Owens Corning NYSE:OC

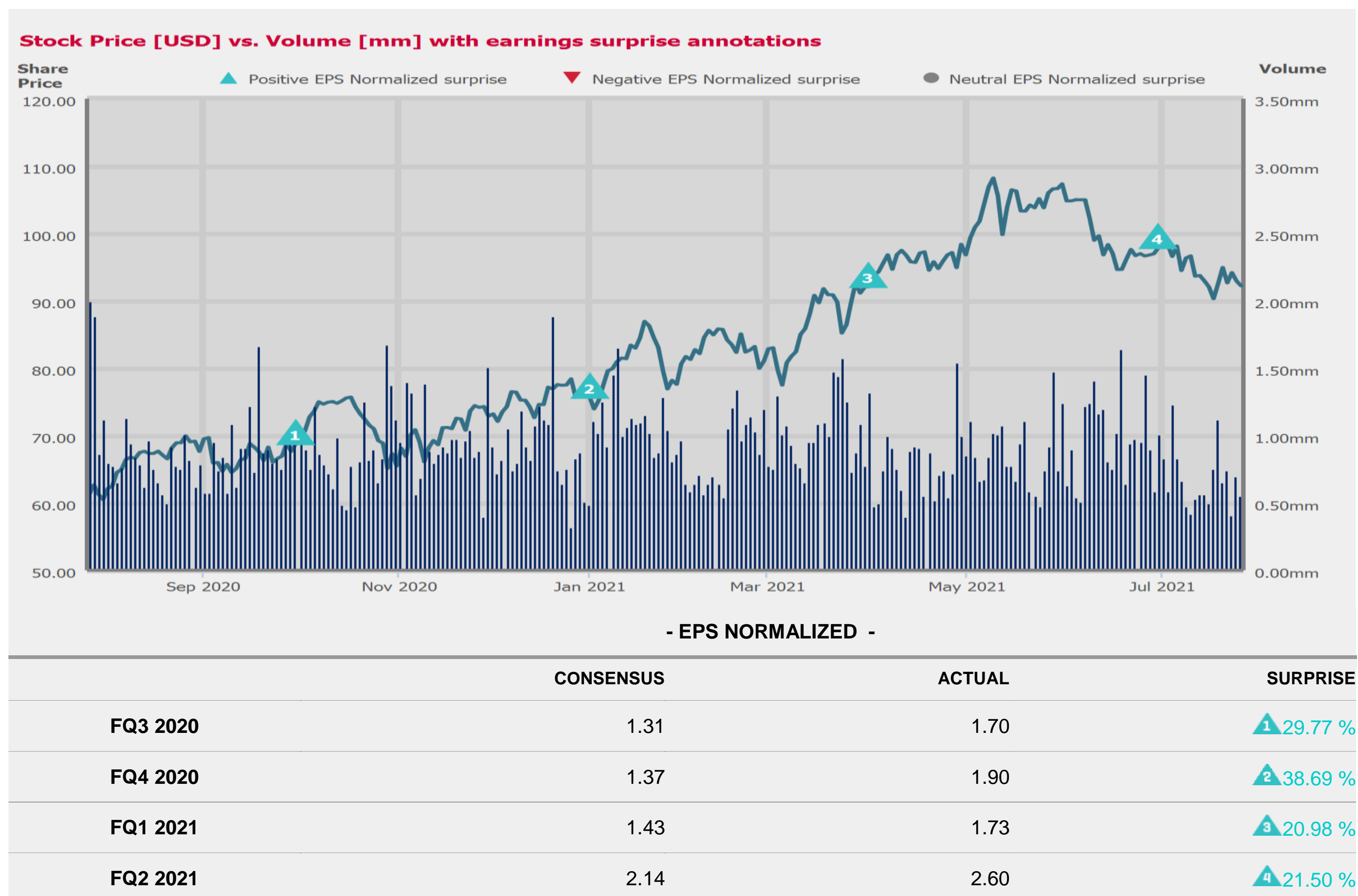
FQ2 2021 Earnings Call Transcripts

Wednesday, July 28, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.14	2.60	▲21.50	2.22	7.91	8.43
Revenue (mm)	1997.08	2239.00	▲12.11	2074.43	7909.37	8275.89

Currency: USD
Consensus as of Jul-28-2021 1:23 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	1.31	1.70	▲ 29.77 %
FQ4 2020	1.37	1.90	▲ 38.69 %
FQ1 2021	1.43	1.73	▲ 20.98 %
FQ2 2021	2.14	2.60	▲ 21.50 %

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Call Participants

EXECUTIVES

Amber Wohlfarth
Director of Investor Relations

Brian D. Chambers
President, CEO & Chairman of the Board

Kenneth S. Parks
Executive VP & CFO

ANALYSTS

Kathryn Ingram Thompson
Thompson Research Group, LLC

Keith Brian Hughes
Truist Securities, Inc., Research Division

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

Michael Glaser Dahl
RBC Capital Markets, Research Division

Michael Jason Rehaut
JPMorgan Chase & Co, Research Division

Philip H. Ng
Jefferies LLC, Research Division

Stephen Kim
Evercore ISI Institutional Equities, Research Division

Truman Andrew Patterson
Wolfe Research, LLC

Yves Brian Felix Bromehead
Exane BNP Paribas, Research Division

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Presentation

Operator

Hello and welcome to the Owens Corning Q2 2021 Earnings Call. [Operator Instructions] Please note, today's event is being recorded. I now would like to turn the conference over to Amber Wohlfarth. Ms. Wohlfarth. Please go ahead.

Amber Wohlfarth
Director of Investor Relations

Thank you and good morning, everyone. Thank you for taking the time to join us for today's conference call and review of our business results for the second quarter 2021. Joining us today are Brian Chambers, Owens Corning's Chair and Chief Executive Officer; and Ken Parks, our Chief Financial Officer. Following our presentation this morning, we will open this 1-hour call to your questions. [Operator Instructions]

Earlier this morning, we issued a news release and filed a 10-Q that detailed our financial results for the second quarter 2021. For the purposes of our discussion today, we have prepared presentation slides that summarize our performance and results, and we'll refer to these slides during this call.

