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Duncan Palmer, Chief Financial Officer, Owens Corning
February 15, 2012 (11 a.m. ET)

Mike Thaman

Good morning, everyone. We appreciate you joining us today to discuss our results for the fourth quarter and full-year 2011.

Owens Corning delivered another outstanding year. For the second consecutive year, adjusted earnings-per-share growth exceeded 35 percent. We achieved growth in revenue and EBIT in all of our businesses amid challenging market conditions. These results reflect strong execution in our portfolio of market-leading businesses.

As a company, we delivered adjusted EBIT of $461 million, a 21% increase over 2010, and increased earnings per share by more than 40 percent. Our top-line performance of $5.3 billion was also strong, representing a seven-percent increase over 2010.

During this call, Duncan and I will recap the past year, focus on the market conditions for both of our segments, and outline our expectations for delivering another year of EBIT growth in 2012.

I will begin, as has been customary, by commenting on how we performed relative to the expectations we have previously shared with you.

For 2011 …

- We said we would continue our progress in creating an injury-free workplace. Our rate of injuries in 2011 improved by 27 percent compared with our full-year 2010 performance. This marks the tenth consecutive year of safety improvement at Owens Corning. We have reduced the number of injuries in our company by over 90 percent during this time period.

- We said at the beginning of the year that full-year adjusted EBIT for the company would be $475 million. We updated this estimate during the year as market conditions changed, and our 2011 adjusted EBIT of $461 million is in line with that updated guidance.

- We said Composites would deliver mid-single-digit revenue growth and double-digit margins. This business posted a four-percent increase in revenue, double-digit margins and EBIT improvement of $26 million. We are pleased with these results in light of the difficult conditions we faced in Europe in the second half of the year. I will detail our action plan for Composites later in my comments.

- We said Roofing would achieve EBIT margins of 20 percent for a third consecutive year. The business delivered EBIT of $429 million and EBIT margins of 20 percent. We responded effectively to storm volume and demonstrated strong price execution.

- We said Insulation would narrow its losses and embark on a measured path to recovery. The Insulation business achieved break-even EBIT in the fourth quarter of 2011 – the first time since the third quarter of 2008. The business has built momentum throughout the year, benefiting from the effective launch of our EcoTouch™ insulation, the integration of FiberTEK operations, continued improvement in our manufacturing cost position and good commercial execution.

- Finally, we said that the company would continue to use its balance sheet to position itself for future growth. In 2011, we extended and refinanced more than $1 billion in credit facilities and we repurchased four million shares.

Overall we delivered strong EPS and EBIT growth for the year, and have demonstrated the power of our businesses – and our people – to deliver, even in challenging market conditions.

Now let me turn to the market environment as we enter 2012. I'd like to start with the outlook for Composites.

We saw some deceleration of global industrial production, especially in Europe, which resulted in our business and the overall industry building excess inventory in 2011. This has put some supply-induced pressure on pricing, particularly in Europe and Asia. As a result, we have seen low-single-digit declines in prices in our Composites business as we enter 2012.

Overall, we remain positive on the fundamentals in Composites. The market grew in 2011 and we expect it to grow again in 2012. While we have experienced price pressure, the level of the price loss has been quite mild, underscoring our belief that the overall market continues to be broadly in balance.

We are addressing our oversupply position. We have initiated actions to reduce 2012 production volumes by about seven percent by delaying the start-up of capacity additions in Russia and Mexico, and increasing downtime during previously planned furnace rebuilds. These actions will result in a reduction of inventory to target levels by the end of 2012.

In addition, we intend to optimize or close certain facilities in Europe, which will improve our competitiveness by the end of this year and result in a permanent reduction of our global capacity of about five percent, when fully implemented. Our actions in 2012 will further advance our global production strategy to migrate our global network to low-cost scale assets and to balance regional supply and demand.

Despite a record of having grown earnings significantly over the past two years, we do not currently believe that Composites can continue to grow EBIT in 2012. We do believe the actions we are taking will further improve our cost position, re-balance our inventory and position the business for positive operating leverage and double-digit margins as we enter 2013.

Now let me turn to the Building Materials segment.

Seasonally adjusted U.S. housing starts during the fourth quarter were at their highest level in three years. External forecasts indicate increased housing starts in 2012 – a positive sign for our business and the industry.

Our Insulation business saw indications of this recovery in its fourth-quarter run rate. We enter 2012 with cautious optimism for a recovering housing market and with line of sight to significantly narrowed losses in Insulation.

The roofing industry experienced 13-percent demand growth in 2011 and our business enjoyed volume gains consistent with this growth.

