

## Fortune Brands (FBHS)

**\$78.43** (As of 08/03/20)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 07/13/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:B

Value: C

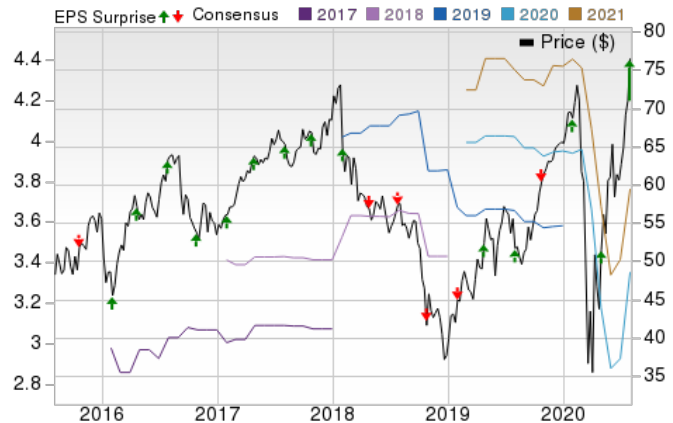
Growth: B

Momentum: B

### Summary

Fortune Brands' second-quarter 2020 earnings and revenues surpassed the Zacks Consensus Estimate by 59.3% and 4.5%, respectively. The company is poised to gain from solid product portfolio and shareholder-friendly policies as well as strength in the Plumbing and Doors & Security segments, going forward. Also, acquisitions and investments in product innovation are likely to be beneficial. Further, its focus on the optimization of manufacturing footprint and supply-chain are likely to improve margins and its financial performance. The company's cost-control measures will likely help it maintain a healthy capital structure. In the past three months, the company's shares have outperformed the industry. However, it is wary about the coronavirus outbreak-induced difficulties and has refrained from instating its guidance for 2020.

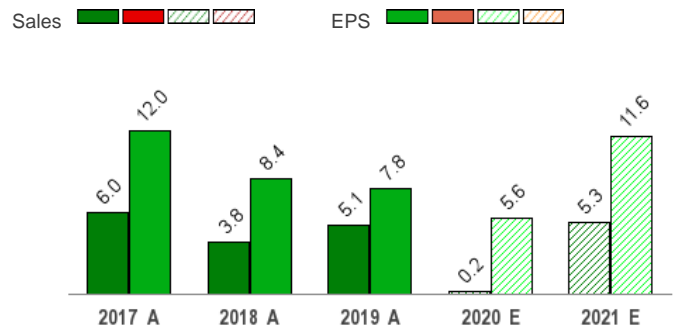
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$78.95 - \$33.90</b>
20 Day Average Volume (sh)	<b>1,086,279</b>
Market Cap	<b>\$10.8 B</b>
YTD Price Change	<b>20.0%</b>
Beta	<b>1.72</b>
Dividend / Div Yld	<b>\$0.96 / 1.2%</b>
Industry	<b><u>Security and Safety Services</u></b>
Zacks Industry Rank	<b>Top 33% (83 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>59.3%</b>
Last Sales Surprise	<b>4.5%</b>
EPS F1 Est- 4 week change	<b>29.9%</b>
Expected Report Date	<b>10/28/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>21.2</b>
P/E F1	<b>20.6</b>
PEG F1	<b>2.2</b>
P/S TTM	<b>1.9</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,425 E	1,501 E	1,548 E	1,564 E	6,081 E
2020	1,403 A	1,376 A	1,487 E	1,510 E	5,775 E
2019	1,328 A	1,507 A	1,459 A	1,471 A	5,765 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.83 E	\$1.04 E	\$1.11 E	\$1.12 E	\$4.24 E
2020	\$0.81 A	\$0.94 A	\$1.01 E	\$1.04 E	\$3.80 E
2019	\$0.63 A	\$1.03 A	\$0.95 A	\$1.00 A	\$3.60 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

## Overview

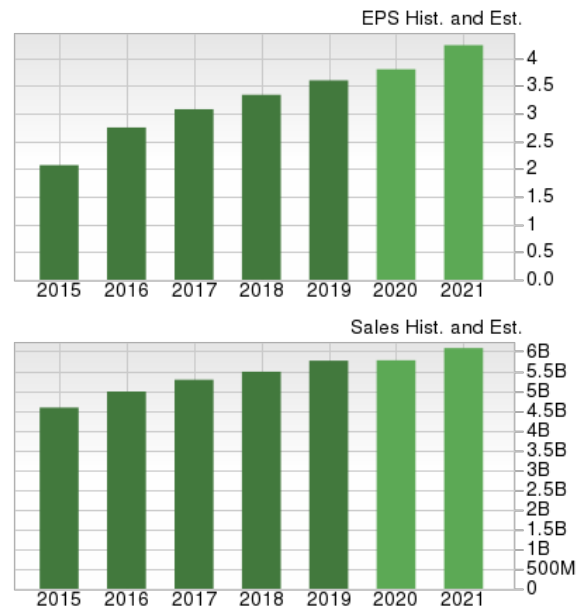
Headquartered in Deerfield, IL, Fortune Brands Home & Security, Inc. specializes in designing, manufacturing and selling home and security products, primarily used in the kitchen and bath cabinetry, plumbing and accessories, entry door systems, and security products applications.

