

## Owens Corning

## OC to acquire Masonite; closing the DOOR on glass reinforcements could be next

Maintain Rating: BUY | PO: 165.00 USD | Price: 148.21 USD

## OC to acquire DOOR; a good asset at a high price

Owens Corning (OC) announced an agreement to acquire Masonite International (DOOR) for \$133 per share in cash, or an implied transaction value of \$3.9bn. The deal is expected to close mid-2024 and is to be funded by cash on hand and \$3bn of committed debt financing, with ~\$2bn financed by new permanent debt. DOOR is a leading global manufacturer of interior and exterior doors for new construction and R&R sectors of residential markets (79% North America). DOOR generated \$2.8bn in revenue and \$423mm of EBITDA (15% EBITDA margin) in the TTM period ending 9/30 compared to OC of \$9.7bn in revenue and \$2.3bn in EBITDA (23% EBITDA margin).

## Estimate 5% EPS accretion in 2025; Price looks a bit high

The \$3.9bn purchase price implies 2023 consensus adjusted EBITDA multiple of 8.6x, or 6.8x including targeted cost synergies of \$125mm (compared to OC's current valuation of roughly 6.2x). The synergy target is roughly 4% of revenue driven by SG&A, sourcing, and supply chain savings (no front-end synergies assumed). We think synergies look high compared to a typical building product acquisition, but DOOR has ~\$40mm of corporate expense that will likely be redundant. Assuming a 6% interest rate and full synergy target, we estimate the deal will be 5% accretive to EPS in 2025 (see Exhibit 1) vs. our forecasts (15% accretive to net income but we assume buybacks would pause in 2024/2025). The valuation is a ~\$800mm premium (38%) to DOOR's Thursday close, which roughly equates to the net present value of targeted synergies. In other words, we think OC will need to achieve the full synergies to justify the premium (see Exhibit 2).

## Glass reinforcements sale could be next

OC simultaneously announced a strategic review of glass reinforcements business (part of composites), which sells glass fibers for wind energy, infrastructure, industrial transportation markets. It has a higher international exposure than OC's remaining businesses. Within composites, glass reinforcements generated \$1.3bn revenue with EBITDA margins consistent with composites segment, of around 19.2% TTM.

## Net-net portfolio moving in the right direction

Assuming the DOOR acquisition closes and OC sells glass reinforcements, OC would be a more pure play residential building products company. Reducing exposure to composites / international industrial markets will likely make earnings less volatile and could support a higher valuation multiple. OC is scheduled to report 4Q23 on Wednesday, 2/14. We maintain our Buy rating on attractive valuation.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.29	12.91	14.02	12.92	13.38
EPS Change (YoY)	79.1%	38.9%	8.7%	-7.9%	3.6%
Consensus EPS (Bloomberg)			13.96	13.76	14.92
DPS	1.04	1.40	2.08	2.40	2.60
Valuation (Dec)					
P/E	15.9x	11.5x	10.6x	11.5x	11.1x
Dividend Yield	0.7%	0.9%	0%	0%	1.8%
EV / EBITDA*	8.1x	6.8x	6.7x	7.3x	7.4x
Free Cash Flow Yield*	8.1%	9.7%	8.1%	8.9%	9.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

09 February 2024

## Equity

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## Stock Data

Price	148.21 USD
Price Objective	165.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-1-7
52-Week Range	88.86 USD - 160.18 USD
Mrkt Val (mn) / Shares Out (mn)	13,494 USD / 91.0
Free Float	99.1%
Average Daily Value (mn)	70.91 USD
BofA Ticker / Exchange	OC / NYS
Bloomberg / Reuters	OC US / OC.N
ROE (2023E)	25.9%
Net Dbt to Eqty (Dec-2022A)	41.0%
ESGMeter™	High

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Timestamp: 09 February 2024 08:00PM EST

# iQprofile<sup>SM</sup> Owens Corning

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	13.0%	15.8%	14.8%	12.3%	11.7%
Return on Equity	23.6%	28.3%	25.9%	20.8%	19.3%
Operating Margin	16.6%	18.3%	18.4%	15.7%	15.9%
Free Cash Flow	1,087	1,314	1,098	1,204	1,263

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.6x	1.4x	1.3x	1.5x	1.6x
Asset Replacement Ratio	0.8x	0.9x	1.0x	1.0x	1.0x
Tax Rate	24.4%	23.9%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	46.2%	41.0%	26.0%	17.3%	8.8%
Interest Cover	11.2x	16.2x	22.5x	23.1x	22.8x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	8,498	9,761	9,644	9,997	9,747
% Change	20.5%	14.9%	-1.2%	3.7%	-2.5%
Gross Profit	2,218	2,616	2,647	2,545	2,516
% Change	NA	NA	NA	NA	NA
EBITDA	1,896	2,267	2,291	2,094	2,072
% Change	40.1%	19.6%	1.1%	-8.6%	-1.0%
Net Interest & Other Income	(132)	(131)	(78)	(68)	(68)
<b>Net Income (Adjusted)</b>	<b>969</b>	<b>1,258</b>	<b>1,277</b>	<b>1,130</b>	<b>1,113</b>
% Change	-358.4%	24.7%	6.6%	-14.6%	-1.5%