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

Please reference Slide 2 before we begin, where we offer a couple of reminders. First, today's remarks will include forward-looking statements based on our current forecasts and estimates of future events. These statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially. We undertake no obligation to update these statements beyond what is required under applicable securities laws. Please refer to the cautionary statements and the risk factors identified in our SEC filings for a more detailed explanation of the inherent risks and uncertainties affecting such forward-looking statements.

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

Adjusted EBIT is our primary measure of period-over-period comparisons, and we believe it is a meaningful measure for investors to compare our results. Consistent with our historical practice, we have excluded certain items that we believe are not representative of our ongoing operations when calculating adjusted EBIT and adjusted earnings. We adjust our effective tax rate to remove the effect of quarter-to-quarter fluctuations, which have the potential to be significant in arriving at adjusted earnings and adjusted earnings per share.

We also use free cash flow and free cash flow conversion of adjusted earnings as measures helpful to investors to evaluate the company's ability to generate cash and utilize that cash to pursue opportunities that enhance shareholder value. The tables in today's news release and the Form 10-Q include more detailed financial information. For those of you following along with our slide presentation, we will begin on Slide 4.

And now opening remarks from our Chair and CEO, Brian Chambers. Brian?

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Brian D. Chambers
President, CEO & Chairman of the Board

Thanks, Amber. Good morning, everyone, and thank you for joining us for today's call. I hope all of you are staying healthy and safe. Owens Corning posted record second quarter results today, contributing to an outstanding first half of 2021. During the quarter, we continued to see broad strength across many of our end markets, but our results are not only being driven by favorable market conditions.

As Ken and I will discuss today, our commercial and operational execution continues to accelerate our performance and create new opportunities for growth. This puts us in a great position to consistently generate strong earnings and cash flow and continue to deliver greater value to our customers and shareholders over the long term.

During our call this morning, I'll start with an overview of our second quarter results before turning it over to Ken, who will provide additional details on our financial performance. I'll then come back to talk about our business outlook for the third quarter. As always, I will begin my review with safety.

During the second quarter, we maintained a very safe environment with an RIR of 0.51, a significant improvement compared with the second quarter last year. Nearly 2/3 of our facilities have remained injury-free this year and over half have done so for more than a year. And while we are seeing an increased risk associated with the Delta variant, we continue to operate all of our facilities with a strong focus on working together to keep each other, our customers and our suppliers healthy and safe.

Financially, we delivered record second quarter revenue of $2.2 billion, an increase of 38% compared with the same period last year, up 35% on a constant currency basis and adjusted EBIT of $408 million, which is a record for any quarter historically. Our global team continues to perform at a high level, executing well in a dynamic market environment. The outstanding financial results we are delivering against this backdrop demonstrate the exceptional operational capability of our people and earnings power of our company.

Our performance during the quarter was driven by strong volumes, broad price realization and high manufacturing efficiencies across all of our businesses. This resulted in an adjusted EBIT margin for the company of 18% with all 3 of our businesses posting double-digit EBIT margins for a fourth consecutive quarter. Demand for our U.S. residential products, which account for about half of our enterprise revenues, remained robust in Q2, and we continue to see higher demand levels within our commercial and industrial applications.

Many of our end markets are now operating at or above pre-pandemic levels as markets have recovered from the challenges of the past 18 months. While underlying market demand for our products remained strong during the quarter, our operating priorities, investments and execution enabled us to capitalize on this volume to deliver record financial results.

Commercially, we continue to work hard to meet the needs of our customers in a tight supply environment while implementing needed pricing actions to offset substantial inflation headwinds. And across the enterprise, we continue to invest in product innovation and select growth and productivity initiatives to service our customers and enhance our operating performance.

I'll take a few moments now to share our most recent updates. Within Insulation, we announced today that we have entered into an agreement to sell our insulation site in Santa Clara, California to commercial real estate developer Panattoni. This is part of our ongoing strategy to operate a flexible and cost-efficient manufacturing network with facilities geographically located to best service our customers.

We plan to continue to run the plant through the third quarter of next year and expect to complete the transaction in the

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first quarter of 2023. Ken will share some further detail on the transaction during his comments.

I want to emphasize that this action is about optimizing our network assets. The net impact will not reduce our production capacity or our ability to service our customers. While we continue to operate the plant over the next year, we will be investing in new capacity to service the West Coast, expanding production at our Nephi, Utah plant and restarting our Eloy, Arizona facility. Overall, these moves allow us to create a more flexible, cost-effective manufacturing footprint to better serve the market. And we continue to have other capacity expansion options available if we see long-term housing demand trend higher.

In our Composites business, we continue to invest to grow in higher-value downstream applications such as building and construction, renewable energy and infrastructure. Earlier this month, we announced the acquisition of vliepa GmbH, which specializes in the coating, printing and finishing of glass nonwovens and other materials for the building materials industry. Based in Germany, vliepa brings technology and a team with great capabilities that complement our significant nonwovens portfolio and will enable us to better serve European customers and accelerate growth of building and construction market applications in the region.

All of these investments are enabled by our enterprise operating model, which leverages our commercial strength, material science capabilities and global operating scale to expand our growth opportunities, improve our operating efficiencies and generate strong free cash flow.

Before I turn it over to Ken to walk through our financial performance in more detail, I'd like to share a brief update on the sustainability front. In May, we were honored to earn the top ranking on the 100 Best Corporate Citizens list for an unprecedented third year in a row. This is one of several recent achievements that demonstrate the commitment of our 19,000 employees to making an impact in ESG.

One of the most rewarding aspects of this recognition is that it has spurred customers to approach us to learn and collaborate on their goals in this space. Specifically, our customers are expressing growing interest in reduced embodied carbon products and circular economy solutions, including both recycled content products and end-of-life solutions.