It markets products through wholesalers, kitchen and bath dealers, locksmith distributors, industrial distributors, professional remodelers, retail outlets, and home centers.

In July 2018, the company reorganized its business segments by combining operations of Security and Doors segments into one segment. Effective from the quarter ended September 2018, Fortune Brands started reporting financial operations under three heads/segments — Cabinets, Plumbing, and Doors & Security.

A brief discussion on the company's business segments is given below:

- **Cabinets (39.2% of second-quarter 2020 revenues):** This segment deals with the production of custom, semi-custom and stock cabinetry and vanities for the kitchen, bath and other parts of the home. Operations are mainly carried out in North America. Key brands under the head are Aristokraft, Mid-Continent, Diamond, Kitchen Craft, Schrock, Omega, Homecrest, Decora, Kemper, StarMark and Ultracraft.
- **Plumbing (36.7%):** This segment produces and sells faucets, kitchen sinks, accessories and waste disposals. Operations are mainly carried out in the United States, Canada, China, South America, Mexico, Southeast Asia and Europe. Key brands include Moen, Riobel, ROHL, Perrin & Rowe, Victoria + Albert, and Shaws.
- **Doors & Security (24.1%):** This segment produces and sells fiberglass and steel entry door systems as well as urethane millwork products. Operations are principally carried out in the United States, Europe, Central America, Canada, Australia and Japan. Key brands include Therma-Tru and Fypon. Under the Security head, the segment also produces locks, safety and security devices, and electronic security products. It is also responsible for manufacturing fire resistant safes, security containers and commercial cabinets. Key brands include Master Lock, American Lock and SentrySafe.



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## Reasons To Buy:

- ▲ In the past three months, Fortune Brands' shares have gained 53.4% compared with the industry's growth of 25.5%. In the long run, the company expects to benefit from strength in the U.S. housing market, supported by expected new construction growth and product launches. Also, strength across its plumbing business, driven by powerful suite of brands and the success of its category and channel expansion strategies, bode well. Moreover, in the quarters ahead, strong demand for decking products along with strength in its doors as well as security businesses, supported by the company's incremental investments for product launches, is likely to support revenues of its Doors & Security segment. Further, growing popularity for the company's value price point cabinetry products will likely support results for the Cabinets segment. In addition, the company continues to invest in core competencies across all of its business operations, which it believes to drive long-term growth.
- ▲ Fortune Brands' focus on supply-chain optimization, manufacturing footprint optimization and other initiatives are likely to continue improve margins and its financial performance in 2020. Notably, in the second quarter, operating margin climbed 20 basis points to 14.3%. Also, in response to the coronavirus crisis, the company has been executing cost-control measures to maintain a healthy capital structure. Some of the actions being taken by the company include the reduction of operating expenses and non-essential capital expenditure. In the quarters ahead, the measures will continue to help it maintain a healthy margin performance amid the crisis. In the past seven days, the company's earnings estimates have been raised, reflecting bullish sentiments for the stock. For 2020, estimates have been raised by 7.7% to \$3.35, while that for 2021 have moved north by 5.6% to \$3.76 during the past seven days.
- ▲ Fortune Brands follows a sound capital-deployment strategy. It acquires lucrative businesses (explained below), introduces share-buyback programs and provides attractive dividends to shareholders. In the first half of 2020, the company repurchased shares worth \$150 million and paid out dividends worth \$66.6 million. Also, in December 2019, it announced a 9% hike in its quarterly dividend rate.
- ▲ Fortune Brands remains focused on strengthening its competency on business acquisitions. In September 2018, the company completed the acquisition of Fiberon, LLC. The \$470-million buyout complements Fortune Brands' existing door brand — Therma-Tru — and enhances its growth opportunities in the outdoor living space. Also, the company invested in capacity and product line expansion in the security business, and the acquired Fiberon business. The company noted that its Fiberon decking brand grew in the mid-teens range in the second quarter. Further, its distribution partnership with OrePac (inked in July 2019) enabled the Fiberon business to expand product offerings in the Western United States.

