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Owens Corning Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Yes, sir. Thank you. (Operator instructions). And your first question comes from the line of Michael Rehaut with JP Morgan. Please proceed.

Michael Rehaut – JP Morgan

Hi, thanks. Good morning everyone.

Michael Thaman

Good morning, Michael.

Michael Rehaut – JP Morgan

First question just on roofing, you know certainly you're still getting the benefits of the re-roofing demand and the price increases put in place in mid '08, you know I just wanted to ask I guess more of a longer-term question, you know the results here are obviously record results and you know historically I believe roofing has always generated more of the high single digit, mid to high single digits type of margin. Over the next two or three years, I mean – what are your expectations, are there things that structurally have changed or – how do you I guess guide our thinking in terms of either on a competitive or structural standpoint in terms of industry players and cost structure? I mean is that mid teens margin sustainable or over longer term should we think more in terms of something closer to what has been achieved historically?

Michael Thaman

Michael, let me take a shot at that. It is a very, very good question, and I think if you look at the slide we presented today, which was slide 11, we do graph the operating margins on there, and I think is probably a good backdrop to maybe some of the comments that I would make. The big change in the roofing market for certain was that the GAF acquisition of Elk Corporation in late 2006. And I think if you have been following these calls, since we have been public now, in late '06, what we saw during that period of time was a significant storm activity in '05 and '06, that was kind of followed a boom followed by a bust at about the same time that Elk and GAF were going together. And there was a fair amount of dislocation in the marketplace and as a result in 2006 and 2007 I think show that from an operating margin point of view where we were low single digit.

We had said during that time that we always thought the industry structure, our position in the market, our capabilities and our product line show allow that business to be a high single digit or maybe even

a double-digit operating margin business. And if you go back to the first quarter 2008 when we made a loss, we said that we thought that better times were coming, the asphalt prices have been coming through the market, that we were able to recapture that in terms of pricing to our customers, that our customers were having success passing through to contractors. And we got into a bit of a virtuous cycle in 2008, where the pricing environment and industry structure, our productivity programs and our mix all come together in a way I think we could envision it would happen. We just wanted to see it happen before we really committed to making it happen.

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