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	995	1,241	1,323	1,130	1,113
Depreciation & Amortization	490	505	515	520	520
Change in Working Capital	(18)	(19)	(208)	(45)	31
Deferred Taxation Charge	44	37	57	75	74
Other Adjustments, Net	(8)	(4)	(69)	44	44
Capital Expenditure	(416)	(446)	(520)	(520)	(520)
<b>Free Cash Flow</b>	<b>1,087</b>	<b>1,314</b>	<b>1,098</b>	<b>1,204</b>	<b>1,263</b>
% Change	NA	NA	NA	NA	NA
Share / Issue Repurchase	(570)	(795)	(529)	(600)	(600)
Cost of Dividends Paid	(108)	(136)	(189)	(210)	(216)
Change in Debt	(189)	(5)	(1)	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	959	1,099	1,634	2,028	2,474
Trade Receivables	939	961	1,149	1,191	1,162
Other Current Assets	1,199	1,496	1,366	1,449	1,409
Property, Plant & Equipment	3,873	3,729	3,685	3,685	3,685
Other Non-Current Assets	3,045	3,467	3,423	3,386	3,349
<b>Total Assets</b>	<b>10,015</b>	<b>10,752</b>	<b>11,257</b>	<b>11,739</b>	<b>12,078</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,697	2,104	1,892	1,972	1,933
Long-Term Debt	2,960	2,992	3,002	3,002	3,002
Other Non-Current Liabilities	1,023	1,035	1,100	1,137	1,174
<b>Total Liabilities</b>	<b>5,680</b>	<b>6,131</b>	<b>5,994</b>	<b>6,111</b>	<b>6,109</b>
<b>Total Equity</b>	<b>4,335</b>	<b>4,621</b>	<b>5,264</b>	<b>5,628</b>	<b>5,968</b>
<b>Total Equity &amp; Liabilities</b>	<b>10,015</b>	<b>10,752</b>	<b>11,257</b>	<b>11,739</b>	<b>12,078</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Building Products

## Company Description

OC is a leading building products company manufacturing and selling fiberglass insulation, asphalt roofing shingles/underlayments and glass fiber composites into a variety of end markets. The company estimates that it has leading Composites market share in the US, Europe and India.

## Investment Rationale

We rate OC shares Buy. OC has one of the most compelling valuations across our universe.

## Stock Data

Average Daily Volume 478,419

## Quarterly Earnings Estimates

	2022	2023
Q1	2.92A	2.77A
Q2	3.85A	4.22A
Q3	3.61A	4.15A
Q4	2.49A	2.88E

Owens Corning and Masonite merger model (\$mms, except per share data)

	FY2023E	FY2024E	FY2025E	OC + DOOR pro-forma pre-synergies	FY 2025E OC + DOOR pro-forma post-synergies
	<u>QC</u> <u>DOOR</u>	<u>QC</u>	<u>DOOR</u> <u>QC</u> <u>DOOR</u>	Synergies	
Sales	\$9,644   \$2,882	\$9,997   \$2,935	\$9,747   \$3,095	\$12,842	--      \$12,842
Operating Profit	\$1,775   \$261	\$1,574   \$300	\$1,552   \$325	\$1,877	\$125      \$2,002
Interest expense, net	\$79       \$57	\$68       \$59	\$68       \$59	\$300	--         \$300
Other	-\$1       -\$26	\$0          \$0	\$0          \$0	--	--         --
Pre-Tax income	\$1,697   \$230	\$1,506   \$241	\$1,484   \$266	\$1,577	--         \$1,702
Income Taxes (assume 25%)	\$425      \$48	\$377      \$51	\$371      \$57	\$394	--         \$426
Other non-operating	\$0         -\$2	\$0          -\$2	\$0          -\$2	\$0	
Net Income	\$1,273   \$180	\$1,130   \$187	\$1,113   \$207	\$1,183	--         \$1,277
Net Income accretion				6.3%	14.7%
Fully Diluted EPS	<b>14.02</b>	<b>12.92</b>	<b>13.38</b>	\$13.00	--         \$14.03
Potential EPS accretion vs. prior BofA forecasts				-2.9%	--         4.8%
Shares outstanding	91	87.4	83.2	91	91

**DOOR - LTM**

	OC 3Q23 TTM	Financing	DOOR 3Q23 TTM	OC + DOOR pro-forma TTM
Sales	\$2,846	\$3,002	\$1,116	\$7,118
EBITDA	\$423	\$1,323	\$372	\$795
Assumed margin	15%	\$2,256	\$423	\$2,679
Multiple	9.2x	Leverage (net debt to TTM EBITDA)	0.7x	2.4x
Consideration	\$3,900	Change in Leverage		1.6x

