

Fortune Brands (FBHS)

\$53.07 (As of 05/05/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/22/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

Summary

Fortune Brands' first-quarter 2020 earnings and revenues beat the Zacks Consensus Estimate by 17.4% and 1.9%, respectively. The company is poised to gain from solid product portfolio and shareholder-friendly policies as well as segmental strength in the quarters ahead. Also, acquisitions and investments in product innovation are likely to be beneficial. Its focus on optimizing cost structure and manufacturing footprint optimization are likely to improve margins and its financial performance. However, the stock has underperformed the industry over the past three months. The coronavirus outbreak-led market downturn will likely adversely impact its results in the second and third quarters. Notably, the company suspended its guidance for 2020. In addition, rising costs of sales and expenses have been a concern over the past few quarters.

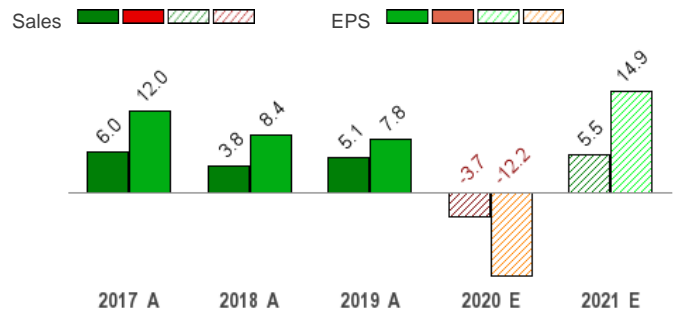
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$73.28 - \$33.90
20 Day Average Volume (sh)	1,614,126
Market Cap	\$7.3 B
YTD Price Change	-18.8%
Beta	1.59
Dividend / Div Yld	\$0.96 / 1.8%
Industry	Security and Safety Services
Zacks Industry Rank	Top 32% (81 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.4%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	-12.7%
Expected Report Date	08/06/2020
Earnings ESP	-26.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,363 E	1,396 E	1,383 E	1,415 E	5,855 E
2020	1,403 A	1,369 E	1,356 E	1,424 E	5,551 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	\$0.75 E	\$0.79 E	\$0.83 E	\$0.95 E	\$3.63 E
2020	\$0.81 A	\$0.66 E	\$0.81 E	\$0.95 E	\$3.16 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.

P/E TTM	14.0
P/E F1	16.8
PEG F1	1.8
P/S TTM	1.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/05/2020. The reports text is as of 05/06/2020.

Overview

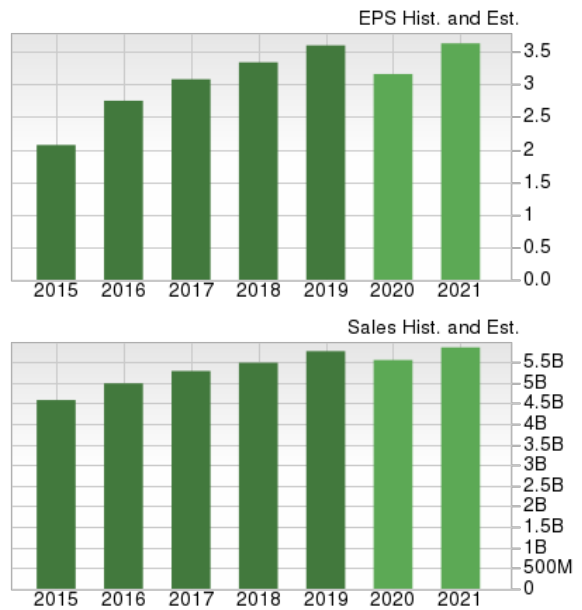
Headquartered in Deerfield, IL, Fortune Brands Home & Security, Inc. specializes in designing, manufacturing and selling home and security products, primarily used in the kitchen and bath cabinetry, plumbing and accessories, entry door systems, and security products applications.

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 (44.2% of first-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 (33.4%):** 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 (22.4%):** 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.



Reasons To Buy:

▲ In the first quarter of 2020, Fortune Brands' top line recorded an increase of 6% year over year on healthy Cabinets, and Doors & Security segments. 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, the solid momentum across its plumbing business, driven by 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.

▲ 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 first quarter, operating margin climbed 140 basis points to 12.1%. 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 help it maintain a healthy margin performance amid the crisis.

▲ Fortune Brands follows a sound capital-deployment strategy. It acquires lucrative businesses (explained in a separate point below), introduces share buyback programs and provides attractive dividends to shareholders. In the first quarter of 2020, the company repurchased shares worth \$150 million and paid out dividends worth \$33.5 million. Also, in December 2019, it announced a 9% hike in its quarterly dividend rate. In addition, it 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. Further, its distribution partnership with OrePac (inked in July 2019) will enable the Fiberon business to expand product offerings in the western region of the 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.

