

Masco Corporation (MAS)

\$41.32 (As of 03/02/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: B

Momentum: F

Summary

Masco's shares have gained nearly 10% in the past year, outperforming its industry. The uptrend is likely to continue, given better-than-expected earnings in fourth-quarter 2019 and strong 2020 view. Strong repair and remodel industry, inorganic efforts, cost-saving initiatives, along with strong housing fundamentals are gaining traction. However, its business has been suffering from lower volume, unfavorable mix and softness in certain markets served. During fourth-quarter 2019, adjusted gross and operating margins contracted 40 bps and 150 bps, respectively, on a year-over-year basis. Adjusted EBITDA also declined 7.1% year over year. However, estimates for 2020 have been trending downward over the past 30 days, depicting analysts' concern over the company's earnings growth potential.

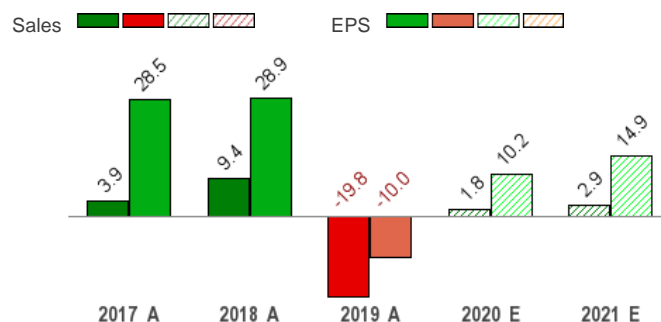
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.06 - \$34.79
20 Day Average Volume (sh)	3,590,667
Market Cap	\$12.0 B
YTD Price Change	-9.7%
Beta	1.48
Dividend / Div Yld	\$0.54 / 1.2%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 33% (84 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	-3.0%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	17.1
P/E F1	16.7
PEG F1	1.8
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,570 E	1,918 E	1,824 E	1,731 E	7,029 E
2020	1,520 E	1,859 E	1,763 E	1,686 E	6,828 E
2019	1,908 A	2,275 A	1,947 A	1,639 A	6,707 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.90 E	\$0.80 E	\$0.73 E	\$2.85 E
2020	\$0.36 E	\$0.76 E	\$0.73 E	\$0.64 E	\$2.48 E
2019	\$0.44 A	\$0.88 A	\$0.68 A	\$0.54 A	\$2.25 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 03/02/2020. The reports text is as of 03/03/2020.

Overview

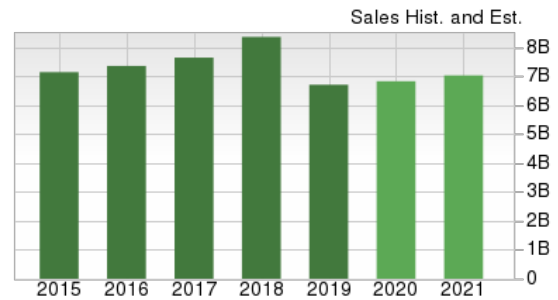
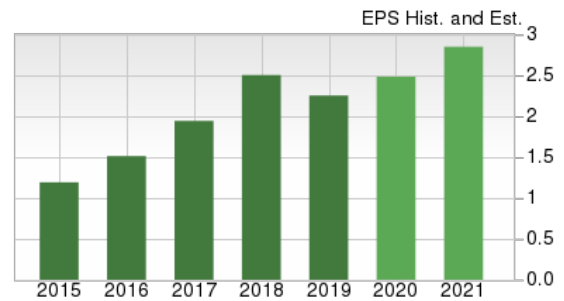
Headquartered in Taylor, MI, **Masco Corporation** manufactures, sells and installs home improvement and building products. Masco operates through the following two business segments:

Plumbing Products (accounting for 54.9% of 2019 net sales): The segment manufactures and markets an array of faucets, bathing and showering devices, valves, bathtubs, spas and toilets.

Decorative Architectural Products (40.6%): The segment manufactures architectural coatings, including paints, primers, specialty paint products, stains and waterproofing products. These products are sold in the U.S., Canada, China, Mexico and South America.

On Sep 6, 2019, the company completed divestiture of the UK Window Group business ("UKWG") — a manufacturer and distributor of windows and doors — for approximately \$8 million. Again, on Nov 6, 2019, it announced the completion of divestiture of the Milgard Windows and Doors business ("Milgard") — a manufacturer and distributor of windows and doors — for nearly \$720 million.