This is providing new opportunities for us to deliver value to our customers by collaborating on work that is core to our purpose and increasingly important to them. We look forward to providing further updates on our progress and outcomes in this area. With that, I will now turn it over to Ken to discuss our financial results in more detail. Ken?

Kenneth S. Parks
Executive VP & CFO

Thanks, Brian, and good morning, everyone. As Brian commented, Owens Corning had an outstanding second quarter, delivering record quarterly results. Commercial execution led to top line growth of 17% sequentially and 38% year-over-year. Commercial execution, coupled with strong operating performance, led to gross margin expansion of over 400 basis points from Q1 and more than 600 basis points from the same period 1 year ago.

Overall, in the second quarter, we generated record quarterly adjusted EBIT along with adjusted EBIT margins of 18%. The stronger earnings, combined with a continued focus on working capital management and capital investments resulted in healthy free cash flow generation in the quarter.

While demand conditions remained strong across the markets we serve, our ongoing execution across the business was fundamental to driving this performance. As we talked about in the Q1 call, we're managing an increasingly inflationary environment primarily relating to asphalt and other petroleum-based materials, along with transportation costs.

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Overall, positive price realization more than offset the inflation headwind in the quarter. Maintaining this positive balance remains a focus as we move through this inflationary environment.

Now turning to Slide 5, we can take a closer look at our results. For the second quarter, we reported consolidated net sales of $2.2 billion, up 38% over 2020 with double-digit revenue growth in all 3 segments, reflecting the robust U.S. residential housing market and the broadly stronger commercial and industrial markets.

Adjusted EBIT for the second quarter of 2021 reached $408 million, up $241 million compared to the prior year and was highlighted by EBIT margin improvement sequentially across all 3 segments. Adjusted earnings for the second quarter were $274 million or $2.60 per diluted share compared to $99 million or $0.91 per diluted share in the second quarter of 2020.

Depreciation and amortization expense for the quarter was $122 million, up slightly as compared to Q2 2020. Our capital additions for the second quarter were $148 million, up $101 million as compared to Q2 2020. We will continue to be disciplined in our capital spending as we focus on delivering strong free cash flow and prioritizing investments that drive growth and productivity.

Slide 6 reconciles our second quarter adjusted EBIT of $408 million to our reported EBIT of $428 million. During the quarter, we recognized $21 million of gains on the sale of certain precious metals. Ongoing progress on our productivity initiatives and manufacturing process technology has enabled us to further modify the designs of our production tooling and reduce certain precious metal holdings. In addition, we recorded $1 million of restructuring costs associated with previously announced actions. These items are excluded from our adjusted second quarter EBIT.

Slide 7 provides a high-level overview of second quarter adjusted EBIT comparing 2021 to 2020. Adjusted EBIT of $408 million was a new quarterly record for the company and increased $241 million over the prior year. All 3 segments delivered year-over-year and sequential EBIT growth and margin expansion.

Before turning to the review of each of our businesses, I want to share more details around the Santa Clara transaction Brian referred to earlier. This action is part of our ongoing strategy to operate a flexible, cost-efficient manufacturing network and geographically locate our assets to better service our customers.

We plan to continue operations at our Santa Clara facility for at least a year and expect to complete the transaction in the first quarter of 2023. We expect gross proceeds of approximately $240 million.

Cumulative cash pretax charges associated with the transaction are expected to be in the range of $30 million to $40 million. Cumulative noncash charges are expected to be in the range of $75 million to $85 million, primarily consisting of accelerated depreciation and the land carrying value. We intend to invest a portion of the net proceeds in capacity to serve the market, primarily in our existing Nephi, Utah and Eloy, Arizona facilities.

Now turning to Slide 8. I'll provide more details on the performance of each of the businesses. The Insulation business continued to build on the strong performance we demonstrated in Q1 with sequential growth and continued margin expansion in the second quarter.

Sales for Q2 were $806 million, a 35% increase over second quarter 2020. We saw volume strength across the business as U.S. new construction continued to be robust and the commercial end markets we serve globally broadly strengthened.

In North American residential fiberglass insulation, we continue to see positive pricing as a result of the actions we've

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taken over the past 4 quarters. In the second quarter, we saw volumes up relatively in line with expectations as we continue to see gains from incremental capacity additions.

In technical and other insulation, we continue to build on the strength of demand we saw in Q1 for our highly specified products with the most notable year-over-year growth coming from North America and Europe and with growth in both FOAMGLAS and mineral wool. Pricing was positive in the quarter, and we saw a benefit from currency translation.

For the Insulation business, positive price nearly offset the impact of accelerating transportation costs and material inflation as price/cost in residential insulation was positive while price in technical and other insulation lagged inflation in the quarter as a result of the more project-based nature of the business and longer lead times.

We continue to execute well in our manufacturing operations and benefited from the recovery of $34 million of fixed cost absorption on higher production. We delivered margins of 14% and EBIT of $112 million, up from $32 million of EBIT in the second quarter of 2020.

Now please turn to Slide 9 for a review of our Composites business. The Composites business produced record quarterly EBIT. Sales for the second quarter were $583 million, up 46% compared to the prior year. The business delivered volume growth of nearly 30% in the quarter.

We continue to see strength in demand for our downstream applications as well as demand in key geographies where our local supply for local demand model is being valued by customers. We also continue to see positive price realization in composites resulting from our contract negotiations as well as announced price increases for our noncontractual business.

In the quarter, positive price nearly offset the inflation headwinds from materials and higher transportation costs. Operationally, we continue to execute with solid manufacturing performance and recovered $33 million of curtailment costs. In the second quarter, Composites delivered $98 million of EBIT, up $92 million over last year, and EBIT margins of 17%.

Slide 10 provides an overview of our Roofing business. The Roofing business continued to perform at a high level in the second quarter. Sales in the second quarter were $917 million, up 35% compared to the prior year.

The U.S. asphalt shingle market grew 19% for the quarter as compared to the prior year with our U.S. shingle volumes slightly trailing the market, although better than expected due to stronger manufacturing performance. Additionally, our volume performance benefited from favorable attachment rates and components.