In 2012, we anticipate three positive trends for the roofing market: improved new construction demand for shingles; continued growth in re-roof demand, which grew in 2011 for the first time in six years; and some carry-over of the 2011 storm demand into the early part of this year. We believe that supply chain inventories are in good shape and the overall market dynamic is stable as we enter 2012. At this point, it is not possible to estimate how much new storm-related volume we will see in 2012. Regardless, we are confident in our market position and our ability to sustain strong performance.

We are eager to see the new construction market improve and are pleased with some of the second-half trends that support industry estimates of 2012 housing-starts of approximately 700,000 units, including both NAHB and Blue Chip. An improving housing market should more than offset the impact of near-term market conditions in Composites, particularly in Europe.

The market outlook for our business, combined with the strong competitiveness of our portfolio, positions us to deliver another year of adjusted EBIT growth and strong cash performance in 2012.

Further, we remain confident that in an environment of modest global economic growth and 1 million U.S. housing starts, Owens Corning can achieve our mid-term goal of $1 billion or more of adjusted EBITDA.

Now let me turn the call over to Duncan, to provide more details on our business and corporate performance drivers.

Duncan Palmer
Thanks, Mike, and good morning everyone.

As Mike has discussed already, we continue to deliver strong operating results in the face of challenging market conditions. Adjusted earnings per share grew in excess of 35 percent for a second consecutive year as we grew sales and EBIT across each of our businesses.

Let's start on Slide 5, which summarizes our key financial data for the year and the fourth quarter. You will find more detailed financial information in the tables of today's news release and the Form 10-K.

As I point out in our quarterly calls, in recent years we have excluded items that were unrepresentative of our ongoing operations to arrive at adjusted earnings before interest and taxes, our primary measure to look at period-over-period comparisons. In 2011, we did not have any adjusting items to our reported EBIT.

Today we reported 2011 consolidated net sales of $5.3 billion, a seven-percent increase over 2010, with sales growth across all of our businesses. Our Roofing business grew 17 percent, our Insulation business grew five percent, and our Composites business grew four percent compared with 2010.

EBIT for 2011 was $461 million, an impressive 21-percent increase over adjusted EBIT of $381 million in 2010. Adjusted earnings for 2011 were $276 million, or $2.23 per diluted share, compared to adjusted earnings for 2010 of $199 million, or $1.57 per diluted share.

Fourth quarter 2011 EBIT was $88 million, compared to $64 million in fourth quarter 2010. Adjusted earnings for the fourth quarter of 2011 were $48 million, or $0.40 per diluted share, compared to adjusted earnings of $29 million, or $0.23 per diluted share in fourth quarter 2010.

Our 2011 effective tax rate was 21 percent, below our previous guidance of 25 percent. We realized the benefits of some effective tax planning late in the year, which lowered our overall rate.

Depreciation and amortization expense was $318 million for 2011, in line with 2010 depreciation and amortization expense of $320 million. Capital expenditures for 2011 were $442 million compared with $314 million in 2010. The increase in capital spending was primarily to support expansions of low-cost facilities in our Composites business and was slightly higher than our prior guidance.

Net debt increased year over year by more than $300 million. This was the result of our growth investments in the Composites business, higher working capital, a relatively large contribution to our pension, the FiberTEK acquisitions and share repurchases.

We increased inventory levels in our Composites business, which we will address later in our outlook and made an investment in additional inventory in our Roofing business to support service levels for our customers in 2012. Based on our outlook and the actions we are taking we would expect that in 2012 working capital will be a net source of cash.

Now, if you turn to Slide 6, I will provide a high-level review of our adjusted EBIT performance, comparing the full year of 2011 with 2010.

EBIT in 2011 was $461 million, an increase of $80 million from 2010. Roofing improved EBIT by $24 million; Insulation improved EBIT by $5 million, with a $28 million improvement in the second half; and Composites improved EBIT by $26 million. Lastly, corporate expenses and other items contributed an additional $25 million in EBIT, primarily through the elimination of losses from the U.S. Masonry Products business, which we divested in December 2010.

General corporate expenses were $71 million in 2011, relatively flat to 2010 and less than our 2011 guidance of $80 million to $90 million. The improvement relative to our guidance was due to lower incentive compensation expense, and the net impact of non-recurring items including foreign exchange gains.

With that review of the key financial highlights, I now ask you to turn to Slide 7 where we provide a more detailed review of our businesses, starting with Building Materials.

