So if we think about risks such as wildfires, sustainability goals, insurance reform, fiber cement really aligns perfectly with the trend to meet evolving building codes. There's the curb appeal. And then look, lastly, I would say, builders remain focused on what helps them sell more houses quicker. And we're finding that James Hardie homes do that. So as we think about over the longer term, we think we're well positioned.

Operator: The next question comes from Tim Wojs with Baird.

Timothy Wojs: I guess first, my question just on cost synergies. You raised kind of the exit rate on the run rate for fiscal '26. If you could just speak to kind of what you were able to attack on the cost synergy front earlier than you expected. And then as you think about kind of the \$125 million cost synergy target, any kind of timing change there as you kind of attack the rest of the bucket?

Aaron Erter: Yes. Tim, good question. Look, I think the key here is, we focus on G&A; right away. So really, I think 85% of the target that we had for G&A;, we've achieved. So the natural question is, are you going to think -- are you going to get these done earlier? Or are you going to raise the cost synergy target? What I'd like to do first is let's see these show up in the P&L; for us and then be able to look at potentially doing that. But I'm very pleased with the focus and how the team is working on approaching these cost synergies. The other key is you don't want any disruption to your base business or disruption to your customers, and we have not seen that. So there's been a tremendous amount of focus from the team.

Timothy Wojs: Okay. Okay. That's helpful. And then just kind of piggybacking on Ryan's question about margins, specifically in the Siding & Trim business. Is there anything internally that you're specifically doing to kind of limit some of the decrementals on volume? Because I mean it still is kind of a high single-digit volume decline, I think, implied in the back half of the year, but you're going to see much better incrementals. So is it the timing of raws? Is it some things you're doing on variable costs and things like that kind of manage it? Just some more color there, I think, would be a lot helpful.

Aaron Erter: Yes. Certainly, we've had our cost inflation. But look, we always say we focus on what we can control. So we are taking actions. If you look at some of the things that we're doing in our manufacturing plants, we're managing shifts. We're working as best as we can to manage our variable costs. Also, we're looking at our footprint as well. And what are the right type of capacity levels we need at this time, that speaks to us working through the right amount of shifts to have. So there's a whole host of things. I still go back to areas like the Hardie operating system. That is key for us to manage our costs, whether that be from a procurement standpoint, whether that be from a formulation standpoint. So we're looking at that from a legacy Hardie standpoint, but also implementing that in the legacy AZEK business. So those are some of the things that we're doing, and we've already taken action on some of these already that we should see the benefits as we complete our Q3.

Operator: The next question comes from Peter Steyn with Macquarie.

Peter Steyn: Just you've mentioned one step, your one-step dealer network and relationships a number of times. Could you give us a little bit more of a sense of what you're experiencing in that space? Obviously, it's easy to see the Boise's and the like, but less so in the one step context, what reception you're getting, what impact it's having on the business and how you're thinking about the strategic positioning of your channel mix across the portfolio?

Aaron Erter: Yes. Peter, maybe to start out, Boise, we have not listed as a synergy, meaning a commercial synergy. Synergy happens downstream. And so if we think about our distribution partners, it's really important and our strategy has always been at James Hardie, and it's been the same at AZEK is to make sure that we're teamed up with the best distribution partners that are going to service our customers. If we go to our one-step dealers, certainly, we have tremendous relationships with them. And call it day 2, we've talked to them and we spent a lot of time with them and bringing them what is the complete value proposition of the 2 companies combined. So again, I want to be able to demonstrate in the P&L; and because of confidentiality reasons, we won't go into some of the early wins that we've had, but we have had early wins with some of our large one-step dealers, particularly in the areas of PVC trim. So they see the value in the complete offering. I think any time you ask, okay, why would they want to change? Why would they want to bring in a complete offering of what is the new James Hardie. It goes back to that demand creation. And Jon talked a little bit about the downstream marketing, the downstream focus. That really is us focused on our contractors and our ability to drive them through our dealers' branches. And we do that because of outstanding product. We do that because of outstanding service, and we do that because of outstanding brands. The TimberTech brand is the #1 brand for the Pros and Decking. The James Hardie brand is the #1 brand in Siding. We have the #1 brand from a Trim standpoint. So that really is the value that we bring and why they would be interested in bringing in the complete offering.

Peter Steyn: Yes. As a quick follow-on and a direct one at that, you mentioned continued strong performance in premium decking. How much has a varied channel mix relative to some of your peers got to do with some of the experience you're having in your business relative to peer commentaries?