We're seeing high realization on our announced price increases and price/costs remain positive as asphalt became inflationary in the quarter and we continue to face into additional materials and transportation inflation. Contribution margins remained strong. For the quarter, EBIT was $234 million, up $86 million from the prior year, achieving 26% EBIT margins.

Turning to Slide 11. I'll discuss significant financial highlights for the second quarter and full year 2021. Continued discipline around management of working capital, operating expenses and capital investments resulted in strong cash flow.

We reported record quarterly operating cash flow of $498 million, an increase of $217 million over the prior year. Free cash flow for the second quarter of 2021 was $405 million, up $172 million compared to the second quarter of 2020.

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During the second quarter of 2021, the company repurchased 1.3 million shares of common stock for $131 million. Through June 30, 2021, the company has returned $318 million to shareholders through share repurchases and dividends.

With this strong cash flow performance, we maintain a solid investment grade balance sheet with ample liquidity. At quarter end, the company had liquidity of approximately $2 billion consisting of $888 million of cash and nearly $1.1 billion of combined availability on our bank debt facilities. We remain focused on consistently generating strong free cash flow, returning at least 50% to investors over time and maintaining an investment-grade balance sheet.

Now turning to our 2021 outlook for key financial items. General corporate expenses are expected to range between $150 million and $155 million. This is an increase from our prior outlook, which reflects higher performance-based compensation driven by our strong results.

Capital additions are expected to be approximately $460 million, which is below expected depreciation and amortization of approximately $500 million. Our outlook for total depreciation and amortization has increased, driven primarily by accelerated depreciation related to our Santa Clara, California transaction.

Interest expense is estimated to be between $120 million and $130 million. And we expect our 2021 effective tax rate to be 26% to 28% of adjusted pretax earnings and our cash tax rate to be 18% to 20% of adjusted pretax earnings.

Now please turn to Slide 12, and I'll return the call to Brian to further discuss the outlook for our company. Brian?

Brian D. Chambers
President, CEO & Chairman of the Board

Thank you, Ken. During the second quarter, we continued to position ourselves to capitalize on near-term market opportunities while investing in longer-term growth driven by key secular trends.

As we move into the second half of the year, we expect U.S. residential repair and remodeling and new construction end markets to remain robust and our global commercial and industrial end markets to continue to strengthen. In terms of inflation, we expect material and transportation cost increases we faced in the first half of the year to continue in a more significant way in the second half. And we will continue to carefully monitor and manage the regional impacts of COVID on our businesses.

Throughout the first half, the execution of our key operating priorities has generated strong financial results, and we expect this to continue in Q3, delivering another quarter of year-over-year revenue and earnings growth.

Now consistent with prior calls, I'll provide a more detailed business specific outlook for the third quarter. Starting with Insulation, we continue to see strong demand in our North American residential fiberglass insulation business and anticipate our volumes to be up approximately 10% versus prior year.

We expect pricing to continue to improve during the quarter, with realization of the increase that went into effect at the end of June. In our technical and other building insulation businesses, volumes should also grow approximately 10%, with increasing demand for our products in global building and construction applications. Pricing should also continue to improve through some additional realization from prior increases.

In terms of inflation, we expect material and transportation cost increases in the third quarter to be higher than what we experienced in Q2 but anticipate that additional price realization will result in a positive price/cost mix in the quarter. Additionally, we expect our fixed cost absorption to improve by approximately $20 million in the quarter versus prior

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year. Given all this, we expect performance in Q3 to be up slightly versus what we delivered in Q2 with EBIT margins approaching mid-teens.

Moving on to Composites. In the third quarter, we expect revenue to improve year-over-year, even with relatively flat volumes, primarily driven by our commercial work to improve our sales mix and realize additional price. We anticipate composite pricing will continue to improve mid-single digits, offsetting the impact of additional inflation and that we should benefit from the recovery of roughly $30 million of curtailment costs we saw in the third quarter of 2020.

Overall, we expect EBIT margins to continue to be in the mid-teens range, close to what we delivered in the second quarter. And in Roofing, we expect both the market and our volumes to be relatively flat in the third quarter versus prior year. Roofing pricing is expected to improve based on implementation of our previously announced price increases.

In addition, given the more significant inflation headwinds from asphalt and other material inputs we anticipate in the second half, we recently announced a price increase of 5% to 7% that will take effect at the end of August. Overall, we expect another strong quarter with Roofing EBIT margins of nearly 25% as our price/cost mix narrows but remains positive.

With that view of our businesses, I'll close with a couple of enterprise items. Our team remains committed to generating strong operating and free cash flow. In terms of capital allocation, our priorities remain focused on reinvesting in our business, especially productivity and organic growth initiatives, returning at least 50% of free cash flow to shareholders over time through dividends and share repurchases and maintaining an investment-grade balance sheet.

In addition, as evidenced by the recently announced acquisition of vliepa, we continue to evaluate investments in bolt-on acquisitions that leverage our commercial, operational and geographic strength and expand our building and construction product offering.

Before moving on to the Q&A session, I'd like to highlight one other item from this morning's press release. We will be hosting an Investor Day at our world headquarters in Toledo, Ohio on Wednesday, November 10. Members of our executive leadership team and I plan to discuss the company's strategic priorities, financial objectives and initiatives to drive long-term stakeholder value. We will be sharing further details with you in the coming months for this important event. In the meantime, we hope you will hold the day and plan to join us in November.

In closing, our team is proud of the outstanding financial and operational performance we delivered in the second quarter and are excited by the opportunities we have to grow our company, help our customers win in the market and deliver value to our shareholders.

With that, I will now turn the call back to Amber to open it up for questions.

Amber Wohlfarth
*Director of Investor Relations*Thank you, Brian. We are now ready to begin the Q&A session.

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Question and Answer

Operator

[Operator Instructions] And the first question comes from Matthew Bouley with Barclays.