In addition, on Nov 14, 2019, Masco signed a definitive agreement with ACPProducts, Inc. to sell Masco Cabinetry LLC ("Cabinetry") for approximately \$1 billion. On Feb 18, 2020, the company announced the completion of the deal for \$850 million in cash at closing and preferred stock of \$150 million.



Reasons To Buy:

▲ **Leading Brand Portfolio:** Masco operates through various divisions with a large number of products. It holds one of the largest shares in the faucets market. Its popular brands include Behr paint, Delta and Hansgrohe faucets, bath and shower fixtures, Kichler decorative and outdoor lighting, and Hot Spring spas. The Behr brand is the number one brand in the DIY market for architectural coatings. The company has been witnessing strong demand for its market leading brands.

Increasing demand for repair and remodeling, product launches and streamlining of its portfolio bode well.

While higher pricing (in order to mitigate tariff-related woes) may have had a temporary impact on volume, repair and remodel activity is poised to pick up pace in the upcoming period owing to solid macro-economic factors, which will provide the basis of strong demand. Factors like solid job market with unemployment at 50-year lows, higher income level, high consumer confidence, and increased home prices are expected to support repair and remodel activity.

Notably, the company provided strong 2020 view backed by strength in the repair and remodeling industry — which now represents approximately 90% of its business. Masco expects 2020 adjusted earnings guidance in the range of \$2.35-\$2.55 per share, indicating 4.4-13.3% year-over-year growth.

▲ **Acquisitions & Divestures to Accelerate Growth:** Masco continues to expand its portfolio with acquisitions. On Mar 9, 2018, the company acquired Kichler Lighting, a leading provider of decorative residential and commercial lighting products, ceiling fans as well as LED lighting systems. Through the deal, the company expands in the fragmented \$6-billion U.S. residential lighting industry. This acquisition of Kichler Lighting significantly contributed to sales growth of the Decorative Architectural Products segment in 2019. Masco's performance will continue to be leveraged by Kichler's product portfolio, with existing and new customers realizing further operational improvements, along with optimizing its brand and go-to-market capabilities.

Moreover, Masco regularly divests its less profitable and underperforming businesses to focus on its core areas in a bid to accelerate growth and improve shareholder value.

In March 2019, Masco announced that it was undertaking "strategic alternatives" for cabinetry and window businesses. The company came to the conclusion that it intends to execute an outright sale of both the businesses. On Sep 6, 2019, the company announced that it has completed divestiture of the UK Window Group business for approximately \$8 million. Again on Nov 6, 2019, Masco announced that it has completed the divestiture of the Milgard Windows and Doors business for nearly \$720 million.

On Feb 18, 2020, the company announced the divestiture of Masco Cabinetry LLC for \$850 million in cash at closing and preferred stock of \$150 million.

We view these announcements as tailwinds for the company as it will remove cyclical and lower-margin businesses. This move will also drive liquidity, helping the company to strengthen its product portfolio and boost its better-performing businesses.

▲ **Cost-Saving Initiatives:** Masco's cost-saving initiatives include business consolidations, system implementations, plant closures, branch closures, improvement in the global supply chain and headcount reductions. These initiatives target company-wide annual savings through reduction of corporate expense and simplification of Masco's organizational structure. Masco remains well positioned to capitalize on the robust demand to drive strong growth and margin expansion in the near future.

In order to mitigate tariff-related woes, Masco continues to work with suppliers and internal teams on cost-reduction opportunities and has started moving limited production out of China as a longer-term solution.

▲ **Driving Shareholder Value:** The company plans to drive shareholder value through reinvesting in the business, selectively pursuing acquisitions with the right fit and return, and returning cash to shareholders through share repurchases and dividends. Masco returned 20.1 million shares for approximately \$896 million to its shareholders through repurchases in 2019. Moreover, in third-quarter 2019, the company increased quarterly dividend by 12.5% to 13.5 cents per share.

Masco maintained its focus on shareholder value creation by returning approximately \$1 billion through share repurchases and dividends in 2019. Notably, the company raised annual dividend by 13% to 54 cents per share for the sixth consecutive year in 2019. The company intends to maintain a relevant dividend payout ratio of approximately 20% or greater, per its balanced capital allocation policy.

Reasons To Sell:

▼ **Soft Sales Trend & View:** Masco's sales have been suffering from lower volume, unfavorable mix and softness in certain markets served. Masco's 2019 sales grew just 0.8% on a year-over-year basis. Also, sales in local currency rose 2% from the prior-year quarter due to lower volumes. North American sales (in local currency) grew just 2% and international sales remained flat year over year.