Fortune Brands is well-positioned to benefit from strength in Plumbing and Doors & Security segments, inorganic growth strategies, and the policy of rewarding shareholders.

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## Risks

- In the second quarter of 2020, the company's top line recorded a decrease of 8.7% year over year on weak performances across Cabinets, and Doors & Security segments. Market downturn caused by the coronavirus outbreak-led issues might continue to have an adverse impact on its businesses in the third quarter of 2020. Also, the supply chain challenges, owing to the governmental regulations imposed in response to the crisis will likely have a bearing on the company's results. Notably, on uncertainties, regarding the impacts of the outbreak on financial and operating results, it refrained from instating its guidance for 2020.
  - A highly leveraged balance sheet can inflate Fortune Brands' financial obligations, and subsequently hurt profitability. In the last five years (2015-2019), the company's long-term debt rose 8.8% (CAGR). Notably, at the end of second-quarter 2020, its long-term debt was \$2,245.9 million, up 10.4% on a sequential basis. Also, the company's cash and cash equivalents of \$398.4 million (exiting the second quarter) seems not to be impressive, considering its high debt profile. Notably, the stock looks more leveraged than the industry. Its debt/capital ratio is currently pegged at 0.49, higher than 0.39 of the industry.
  - Fortune Brands has significant operational presence for its Plumbing and Cabinet segments in Canada. However, this exposes it to forex woes. For instance, in the second quarter of 2020, currency translation had an adverse impact of 1% on the Plumbing segment's revenues. A stronger U.S. dollar might further depress the company's overseas business results in the quarters ahead.
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## Last Earnings Report

### Fortune Brands Q2 Earnings & Revenues Beat Estimates

Fortune Brands reported second-quarter 2020 earnings before charges/gains of 94 cents per share, surpassing the Zacks Consensus Estimate of 59 cents. On a year-over-year basis, the bottom line decreased 8.7% due to a decline in sales.

Fortune Brands' net sales were \$1,375.8 million, decreasing 8.7% from the year-ago figure. The decline was attributable to weaker performances across Cabinets, and Doors & Security segments. The top line beat the consensus estimate of \$1,316 million.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	4.51%
EPS Surprise	59.32%
Quarterly EPS	0.94
Annual EPS (TTM)	3.70

### Segmental Details

Cabinets' sales declined 15% year over year to \$538.7 million. Results were affected by a softer market for premium products, which more than offset the solid demand for value products.

Plumbing sales remained relatively flat at \$504.8 million. Impressive sales performance in the United States and China were partially offset by forex woes.

Doors & Security's sales fell 9% to \$332.3 million due to lower sales of security products.

### Costs & Expenses

In the second quarter, Fortune Brands' cost of sales decreased 8% year over year to \$892.9 million. It represented 64.9% of net sales compared with 64.3% in the year-ago quarter. Selling, general and administrative expenses decreased 14% to \$276.2 million, and represented 20.1% of the net sales compared with 21.3% a year ago.

Operating income before charges/gains decreased 7% to \$196.7 million. Operating margin before charges/gains climbed 20 basis points to 14.3%. Interest expenses decreased 9% to \$22.2 million.

### Balance Sheet

Exiting the second quarter, Fortune Brands' cash and cash equivalents were \$398.4 million, up 2.7% from \$387.9 million at the end of 2019. Its long-term debt climbed 10.4% to \$2,245.9 million sequentially.

In the first six months of 2020, net cash generated by operating activities was \$260.5 million compared with \$112 million generated in the year-ago comparable period. Capital expenditure amounted to \$42.3 million, down from \$54.9 million in the year-ago period.

### Outlook

On uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, the company has now suspended its guidance for 2020.

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## Recent News

### Dividend

On **Jul 13, 2020**, Fortune Brands' board of directors approved the payment of a quarterly dividend of 24 cents per share to shareholders of record as of Aug 28, 2020. The payment will be made on Sep 16.

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### Valuation

Fortune Brands Home & Security shares are up 20.1% in the year-to-date period and 55.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved down 5.8% and 7.3%, respectively, on a year-to-date basis. Over the past year, the Zacks sub-industry increased 4.9%, while the sector increased 7.6%.

The S&P 500 index has moved up 1.6% year to date and increased 15.5% in the past year.

The stock is currently trading at 21.82x forward 12-month earnings per share, which compares to 18.81x for the Zacks sub-industry, 21.42x for the Zacks sector and 22.64x for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.95x and as low as 8.67x, with a 5-year median of 18.26x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$90 price target reflects 25.04x forward 12-month earnings per share.

The table below shows summary valuation data for FBHS.