Matthew Adrien Bouley
Barclays Bank PLC, Research Division

I'll start with a question on the North American fiberglass volume outlook. I think you just guided to 10% growth in Q3. Obviously, this is in light of what you're seeing with homebuilders and sort of restricting sales pace in a lot of different places. And I'm just curious how you're embedding some of that into your volume outlook or perhaps some of the effect beyond Q3 into Q4? Just what are you kind of hearing and expecting around U.S. new construction?

Brian D. Chambers
President, CEO & Chairman of the Board

Thanks for the question. I think overall, I mean, we expect new construction to continue at a solid pace through the back half of this year. And as we've talked about on previous calls, I mean, I think housing and particularly new construction housing in the U.S. market has been underbuilt for several years. So we would expect that we're going to continue to operate in this kind of range of 1.5 million to 1.6 million housing starts. We think that, that is very sustainable given demographic trends.

So we have seen also the same kind of reports on builders and when we talk to our contracting customers. As I've talked about previously, I think part of the constraint on building supply is broader than just raw materials or material -- building material inputs. They're around land availability and development, around construction labor. So I do think there are some headwinds to growth in housing much above these rates, unless some of those kind of fundamental issues get addressed in terms of land development and labor availability.

I do think that material suppliers, like ourselves and others, will get caught up in terms of our supply chain to be able to service higher growth. But I do think there's going to be some of those headwinds that may impact starts moving a lot higher than where they are today. But I would emphasize that today's pace of housing is at a very robust pace, solid pace. And we think that gives a great environment for our business to continue to grow in.

So we're going to continue to work hard to service our existing customers. We brought on some additional capacity through this year to produce more. Overall, we're going to produce significantly more this year than last year in terms of our volume between capacity adds and also the additional operating time, some we lost last year with some of the COVID impact. And we are positioning ourselves to produce more insulation next year to service our customers and growth that we're seeing in the market. So we think overall in our network, we're very well positioned and we think housing is going to continue to be a good tailwind for us going forward.

Operator

And the next question comes from Kathryn Thompson with Thompson Research.

Kathryn Ingram Thompson
Thompson Research Group, LLC

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This really ties into broadly the roofing demand that touches both on the Composite side and your Roofing shingles side. And one of the feedback that we're getting in the field is given high demand and just keeping up with demand, plants in general have to reduce the number of SKUs they manufacture in order to kind of keep up demand.

I wanted to get your thoughts on that. But also, two, tying in the Composites with underlayment your ability since capacity utilization is high on the Composite side, has that also been a bottleneck in order to meet demand?

Brian D. Chambers
President, CEO & Chairman of the Board

Yes. Thanks, Kathryn. I think we've continued to see and hear about material challenges in our Roofing business. I mean asphalt was very supply constrained in the first part of the year with low refinery utilization rates. We've seen that kind of improve and we've seen other materials inflate quite a bit. Part of that is some of the capacity constraints we're working through.

And then as you're saying, certainly glass mat in terms of Composite materials has also been a bottleneck. So we are fortunate in that we are vertically integrated and produce our own glass fibers and glass mat. So that does give us a capability in terms of supply as well as design that we've talked about in the past that we have with our internal production.

But our Composite assets, our nonwoven assets, we are running at full capacity. It's why we've announced a plant expansion in our Fort Smith facility to come on stream in early 2023 to be able to bring on more mat capacity to service both the roofing market and kind of our specialty nonwovens that services gypsum and polyiso and other materials.

So I think we are working through a very tight supply environment through this year, and we think that's going to continue to also be an impact in the overall roofing industry. And that's, I think, going to be a bit of a governor on the amount of industry capacity that can be produced. I think we saw that kind of materialize in Q3 -- or Q2. And in our guide to Q3, we think that the industry is probably running pretty full out for what can be produced relative to the raw material inputs available.

So I think overall, again, we see benefits of a vertical integration strategy. We think that's going to continue to serve us well going forward. We do have capacity that we will be adding to the network to address some of the growth in these areas that we see. So we think we're, again, well positioned near term and longer term in terms of our production capacity.

Operator

And the next question comes from Mike Dahl with RBC Capital Markets.

Michael Glaser Dahl
RBC Capital Markets, Research Division

I had a 2-part question on just the capacity decisions around Santa Clara and Eloy. Correct me if I'm mistaken, but I think the Eloy plant has been mothballed since 2010. So just wondering if you could take us through kind of the decision and the rationale in terms of why investing in that plant made more sense than modernizing Santa Clara. And also second part, just anything that we should be thinking about in terms of whether it's CapEx or start-up costs associated with that facility as it comes back online.

And also, sorry to sneak one last in. But in the answer around kind of the rationale, if you could give us any sense of just with newer lower-cost capacity, what that relative margin profile or return profile is likely to look like with Eloy versus

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Santa Clara.

Brian D. Chambers
President, CEO & Chairman of the Board

Okay. Thanks, Mike. We'll try to hit it all. Let me start just broadly with the Santa Clara decision. I mean our Insulation business delivered another great quarter in Q2 and continues to build momentum. And a key part of that success really has been in our residential business, where we have been focused on building and operating flexible, cost-efficient network that can service our customers through a variety of demand scenarios.

And our team has done just phenomenal work in terms of improving productivity, increasing our process efficiencies, increasing our throughput through the entire network. So given all of this work, we thought it was the best time and the right time to monetize a very valuable piece of real estate that sits in the heart of Silicon Valley and then better leverage some existing assets that we have in the West Coast to service our customers in that region. And so that was the premise for this decision.

So we've agreed to sell the property to a real estate developer for $240 million. As part of this transaction, we plan to continue to operate the facility for at least another year and then use that time to build out capacity in our Nephi, Utah facility and then restart our Eloy, Arizona facility.

So as you've pointed out, Eloy has been a plant that we have not operated in over a decade. So it's been there and been available to us. But we think that these actions are going to better leverage those 2 facilities. They are a little more flexible assets that we can turn up and down around very cost effectively. And it also then allows us to balance our capacity in the region to service demand in the region.

So we will, through these 2 facilities, have enough capacity to service our West Coast customers. So that's been the rationale. And I think overall, what this allows us to do net-net is to monetize a very valuable piece of real estate. It gives us better leverage on the existing assets that we have in the region, in Eloy and Nephi. And we still retain the ability to invest and add capacity in our other facilities. So I think we retain that optionality.