Reasons To Sell:

- ▼ Fortune Brands anticipates low demand environment caused by the coronavirus-led market downturn to have an adverse impact on its businesses, particularly in the second and third quarters of 2020. The temporary operational shutdowns at some of its facilities along with the impacts of 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 suspended its guidance for 2020. In the past three months, Fortune Brands' shares have lost 25% compared with the industry's decline of 22.8%. Also, analysts have become increasingly bearish about the company over the past seven days. Its earnings estimates for 2020 have declined from \$3.15 to \$3.10 on account of two downward estimate revisions. In addition, the Zacks Consensus Estimate for 2021 has gone down from \$3.68 to \$3.59.
- ▼ Rising costs and expenses have been an issue for Fortune Brands over the past few quarters. In the fourth quarter of 2019 and first quarter of 2020, Fortune Brands' cost of sales rose 2% and 5%, respectively, on a year-over-year basis. Also, in both the fourth and first quarters, its selling, general and administrative expenses increased 1%. Escalating costs and expenses, if not checked, might continue to hurt the company's margins in the quarters ahead. In addition, 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 first-quarter 2020, its total debt was \$2,435.1 million, up 11.5% on a sequential basis. Out of the total debt, its long-term debt climbed 14% to \$2,035.2 million sequentially.
- ▼ 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 first quarter of 2020, currency translation had an adverse impact of \$4 million on Plumbing segment's revenues. A stronger U.S. dollar might further depress the company's overseas business results in the quarters ahead.

Coronavirus-led market downturn, escalating costs and expenses, and high debts might continue to weigh over Fortune Brands' near-term competency.

Last Earnings Report

Fortune Brands Q1 Earnings & Revenues Beat Estimates

Fortune Brands reported first-quarter 2020 earnings before charges/gains of 81 cents per share, surpassing the Zacks Consensus Estimate of 69 cents. On a year-over-year basis, the bottom line improved 28.6%, backed by sales growth.

Fortune Brands' net sales were \$1,402.7 million, increasing 6% from the year-ago figure. The rise was driven by healthy growth in Cabinets, and Doors & Security segments. Also, the top line beat the consensus estimate of \$1,376 million.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	1.97%
EPS Surprise	17.39%
Quarterly EPS	0.81
Annual EPS (TTM)	3.79

Segmental Details

Cabinets' sales jumped 8% year over year to \$620 million. Growth in sales of value products more than offset the weakness in premium products.

Plumbing sales increased 2% to \$469 million on the back of impressive performance in the United States, partially offset by the negative impacts of the coronavirus-led market downturn and forex woes.

Doors & Security's sales jumped 6% to \$313.7 million, backed by robust sales growth of doors and composite decking products.

Costs & Expenses

In the first quarter, Fortune Brands' cost of sales before charges/gains increased 5% year over year to \$909.5 million. It represented 64.8% of net sales compared with 65.4% in the year-ago quarter. Selling, general and administrative expenses increased 1% to \$313.9 million, and represented 22.4% of the net sales compared with 23.5% a year ago.

Operating income before charges/gains increased 19.6% to \$169.8 million. Operating margin before charges/gains climbed 140 basis points to 12.1%. Interest expenses decreased 7% to \$22.1 million.

Balance Sheet

Exiting the first quarter, Fortune Brands' cash and cash equivalents were \$359.7 million, down 7.3% from \$387.9 million at the end of 2019. Its long-term debt climbed 14% to \$2,035.2 million sequentially.

In the first three months of 2020, net cash used by operating activities was \$13.8 million compared with \$89.7 million used in the year-ago comparable period. Capital expenditure amounted to \$26.9 million, down from \$27.2 million in the year-ago period.

Outlook

For 2020, Fortune Brands believes that the coronavirus outbreak-led market downturn will adversely impact its results, particularly in the second and third quarters.

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

Recent News

Dividend

On **Apr 27, 2020**, Fortune Brand's board of directors approved the payment of a quarterly cash dividend of 24 cents per share to shareholders of record as of May 29, 2020. The dividend will be paid out on Jun 17, 2020.

Valuation

Fortune Brands Home & Security shares are down 18.8% in the year-to-date period and decreased 2.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 24.8% and 22.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 20.4% and 19% respectively.