Aaron Erter: Yes. You know what, I'll let the expert here, Jon Skelly, take that one, Jon?

Jonathan Skelly: Yes. So again, I think if you look back at the strategy and the execution that we talked about, continuing to deliver against shelf space gains and that channel expansion has been critical to our success. And so we're just continuing to execute against that playbook. I think historically, as we've talked about, we tend to be a more Pro leading business. And so a lot of our channel expansion and shelf gains have been coming at the Pro level. So the independent Pro channel is critical for us. And as Aaron articulated well, the one-step channel has also been good historically for TimberTech and AZEK, but obviously, roofing and siding focused one-step dealers. James Hardie has a stronger base of relationships there. And so we're able to have really powerful joint conversations with that channel. So that's been our strategy. We've been executing it. Again, our portfolio has been in decking experienced balanced growth. Again, our mix tends to lean more premium, but we are seeing growth across the portfolio, and we are seeing continued strength in the Pro channel.

Operator: The next question comes from Phil Ng with Jefferies.

Philip Ng: Congrats on the strong quarter. I mean, pretty encouraging in terms of the quarter and the outlook. Jon, it's a treat that we have you on this call. So I guess a question for you. When we look at

marrying Hardie and AZEK, these 2 companies and businesses, how is perhaps the go-to-market strategy similar and different from your previous life at AZEK and the opportunities that could be different? I'm curious, what are some of the new levers in your toolkit now with a much larger entity, a larger portfolio? Are there things that you can offer that wasn't as obvious before, whether it's rebates, the ease of doing business, pricing? Just kind of help us think through some of those opportunities? And any noticeable shelf space wins you want to call out for '26, whether it's retail or the 2 steppers?

Jonathan Skelly: Sure. Great to talk to you again, Phil. So first and foremost, what I've been most encouraged about is the shared culture across both businesses. So when you look at whether you're a TimberTech or AZEK seller or a James Hardie seller, just the focus downstream on driving contractor conversions and pull-through of the channel, it's just been terrific. So our teams have been working incredibly well together, and they've been doing a terrific job of sharing opportunities and trying to generate some quick wins out of the gate. So first and foremost, that's been really powerful. So on a combined basis, we believe we now have the largest sales team among any building products manufacturer, and that's critical to our growth and our synergy capture here in the future. If you think about what's the opportunity, the opportunity is we can completely service the entire exterior of the home now. So that is just a great strategic advantage, and we can go in and have conversations with customers about having leading brands in every exterior product category. So that's great for us and great for our team is that we are -- now have the opportunity to be more important to more customers. So whether that's the independent channel, the one-step channel or distribution partners, we have the broadest portfolio of market-leading brands, and that allows you to have really great conversations with customers about how we grow our businesses together on a combined basis.

Philip Ng: Okay. Super. That's great color. And Aaron, I thought the comments around how you're looking to reduce the on-the-wall cost with some of these pilot programs and training was pretty encouraging. How should we think about that opportunity as you scale that up? Is it going to be a meaningful needle mover in fiscal '27? Or it's going to take a multiyear process? Is there any aspirational goal like in 3 years, we want this half of the branches that we sell to being rolled out or whatnot? Just give us some color in terms of aspirational targets in the next few years as you roll this...

Aaron Erter: Yes. Phil, very simply, we are going to start scaling this up in the back half, which is now. So I mentioned the partnership that we have with Boise. So we believe the Mid-Atlantic, the Northeast, the Carolinas and the Midwest are all areas that are huge opportunities for us, particularly in repair and remodel. So we're going to be working with them to start reeling this out in this back half of the year. And look, I think as far as longer-term KPIs on this, the opportunity is tremendous. I'll save that for when we have Investor Day. But as I mentioned before, we think our ColorPlus volume, which is roughly, call it, 25% of what our fiber cement exterior volume is now, we believe we can double that through this initiative. So we're very encouraged by this. Like I said, this has been something that has been an on-purpose plan, and we put a lot of resources behind this over the last 1.5 years. It is something that has had many different parts of the organization combine and work to for this common goal. So hats off for the team -- to the team. Now we got to go execute it and scale it up in a much bigger way.

Operator: The next question comes from Keith Chau with MST Marquee.