I think part of the challenge is just a little bit in details around Santa Clara. As I think many of you know, it's a 2-furnace operation, but the demand in that local market really is only enough to operate one of the furnaces there efficiently. So the second furnace became very difficult to operate because all the demand was in the central part of the country or the East Coast part of the country. So it's very cost inefficient to run that second furnace and ship it so far east.

So we wanted to use this as an opportunity to rebalance our West Coast network, continue to service our customers there, continue to maintain the amount of capacity that we need to do that and service that customer base but give us some better optionality and to monetize a valuable piece of real estate. So that was kind of the heart of the decision.

I think in terms of CapEx, start-up, we're going to invest a portion of the proceeds, but it's a smaller portion. In Eloy, we can bring that facility up very efficiently. We've maintained the facility to produce batts there. In Nephi, we're going to put a little more of an investment there to create and expand the facility to be able to produce batts production and products for us to service the West Coast. But I think no special call out in large CapEx. This is going to be done within our normal CapEx guidance that we've been operating at.

And we'll see some start-up costs probably with Eloy. We would expect to be up and running no later than the first quarter of next year. So we might see some nominal start-up costs coming through the fourth quarter. We can address that in next quarter's call if we see that being material.

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And then the same thing with Nephi. We would like to time the Nephi start-up to be kind of later next year after we complete the shutdown of Santa Clara. And again, we could address any start-up costs as we get into next year. But net-net, we think this is a great move to rebalance our network, monetize our valuable asset and then give us still production capacity expansion options that we retain in our other facilities. So I think that sets us up well for the future. And if we see housing starts continue to trend up, we've got options that we can continue to pull.

Third part of your question on margins, we've not given any specific margin guidance. I would probably just share with you that when you look at the operating performance in our Insulation business over the last 12 months, I think you saw Q2 last year where we saw tremendous volumes drop off where we've been able to operate and maintain a profitable business even with that drop off, and now you're seeing the margin increases. Now we're getting to mid-teens.

So I think you're seeing kind of in our results the operational cost improvements we've made in our residential business to be able to operate at lower volume levels and still maintain profitability. And then as we see volumes increase, we're really getting tremendous operating leverage off the assets that's improving our margins.

So I think we're seeing those cost efficiency efforts, productivity efforts really coming through the results. And I think it's been really demonstrated over the last 12 months with the range of volumes that we've been shipping and producing inside our installation facility. So the team has done just great work in terms of running the assets and being able to service the growth.

Operator

And the next question comes from Stephen Kim with Evercore ISI.

Stephen Kim
Evercore ISI Institutional Equities, Research Division

Lots of things we could ask about, but I am going to ask about insulation again. Brian, you made some interesting comments about housing starts and your expectation, 1.5 million to 1.6 million in the near term. You talked about land constraints and some other things the builders are talking about, which are certainly issues near term.

However, over the next couple of years, one would imagine that a lot of those things will dissipate. And I guess my question in aggregate is to try to understand net of Santa Clara coming down and the restarting of Eloy potentially expanding capacity within those plants versus what was there before.

How much of a net capacity change in terms of sellable product, I guess, volumes, do you anticipate once all is said and done from the plants, the capacity additions as you envision them today? Maybe put that in terms of a housing start growth figure or for the industry that you think could be satisfied.

And then secondarily and kind of part of that, I know that you all have ongoing productivity initiatives. I think you had talked about that one as -- on average, you target about 2% productivity improvement a year in insulation. I know that you guys just recently launched the next-gen insulation product. I was curious as to whether you thought that, that had the potential to expand your capacity or add productivity by a greater degree than that 2% that you've historically tried to target.

Brian D. Chambers
President, CEO & Chairman of the Board

Great. Thanks, Stephen. So broadly, I guess, I'll just try to address the first one. I mean when we look at the capacity puts and takes for how we've been operating in Santa Clara, I think what we're adding in capacity in terms of Nephi and

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Eloy more than offset anything that we've been running there with the single production line in Santa Clara. So we retain that operating capacity.

So I would say, net-net of all the moves, all the puts and takes, our net operating capacity is not going to change by this decision. And when we look at the adds we have made over the last few quarters in both loose fill and batts and rolls capacity as well as the additional production time we are getting this year versus last year, we really believe we've now got installed capacity to service a market, I'd say, in the 1.5 million to 1.6 million, which you can interpret as kind of up to about 1.6 million housing starts. We feel like we can service that market with the capacity that we've installed.

So I think we're playing a little bit of catch-up as we brought this capacity on. So I think we continue to produce more quarter-over-quarter sequentially as we finish the year. And then we'll start going into '22 with all this capacity installed in place full year running, and we feel like we're going to be in a good place to service that.

Now look, we would like to see housing starts move up beyond 1.6 million. I mean there's -- again, we think housing has been underbuilt for the last several years. I think that is a growth trajectory we'd like to see move beyond that. But as I've said and as you were asking about, I do think there are some other constraints that builders are facing into that we would have to see get addressed.

Now if those can get addressed over the next few years and we see housing starts moving up beyond that pace, we do have other capacity expansion options in our network beyond just productivity that we could pretty cost effectively bring up in a fairly short time frame with some other expansions that we could do at our facility. So I think we continue to plan for growth beyond 1.6 million. We continue to invest in engineering and other efforts to make sure our assets are ready if that occurs.

But I think we just want to kind of see how things settle this year with all the capacity adds we've made and how that fits within the market environment as we go into '22. But again, we're preparing ourselves if that event occurs, but we're ready to service with additional capacity.

I think on the productivity piece, yes, we've been running in that range. We have not yet formally announced our product launch, but we continue to invest in product innovation. And I think the work we're doing in insulation with this product launch we're going to have certainly takes advantage of our process improvements we've made around density efficiency and other aspects that produce a better product that's easier to handle, easier to cut that I think contractors will love and really allows us to increase our productivity rates beyond what we've been doing.