**Source:** BofA Global Research estimates, Company data

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**Exhibit 2: Owens Corning needs to achieve the full synergies to justify premium paid for Masonite (DOOR) in our view**

BofA estimates for valuation creation across different synergy scenarios (\$mms)

Owens Corning market cap pre-deal	\$14,300						
DOOR equity valuation pre-deal	\$2,154						
DOOR net debt	\$743						
DOOR enterprise value pre-deal	\$2,897						
DOOR implied enterprise value at \$133/share	\$3,709						
Premium paid	\$812						
Scenario	Annual Synergies	After tax	NPV of synergies at 10% discount	Fees	One-time cost to achieve	Value creation / (destruction)	% of OC market cap
No synergies	\$0	\$0	\$0	\$40	\$0	(\$852)	-6.0%
Synergies = DOOR corporate expense	\$42	\$32	\$315	\$40	\$42	(\$579)	-4.0%
Synergies = SG&A targets	\$80	\$60	\$600	\$40	\$80	(\$332)	-2.3%
Synergies = full target	\$125	\$94	\$938	\$40	\$125	(\$39)	-0.3%

**Source:** BofA Global Research estimates, Company data

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## Price objective basis & risk

### Owens Corning (OC)

Our PO for OC is \$165. Our PO is based on 7x 2025E EV/EBITDA, in line with Owens Corning's historical average and roughly in line with OC's historical discount to the group to the current peer group average. We believe that a multiple in the middle of OC's historical range is appropriate given positive demand and pricing trends but some input cost pressure and capacity constraints.

Downside risks: 1) further input cost pressure, 2) softer-than-expected new construction and repair and remodel trends in the US, 3) slower-than-expected GDP growth in key regions, 4) deceleration in industrial production, 5) further competitor capacity additions in the insulation industry, 6) inability to successfully integrate acquisitions, 7) slowing global growth.

Upside risks: 1) stronger than-expected new construction and repair and remodel trends in the US, 2) upside to GDP growth in key regions and global industrial production, 3) better-than-forecast capacity utilization, particularly in Insulation, 4) stronger-than-expected pricing power.

## Analyst Certification

I, Rafe Jadrosich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	Leslie's	LESL	LESL US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
<b>NEUTRAL</b>				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
	Smith Douglas Homes Corp.	SDHC	SDHC US	Rafe Jadrosich
<b>UNDERPERFORM</b>				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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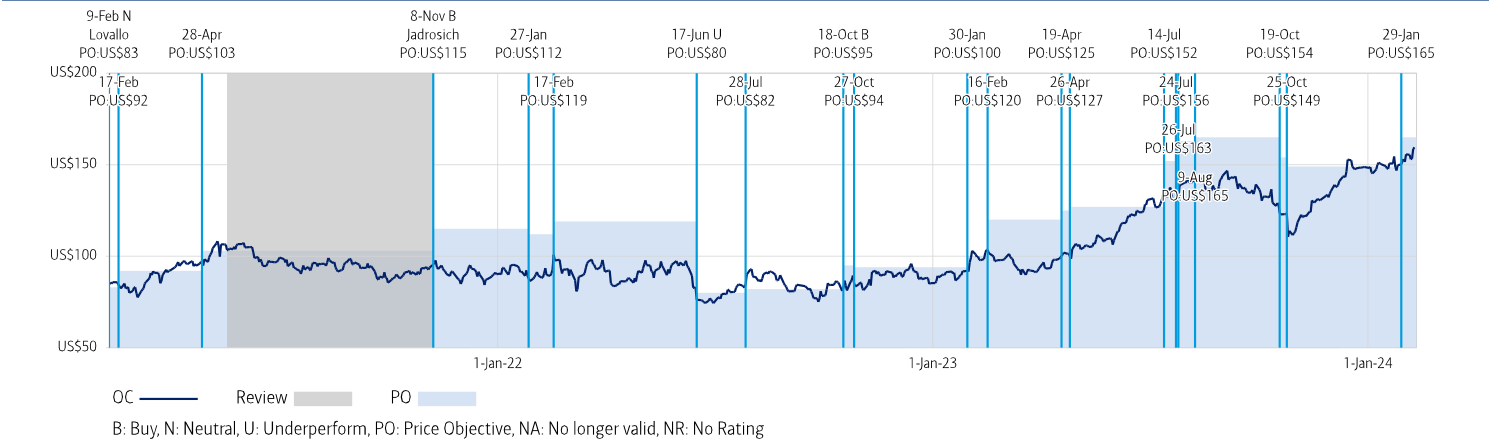
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Owens Corning (OC) Price Chart



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Equity Investment Rating Distribution: Building Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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