Valuation Multiples - FBHS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.82	18.81	21.42	22.64
	5-Year High	22.95	20.18	21.53	22.64
	5-Year Low	8.67	10.95	12.55	15.25
	5-Year Median	18.26	16.51	17.15	17.55
P/Sales F12M	Current	1.84	1.82	2.8	3.59
	5-Year High	2.01	2.92	2.8	3.59
	5-Year Low	0.8	1.04	1.52	2.53
	5-Year Median	1.58	1.52	2.03	3.04

As of 08/03/2020

## Industry Analysis Zacks Industry Rank: Top 33% (83 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Masco Corporation (MAS)	Outperform	1
Stanley BlackDecker, Inc. (SWK)	Outperform	1
Brady Corporation (BRC)	Neutral	3
BorgWarner Inc. (BWA)	Neutral	3
Dover Corporation (DOV)	Neutral	3
Mohawk Industries, Inc. (MHK)	Neutral	3
RPM International Inc. (RPM)	Neutral	3
Armstrong World Industries, Inc. (AWI)	Underperform	5

Industry Comparison Industry: Security And Safety Services				Industry Peers		
	FBHS	X Industry	S&P 500	AWI	BWA	MHK
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	5	3	3
VGM Score	B	-	-	C	A	A
Market Cap	10.83 B	201.80 M	22.67 B	3.38 B	7.66 B	5.66 B
# of Analysts	7	3	13.5	4	8	8
Dividend Yield	1.22%	0.00%	1.77%	1.13%	1.84%	0.00%
Value Score	C	-	-	C	A	B
Cash/Price	0.04	0.09	0.07	0.03	0.12	0.05
EV/EBITDA	15.53	8.68	13.08	9.37	4.79	5.01
PEG Ratio	2.24	3.41	2.94	9.90	2.13	1.73
Price/Book (P/B)	4.40	4.53	3.10	8.38	1.57	0.72
Price/Cash Flow (P/CF)	16.42	16.00	12.34	10.98	5.90	4.18
P/E (F1)	20.64	22.79	21.71	19.70	19.44	17.25
Price/Sales (P/S)	1.90	2.34	2.46	3.46	0.77	0.58
Earnings Yield	4.85%	4.05%	4.38%	5.07%	5.14%	5.80%
Debt/Equity	0.97	0.09	0.75	1.51	0.34	0.22
Cash Flow (\$/share)	4.78	0.46	6.94	6.43	6.26	19.01
Growth Score	B	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	13.74%	12.25%	10.46%	21.40%	9.34%	0.73%
Proj. EPS Growth (F1/F0)	5.56%	-7.54%	-7.08%	-25.05%	-54.00%	-54.13%
Curr. Cash Flow Growth	3.76%	1.05%	5.47%	15.31%	-5.66%	-5.69%
Hist. Cash Flow Growth (3-5 yrs)	11.37%	5.93%	8.55%	3.83%	3.79%	7.62%
Current Ratio	2.05	2.33	1.32	2.04	1.76	1.61
Debt/Capital	49.18%	20.04%	44.21%	60.13%	25.49%	18.26%
Net Margin	7.61%	3.54%	10.25%	-5.64%	7.24%	7.47%
Return on Equity	21.65%	11.63%	14.72%	56.59%	17.15%	8.75%
Sales/Assets	0.91	0.78	0.52	0.64	1.00	0.73
Proj. Sales Growth (F1/F0)	0.18%	0.00%	-1.79%	-8.80%	-20.48%	-13.95%
Momentum Score	B	-	-	C	C	A
Daily Price Chg	2.52%	1.38%	0.27%	-0.95%	0.90%	-0.50%
1 Week Price Chg	7.75%	0.77%	0.14%	-11.04%	-4.59%	-6.07%
4 Week Price Chg	20.96%	2.52%	2.96%	-9.40%	4.47%	-23.06%
12 Week Price Chg	44.71%	13.54%	10.90%	-1.73%	26.21%	-1.79%
52 Week Price Chg	55.34%	2.77%	2.35%	-26.05%	7.17%	-32.81%
20 Day Average Volume	1,086,279	188,730	2,043,624	520,080	2,439,851	2,268,083
(F1) EPS Est 1 week change	22.02%	0.00%	0.00%	-14.60%	-0.65%	0.00%
(F1) EPS Est 4 week change	29.95%	0.00%	0.82%	-14.60%	5.62%	16.75%
(F1) EPS Est 12 week change	32.14%	-1.46%	0.59%	-17.31%	-12.84%	-4.43%
(Q1) EPS Est Mthly Chg	40.86%	0.00%	0.25%	-24.20%	17.49%	30.37%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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