And that's going to be part, I think, about our capacity expansion add is looking inside our network and continuing to get great throughput. And we do think this product -- a new product launch will help support that, give a great product to contractors, I think, they're going to love working with as well as giving us better efficiencies through our manufacturing network.

Operator

And the next question comes from Truman Patterson of Wolfe Research.

Truman Andrew Patterson
Wolfe Research, LLC

Just a quick question on inflation. You all had about $120 million of raw material and transportation inflation for the total company in the second quarter and oil, natty gas transportation costs remain pretty elevated. I'm just hoping you can give us an idea how you're thinking about that balance or thinking through that, the balance of the year and when you end up seeing inflationary pressures peak.

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Kenneth S. Parks
Executive VP & CFO

Truman, thanks for the question. We are, as indicated in our earlier comments, kind of anticipating additional inflation above the levels that we saw in the second quarter to flow into the third quarter. I think a big component of that is our outlook and what we're seeing in the area of asphalt. So we expect that to continue to be inflationary, probably a little bit more in the third quarter.

We are seeing inflation, as you said, on transportation. That's a piece of this as well as anything really petroleum based and energy costs. When it peaks, we do think third quarter is going to be more than Q2. It's hard to call what's going to happen in the fourth quarter specifically. But what I will tell you is that we're pleased with the proactive nature of the businesses and dealing with inflation early on and initiating appropriate price increases to recover it.

You called out the $120 million that we saw in the second quarter for inflation overall for Owens Corning. And very specifically, the flip side to that is we actually saw about $144 million, $145 million of positive pricing impacts flow through to the business overall. We fully anticipate that we'll continue to manage through this inflationary environment, and we expect to continue to remain price/cost positive as we move through the balance of the year.

Operator

And the next question comes from Phil Ng with Jefferies.

Philip H. Ng
Jefferies LLC, Research Division

Congrats on a very strong quarter. Wanted to get your take, Brian, on channel inventory and roofing and how long would it take to kind of bring that back to a more normalized level? And when you look out to 2022, appreciating you're lapping pretty strong demand in the last few years, do you see demand holding up pretty steadily here? Or how are you kind of thinking about the longer-term outlook on Roofing demand?

Brian D. Chambers
President, CEO & Chairman of the Board

Thanks, Phil, Overall, I think our Roofing business continues to perform at a very high level, and we continue to see market demand remain very strong. So I think as we do our contractor surveys, we're seeing good leads, good backlogs continuing. So that's our best indicator of kind of ongoing strength in terms of contractor work that we think is going to continue here into the third quarter and probably in the back half of the year.

In terms of distributor sales, I mean, we continue to hear that out-the-door sales remained very strong in most parts of the country. I think we've seen a little bit of impact in the Midwest region with a little bit lower storm volume. I think we talked about that on the last call that storm demand was tracking a little lighter. We actually saw that continue to track a little lighter than prior year in the second quarter. But overall and fundamental kind of reroof, repair, remodeling, that continues at a very high rate.

So I think we saw a market shipment close to 44 million squares in Q2. We are guiding that we expect to see a similar amount in Q3. So manufacturers, I think, pretty much producing all they can and shipping to that. And so far, we've not seen a lot of channel inventory increases on a broad basis. So again, maybe some regional pockets here or there, but I think most distributors are still running with historically very low inventory.

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So if we continue to see this kind of robustness in out-the-door sales, which we expect in Q3, we think that, that's going to continue to keep inventory levels in distribution low as we go into the fourth quarter. And then the fourth quarter will be a bit of a wild card, where we could see -- start to see a little bit of inventory build. If we don't see a strong storm season here in the third quarter, that could impact some of the storm demand for the full year that might impact Q4.

And then last year Q4 was just seasonally warm. So there was a lot of roofing activity done. So if we see a more normal season and get impacted by winter weather, that could dampen out-the-door sales and demand a little bit in the quarter, and that might give an opportunity for distributors to catch up on a little bit of inventory.

But I would suspect that this year, we're probably going to see distributor inventories finish the year still at low levels, and that's going to carry over into '22. So to answer the second part of your question, I think we're expecting that we're going to see pretty robust demand in the near term in our Roofing business, so I think driven by fundamental out-the-door sales for the rest of this year. And then I think as we get into next year, we would continue to see strong demand and then a desire to start getting inventory built.

But I think it would take, Phil, probably a couple of quarters in order to get inventory levels to replenish because, in fact, our inventory levels at our manufacturing sites are at historic lows. So we need to rebuild some inventory. And then we also need to work with our distribution partners to be able to rebuild their inventory. So I think that would take a couple of quarters to get that work done to get to more normalized levels at both the manufacturing level for us and then at our distribution level for our partners.

Operator

And the next question comes from Yves Bromehead with Exane BNP Paribas.

Yves Brian Felix Bromehead
Exane BNP Paribas, Research Division

I just wanted to know if you could provide some additional granularity on the technical and the nonresidential part of the insulation market. Can you maybe help us to understand where we stand versus the levels of 2019 and how are you thinking about that going forward? Also anything on pricing here, if you could maybe quantify what you've been able to achieve and split that between Europe and the U.S., that would be really helpful.

Brian D. Chambers
President, CEO & Chairman of the Board

Yes. Thanks. I think we've seen broad strength in our technical and other insulation businesses. So this is a set of businesses that this is going to be our mineral wool or FOAMGLAS, our foam products. About 1/3 of that business is into residential applications. For example, in Europe, our mineral wool is used in residential applications. In the U.S., we see some of our -- like our flex duct insulation in HVAC systems and home. So it's about 1/3 residential and about 2/3 kind of commercial and industrial.

And I'd say that, broadly speaking, in Q2, we saw product lines across the board grow on a year-over-year basis. And in fact, we're operating at or above kind of those 2019 levels. So we've seen good recovery in the end markets, I think, both in the U.S. and Europe. So from a demand standpoint, we see that continuing.