The S&P 500 Index has moved down 11.8% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 16x forward 12-month earnings per share, which compares to 15.55x for the Zacks sub-industry, 18.12x for the Zacks sector and 20.36x 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 18.3x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$57 price target reflects 17.18x 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	16	15.55	18.12	20.36
	5-Year High	22.95	20.18	19.93	20.36
	5-Year Low	8.67	10.95	12.55	15.19
	5-Year Median	18.3	16.45	16.56	17.44
EV/EBITDA F12M	Current	8.3	9.85	16.39	12.29
	5-Year High	13.21	21.49	18.05	12.64
	5-Year Low	7.08	5.75	10.56	9.09
	5-Year Median	11.29	9.38	14.08	10.82
EV/Sales F12M	Current	1.68	1.48	2.31	2.59
	5-Year High	2.18	2.96	3.12	3.52
	5-Year Low	1.15	1.37	1.76	2.3
	5-Year Median	1.82	1.97	2.29	2.81

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Armstrong World Industries, Inc. (AWI)	Neutral	3
Brady Corporation (BRC)	Neutral	3
Dover Corporation (DOV)	Neutral	4
Masco Corporation (MAS)	Neutral	3
Mohawk Industries, Inc. (MHK)	Neutral	4
RPM International Inc. (RPM)	Neutral	3
Stanley Black & Decker, Inc. (SWK)	Neutral	4
BorgWarner Inc. (BWA)	Underperform	4

Industry Comparison Industry: Security And Safety Services				Industry Peers		
	FBHS	X Industry	S&P 500	AWI	BWA	MHK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	4
VGM Score	C	-	-	C	C	A
Market Cap	7.32 B	174.80 M	19.65 B	3.57 B	5.57 B	5.87 B
# of Analysts	7	3	14	4	9	8
Dividend Yield	1.81%	0.00%	2.18%	1.07%	2.52%	0.00%
Value Score	B	-	-	D	B	B
Cash/Price	0.05	0.12	0.06	0.04	0.15	0.02
EV/EBITDA	11.06	7.41	11.77	9.93	3.65	5.25
PEG Ratio	1.79	2.36	2.49	4.82	2.33	2.40
Price/Book (P/B)	3.10	2.86	2.64	9.63	1.15	0.75
Price/Cash Flow (P/CF)	11.11	11.11	10.48	11.59	4.31	4.34
P/E (F1)	16.46	18.50	19.10	17.20	12.37	12.67
Price/Sales (P/S)	1.25	1.63	2.00	3.41	0.55	0.60
Earnings Yield	5.95%	4.27%	4.99%	5.81%	8.09%	7.89%
Debt/Equity	0.92	0.09	0.74	1.83	0.35	0.22
Cash Flow (\$/share)	4.78	0.46	7.01	6.43	6.26	19.01
Growth Score	D	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	15.11%	14.15%	10.87%	20.32%	9.76%	3.76%
Proj. EPS Growth (F1/F0)	-12.22%	-1.12%	-9.07%	-9.36%	-47.22%	-35.22%
Curr. Cash Flow Growth	3.76%	3.06%	5.88%	15.31%	-5.66%	-5.69%
Hist. Cash Flow Growth (3-5 yrs)	11.37%	5.65%	8.55%	3.83%	3.79%	7.62%
Current Ratio	1.54	2.44	1.24	2.03	1.65	1.61
Debt/Capital	47.92%	19.90%	44.07%	64.69%	25.68%	18.26%
Net Margin	7.81%	2.56%	11.00%	-4.86%	7.34%	7.47%
Return on Equity	22.56%	8.81%	16.39%	71.34%	18.68%	8.75%
Sales/Assets	0.93	0.85	0.55	0.64	1.01	0.73
Proj. Sales Growth (F1/F0)	-3.71%	0.00%	-2.17%	-4.53%	-17.58%	-13.72%
Momentum Score	D	-	-	C	C	C
Daily Price Chg	3.83%	0.00%	0.74%	0.73%	-0.22%	-3.01%
1 Week Price Chg	17.80%	0.00%	0.53%	-2.82%	0.30%	5.60%
4 Week Price Chg	21.58%	5.65%	6.47%	-1.77%	9.28%	1.54%
12 Week Price Chg	-26.67%	-24.43%	-20.68%	-27.91%	-20.96%	-35.73%
52 Week Price Chg	-2.50%	-28.68%	-10.95%	-15.32%	-32.21%	-39.59%
20 Day Average Volume	1,614,126	161,051	2,492,530	417,961	2,710,979	792,702
(F1) EPS Est 1 week change	0.36%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-12.71%	-9.76%	-7.39%	-13.52%	-34.58%	-22.44%
(F1) EPS Est 12 week change	-20.43%	-16.06%	-14.21%	-15.51%	-45.68%	-38.33%
(Q1) EPS Est Mthly Chg	-31.31%	-1.69%	-13.52%	-22.97%	-87.87%	-39.99%

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.

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	B
Growth Score	D
Momentum Score	D
VGM Score	C

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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