For the fourth quarter of 2011, Building Materials net sales were $771 million, compared to $717 million for the same period a year ago. Building Materials delivered $55 million in EBIT in the fourth quarter of 2011, compared to $9 million in 2010.

Full-year 2011 Building Materials net sales were $3.5 billion compared to $3.2 billion in 2010, reflecting increased sales in both our Roofing and Insulation businesses. Building Materials delivered $332 million in EBIT in 2011, compared with $281 million in 2010.

The following two slides present the results in more detail by highlighting the two businesses within our Building Materials segment.

Slide 8 provides an overview of our Roofing business.

For the fourth quarter 2011, Roofing net sales were $384 million, up 13 percent from the same period a year ago. EBIT for the fourth quarter was $55 million, compared with $37 million in 2010.

Roofing net sales for the year were $2.2 billion, a 17-percent increase compared to 2010, primarily driven by higher sales volumes from a strong storm season. The U.S. shingle market grew in the low teens in 2011 and our shipments increased in line with the market. For the third consecutive year, our Roofing business achieved EBIT margins of 20 percent or higher. EBIT for the year was $429 million compared to $405 million in 2010 driven by strong volumes and good execution in manufacturing productivity.

As Mike mentioned in his comments, the outlook for U.S. housing supports modest improvement in the new construction market; re-roof demand ended a six-year decline in 2011; and some carry-over of storm demand from 2011 is expected into the first half of 2012. Assuming that additional storm demand is more in line with historical average levels, we would expect the U.S. market overall to comp negatively in the mid-single digits year over year. We expect to sustain our market position and, therefore, that 2012 will be another strong year for our Roofing business.

Now Slide 9 provides a summary of our Insulation business.

For the fourth quarter of 2011, Insulation net sales were $387 million, compared with $356 million in 2010. Our Insulation business delivered break-even EBIT in the fourth quarter of 2011, compared to a loss of $22 million in 2010. The last time our Insulation business achieved break-even was in the third quarter of 2008 when seasonally adjusted lagged U.S. housing starts were over one million, or about 65 percent higher than lagged U.S. housing starts in the fourth quarter of 2011. This demonstrates the progress we have made in positioning our Insulation business for an eventual U.S. housing recovery.

In 2011, Insulation increased net sales by five percent to $1.4 billion and narrowed EBIT losses by $5 million primarily due to higher sales volumes. We have seen sequential improvement throughout the quarters in 2011 in both revenue and EBIT driven by cost reductions, strong commercial execution and overall housing market improvements during the year while effectively integrating the FiberTEK acquisitions and successfully launching EcoTouch™.

Looking ahead to 2012, industry estimates such as Blue Chip and the NAHB indicate that U.S. housing starts will be slightly higher than 700,000, supported by the run rate in the fourth quarter of 2011. On this basis, we would expect the momentum we have built in 2011 to carry-over into 2012 and that the Insulation business will significantly narrow losses for the year. Historically, Insulation has been a seasonal business and profitability is typically stronger in the second half of the year.

As I remind you on each of our quarterly calls, this is a great business in a well-structured industry. Owens Corning's PINK® insulation is a powerful and enduring brand. We are the clear market leader; well positioned to return to historical performance levels when demand improves, as we know it will.

Now I will ask you to turn your attention to Slide 10 for a review of our Composites business.

For the fourth quarter of 2011, Composites net sales were $459 million compared with $475 million in the same period a year ago. EBIT for the fourth quarter was $49 million compared with $59 million in 2010.

Overall our shipments were stable, although European market demand was weak during the quarter and EBIT was also impacted by the May 2011 divestiture of our Brazilian facility.

Our Composites business delivered increases in both sales and profitability for the full year. Net sales for 2011 were nearly $2 billion, a four-percent increase over 2010. This increase was primarily due to higher selling prices and the impact of favorable exchange rates. On a year-over-year basis, sales volumes increased. The global glass reinforcements market grew by four percent in 2011, below historical levels due to weakness in Europe and Asia. EBIT for 2011 of $201 million was up 15 percent due largely to the benefits of productivity from excellent execution in our manufacturing operations and higher selling prices, which more than offset inflation.

I would like to touch on current global market conditions as we head into 2012. Historically, the long-term global growth rate for glass reinforcements has been 5 to 7 percent per year, growing with industrial production. We believe that the slower than anticipated growth in the market in 2011, particularly in the second half, has contributed to Owens Corning and our competitors holding excess inventory at year-end. This has placed pressure on pricing, particularly in Europe and Asia, with overall declines in the low single digits, although the impact has been somewhat less than we have seen in the past. We expect global industrial production to continue grow in 2012 but that the Eurozone's economy will decline. We are confident that there will be overall market growth in glass fiber reinforcements.