Keith Chau: Aaron, I want to ask you a question, and I know it's been asked before, so this is a bit of a follow-up. But your quarterly assumptions for Siding & Trim from the third and the fourth quarter. So rather than looking at it versus last year, just looking at it sequentially. So I think the context you provided for the guidance is that end markets are soft, but more stable than expected. So against this backdrop, we would expect demand to improve on a seasonal basis in the fourth quarter, not only for the Hardie's legacy Siding business and AZEK Interiors -- sorry, Exteriors. And you also mentioned the 1 January price increase as well. So in combination with that and also raw materials moving favorably sequentially, I'm surprised you've guided to margins being down in the fourth quarter. I would have thought naturally that they should be higher. So is there anything going on between those 2 quarters that we should be aware of because it helps us inform us of the FY '27 entry run rate for margins?

Aaron Erter: Yes. Keith, so here's what I'd say simply. We expect high single-digit declines in volume when we think of our Siding & Trim business as we get to the back half of the year. And then we expect roughly, call it, 3% price realization, so then you get to the mid-single digits. That's very simply the

outlook. Joe, anything else you'd add?

Joe Ahlersmeyer: Yes. And we know there's a lot of moving pieces between the acquisition and the allocation of the R&D.; So just thinking about the organic NAFC business and stripping out the R&D; impact, I think it's important to look at first half versus second half. The first half decrements were over 80%. The second half decrements in NAFC ex R&D; are under 50%. So that's why when we think about the back half as a good baseline, we're really looking at the decrements relative to the high single-digit decline in volume that Aaron mentioned. And Keith, to your point about what is the right run rate going forward. So adding back in the R&D; because that is now how we allocate to the segment, we're implying 32% to 33% adjusted EBITDA margins in the back half for NAFC, and that's relatively consistent with AZEK Exteriors. So that's the way you think about it.

Keith Chau: Okay. And then a follow-up just on these trials in the pilot plants and reducing on the wall cost. I know I'm kind of mixing our work streams here. But can you help us understand, Aaron, what the current revenue generation is from those pilot programs?

Aaron Erter: Yes. So the way that we're looking at this right now is we have the Central Northeast. So we have a defined area, Keith. And we looked really over a 6-month period of time, what our increase from a ColorPlus volume standpoint. And we've seen that being close to 20% increase. So what we're really doing, a couple of things. We're shrinking the differential when we think about quoting versus, call it, a vinyl job. But also because of the price that we're seeing in the on-the-wall cost reductions we're seeing is contractors are able to go after price points of homes that they usually haven't been able to do so with. So meaning our total addressable market increases quite a bit as well. So not only are we excited about the differential and being able to shrink that premium versus, call it, vinyl, but it opens up an addressable market that's much larger for us. So that's very exciting.

Operator: The last question today comes from Adam Baumgarten with Vertical Research.

Adam Baumgarten: I guess just I assume you guys are still in AZEK doing the quarterly surveys that the company has talked about in the past. I know you talked about backlogs around 7 weeks, but any additional color on how your customers are thinking about calendar '26 at this point?

Aaron Erter: Jon, go ahead.

Jonathan Skelly: Yes. So again, what we highlighted in the prepared remarks around the surveys and what we're hearing is that it's consistent, right? So backlogs are consistent. Outlook is consistent. And then obviously, we get other data points as well. And what we've seen is, by and large, while repair and remodel is down, outdoor living is one of the more positive categories within repair and remodel. And then Temper-Tech has been performing the best within the category. Again, it's a really attractive market. It's driven by material conversion and it's driven by the consumers' desire to spend more time outdoors, right? So you have 2 kind of structural tailwinds here in terms of the desire for outdoor living. And then obviously, we continue to convert wood and other inferior materials into our products. And that is what's driving that stable outlook and that stable backlog for our contractors and our dealers.

Aaron Erter: Yes. One thing I would just add to that is we talk so much about the best of both with AZEK and James Hardie. And what we've adopted as a total company are these dealer and contractor surveys, and we have that on the fiber cement side as well. So it helps us to get closer to our customer partners and get a viewpoint of the future as well. So very helpful. Okay. I think, we're -- sorry, Adam, you have a follow-up?

Adam Baumgarten: Nope. All set.

Aaron Erter: Okay. Very good. Hey, everyone. Thanks for the time. Look, I want to thank all the James Hardie team members for all their hard work and working to service our customers. Really, what I want to leave you with is, look, we have a handle on the business. And our fiber cement business, although we're not satisfied with our growth trajectory, we think we have a good plan and our business is healthy. We have a handle on the fiber cement margins. The actions are underway and coming, and you'll see that as we look at our margin profile. And our decking business has continued to remain highly attractive, and our AZEK business is performing very well. So with that, I'll leave you all. Thank you very much for the time.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.