I think on the nonres piece, we're seeing a rebound in commercial projects. We're seeing more activity there. I think some of the recent trends in the U.S., ABI index and other kind of Dodge momentum reporting would show that there's a pretty robust project activity pipeline being built. We're starting to see that in our backlogs in this part of our business where it's a little more project-driven. So we're seeing that increase in pipeline. We're seeing an increase in just the project work getting completed now again.

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So I think we're seeing broad strength in both product lines. And I would say, Europe and U.S., tough to cut the trends. I think we're seeing pretty consistent growth in both regions for the product lines, and we expect that to continue into Q3.

From a pricing standpoint, I mean, what we love about this business is that it's -- the margins are more consistent over time. We don't see the same pricing cyclicality that we do in some of our residential businesses because it's more project based, it's more specified. The downside of that is an inflationary environment like we're in, we're lagging a bit on our price/cost mix. We have announced price increases in both the U.S. and in Europe for these product lines. I think we are seeing good realization.

And as Ken indicated in his comments, we do expect in Q3, with the expected inflation in these businesses with these product lines, that we do get to a positive price/cost mix. But it's something we're watching very carefully because in both of these businesses, we're seeing increased inflation -- I'm sorry, in both of these markets, we're seeing increased inflation.

And so while our commercial teams have done great work through the first half to gain price to offset these inflationary headwinds, as we go forward, we're going to continue to watch these costs very carefully. And we're going to evaluate if we need to take some additional actions to ensure we maintain a positive price/cost mix in these more technical, specified product offerings for us.

But I think good work through the first half. We continue to expect volume growth as we move into the second half and should get the positive price cost realization here in Q3.

Kenneth S. Parks
Executive VP & CFO

And the only thing that I would add to it, just to give a little bit more specificity on the price side of your question, is that in the second quarter, while -- as I said in the earlier comments, we were still kind of lagging behind a little bit versus inflation. We did see positive pricing in technical and other insulation for the quarter overall. So positive move continuing to step up. And as Brian said, achieve those pricing actions that we've announced and launched and beginning to recover well on those.

Operator

And the next question comes from Keith Hughes with Truist. Mr. Hughes, your line is live.

Keith Brian Hughes
Truist Securities, Inc., Research Division

I'm sorry. Can you hear me now?

Brian D. Chambers
President, CEO & Chairman of the Board

Yes.

Kenneth S. Parks
Executive VP & CFO

Yes.

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Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. I'm sorry, I had a connection problem. Just shifting back to composite insulation. I know some of that business is built to inventory, some of the more commodity-type products. Are there still shortages on that product? And do you anticipate those to continue into the second half of the year?

Brian D. Chambers
President, CEO & Chairman of the Board

And Keith, which product line are you referring to? I didn't quite catch you.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Within Composites, within Composites. I know some of that has built almost an inventory and some of the less technical products and composite insulation. How is capacity there?

Brian D. Chambers
President, CEO & Chairman of the Board

Yes. No. Yes, we're seeing that inventory levels in those channels as well are -- is low. So as demand has picked up in the end markets, even for those product lines, we are seeing a fairly tight supply chain. And we're seeing a lot of our production in our shipments then going right into use and not into inventory. So we think that there's -- the channels are still running in those product lines with pretty low levels as well.

Amber Wohlfarth
Director of Investor Relations

And we have time for one last question.

Operator

And that comes from Michael Rehaut with JPMorgan.

Michael Jason Rehaut
JPMorgan Chase & Co, Research Division

I appreciate you taking me in here. Just wanted to circle back to production capacity and inventory levels across the businesses. Earlier, you talked about the fact that in Roofing, you're not seeing a lot of channel inventory increases currently, and it might take a couple of quarters to rebuild those inventory levels.

I know it's kind of a broad question, but I was hoping at least to give some sense across each of your 3 businesses, Insulation, Roofing and Composites. If you have any sense based on your current view of where backlogs are in terms of order backlogs and whatnot, your own production rates and any incremental capacity coming online, when you might expect to be in a more even demand supply dynamic?

In other words, today, everything is working on a sold-out basis, inventory levels are very low. When you might expect, just based on -- and I'm not asking necessarily to forecast future demand per se, but for argument's sake, let's just say that the current demand levels persist. When might you see things even out where the industry is getting back to a more

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normalized level in terms of inventory levels and production capacity?

Kenneth S. Parks
Executive VP & CFO

So Mike, it's going to be a little difficult for me to probably answer that directly because it does really depend on the demand environment. I would share with you, broadly speaking, certainly through Q3, and we're probably indicating a little bit as we kind of finish the back half of this year, we continue to see broad demand strength in the market. So we're not seeing demand trends for our product lines soften in the near term. And so that's going to create a pretty great demand environment for us to continue to operate in.

Now we have been and continue to make capacity adds to be able to produce more material that we have been ramping up over the last couple of quarters and through this first half. That would continue in many of our product lines, in Insulation, in Composites, where we have some opportunities. So I think though that right now, our view is that's just keeping up to try to continue to service a pretty robust demand environment.

So I -- my best view would be, I think, this starts to -- we get a clear picture maybe as we go into '22. But I think as we finish and operating here in Q3 in the back half, I think we're going to run with pretty tight supply chains. And then as we look into '22, we're going to see kind of how the demand environment is materializing. Certainly, we're going to have some more capacity available on a year-over-year basis to service that. And then we'll see how that impacts the overall supply chains.

Operator

And that does conclude the question-and-answer session. I would like to turn the floor to Brian Chambers for any closing comments.

Brian D. Chambers
President, CEO & Chairman of the Board

Okay. Thanks, everyone, for your time and your questions today. We very much appreciate it. Certainly, our second quarter performance has been outstanding and really has gotten us off to a great start. Our global teams continue to execute at a high level, really demonstrating the exceptional operational capability of our people and the earnings power of our company. And we expect to deliver another quarter of year-over-year revenue and earnings growth here in Q3.

So we look forward to speaking with you again in October during our third quarter call and at our Investor Day on November 10. And until then, I hope you and your families remain healthy and safe. Thanks.

OperatorThank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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