In response to the current market conditions, we are taking decisive action to improve our competitive cost position and balance supply within our manufacturing network. We believe that these actions will result in a reduction of our inventory to target levels by year-end 2012. We expect to incur approximately $130 million in charges in 2012 and early 2013, of which half will be cash-related. We expect that the sale of assets, including land and precious metals associated with these actions, will offset a significant portion of the cash costs. The impact of these charges will be adjusted out of our financial results.

As we look to 2013, the benefits from the continued migration of our Composites global network to low-cost scale assets, positive operating leverage as new and curtailed assets come back on-line and anticipated market growth, position us to return strongly to double-digit EBIT margins.

Let me now turn your attention to Slide 11 – “other financial matters.”

The company continued its disciplined approach to balance sheet and capital management for the long-term benefit of investors and we strengthened our portfolio by the execution of several key transactions. During 2011, we acquired the two FiberTEK facilities and divested our glass reinforcements facility in Capivari, Brazil. We repurchased four million shares in 2011 under our previously announced share repurchase program; 3.7 million shares remain available for repurchase under our existing authorization. As we have said previously, we expect to complete the current authorization by the end of 2012.

Our $2.3 billion U.S. tax NOL will significantly offset cash taxes for some time to come. In 2011, our advantaged tax position delivered a third consecutive year of cash tax savings of about $70 million and our cash taxes paid in 2011 were below $25 million.

In addition, we refinanced our $800 million senior revolving credit facility during 2011 to extend maturity to 2016 at lower borrowing rates. We closed on a $250 million receivables securitization facility during 2011 that will mature at the end of 2014 providing additional sources of liquidity at an attractive cost.

With that review of the 2011 performance of our businesses, I now ask you to turn to Slide 12 where we provide some additional guidance for 2012.

We anticipate that corporate expenses in 2012 will grow to about $110 million to $120 million. This is driven by higher pension expense, higher year-over-year incentive compensation and non-recurring items which were a net benefit in 2011.

For 2012, we expect capital spending to be about $350 million. Reported capital spending will include about $20 million of precious metal purchases that we expect to be offset by precious metal sales during the year. As a result, net capital spending will be roughly in line with depreciation and amortization of approximately $320 million. Cash flow is anticipated to be strong in 2012 as we reduce inventory in our Composites business, reduce capital spending, lower our pension contributions, and continue to benefit from an advantaged tax position. On the basis of our tax NOL and successful tax planning, we expect our cash taxes to be about $30 million. Our effective tax rate on adjusted earnings in 2012 will be about 25 percent.

Our outlook for the year assumes that there is improvement in U.S. housing starts and modest growth in the global economy. On this basis, we expect business performance and market conditions to support growth in Adjusted EBIT in 2012 with improvement in Insulation offsetting near-term market conditions in Composites, a moderate decline in overall Roofing demand and increases in general corporate expenses.

We continue to make progress against our mid-term goals. The significant achievements made in 2011, along with our expectation that Adjusted EBIT will grow in 2012 continues to support our confidence that we are on track to deliver our goal of $1 billion or more of adjusted EBITDA at one million U.S. housing starts and with continued global economic growth.

Thank you and I will now turn the call back over to Mike.

Mike Thaman
Thank you, Duncan.

As I said at the outset of today's call, we are pleased to have delivered another outstanding earnings performance in 2011. This performance demonstrates the power of our market-leading business portfolio and our ability to execute across a wide variety of challenging market conditions. Based on our 2011 performance, we are confident in our ability to deliver adjusted EBIT growth, and strong cash generation, in 2012.

The decisive actions we are taking in Composites will contribute to our delivery of good cash performance this year. We expect that strong performance in Building Materials will enable us to overcome the growth in corporate costs and some of the anticipated weakness in Composites to provide overall EBIT growth for Owens Corning.

In summary, this year we see Building Materials delivering earnings growth, Composites delivering cash growth and Owens Corning delivering both cash and earnings improvement over 2011.

As we look further into 2013, we would expect to have our Composites-related actions completed. With an improving housing market, we will be positioned for both Composites and Building Materials to deliver cash and earnings growth, and Owens Corning to operate on all cylinders.

Owens Corning has the strong track record, outstanding talent, and enviable global market positions to take advantage of the opportunities before us. We are up to the challenge to deliver another great year in 2012 – and beyond.

With that, I'll now turn it over to Thierry, who will lead us into the Q&A session.

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