Soft sales trend and tariff-related headwinds are denting margins.

Disciplined pricing actions across both the segments were partially offset by lower volumes and softness in various international markets.

Worryingly, the metric missed analysts' expectations in seven of the trailing 11 quarters. During fourth-quarter 2019 earnings call, Masco projected 2-3% revenue growth for 2020. Given the implementation of China tariffs and soft end-market demand, this weak expectation is quite understandable. A significant driver of the soft sales guidance is a weak international outlook, particularly for pockets of Europe and Latin America.

Segment-wise, Plumbing revenues for 2020 are expected to grow between 2% and 4%, assuming flat year-over-year operating margins. The company anticipates tariff impact to be the strongest in first-half 2020, owing to which margins are likely to fall 100 basis points (bps) during said period.

Decorative Architectural Products sales are expected to grow 0-2% from a year ago. The tepid expectation is mainly due to low-single-digit growth in DIY paint and mid-single-digit improvement in pro paint. Loss of a portion of its private label program and inventory rebalancing at a Kichler customer will add to the woes. Moreover, volume loss and higher tariffs will impact the segment's operating margins by approximately 300 bps in first-quarter 2020.

▼ **Cost Pressures:** Masco purchases several commodities like brass, resins, titanium dioxide, and zinc to manufacture products. Fluctuations in the availability and prices of these commodities might increase the cost of production. The recent trade dispute between the United States and China resulted in increased tariffs, which raised the cost of certain materials. Any discontinuity of these materials may significantly increase costs. Rising energy costs could also increase production and transportation costs.

Apart from raw material costs, the company bears expenses related to new product launches. If Masco is unable to offset these costs through price increases or supply chain initiatives then that may adversely affect profits.

In 2019, Masco's adjusted gross and operating margins contracted 20 and 40 bps, respectively. Increase in commodity and variable costs, along with higher tariffs resulted in the decline.

▼ **Federal Government Actions:** As the Masco's business prospects are highly correlated with U.S. housing market conditions and repair and remodeling activity, the prevailing slowdown in the U.S. housing market may prove detrimental. The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn could hurt both the economy and the housing market.

Last Earnings Report

Masco Q4 Earnings Beat Estimates, Margins Down Y/Y

Masco Corporation reported better-than-expected earnings in fourth-quarter 2019. However, net sales missed the Zacks Consensus Estimate due to the absence of Windows and Cabinetry businesses that are now represented as discontinued operations.

Inside the Headlines

The company reported adjusted earnings of 54 cents per share, beating the consensus mark of 53 cents by 1.9%. However, the metric was flat with the year-ago figure.

Net sales of \$1,639 million lagged analysts' expectation of \$1,655 million by 1% but grew slightly from the year-ago figure of \$1,635 million. Notably, the metric grew 1% year over year in local currency.

Sales in the North American region (in local currency) rose 1% from the prior-year period but fell 1% internationally.

Segmental Analysis

Plumbing Products: Sales in the segment inched up 2% year over year to \$1,026 million, driven by 5% growth in North America. In local currency, the segment's sales grew 3% year over year. Adjusted operating margin contracted 90 basis points (bps) year over year to 17.5%. Adjusted EBITDA declined 1.5% year over year to \$201 million.

Decorative Architectural Products: The segment reported sales of \$613 million, down 3% from the prior-year period. Growth in paints and other coating products was offset by lower sales in lighting. Adjusted operating margin decreased 240 bps to 16.3%. Adjusted EBITDA also declined 14.1% from the prior-year period to \$110 million.

Notably, the company sold the Milgard Windows and Doors business. Also, it has signed an agreement to sell the Cabinetry business.

Margins Performance

Adjusted gross margin came in at 34.6%, which contracted 40 bps from the prior year. Adjusted selling, general and administrative expenses — as a percentage of net sales — were up 110 bps from the year-ago figure.

Adjusted operating margin fell 150 bps on a year-over-year basis to 15.7%. Adjusted EBITDA also declined 7.1% year over year to \$290 million.

Financials

As of Dec 31, 2019, the company had cash and cash investments of \$697 million versus more than \$552 million recorded at the end of 2018. Net cash from operating activities was \$833 million in 2019 compared with \$1,032 million a year ago.

It returned \$495 million to its shareholders through share repurchases and dividends.

2019 Highlights

In full-year 2019, Masco reported adjusted earnings of \$2.25 per share, beating the consensus mark of \$2.22 by 1.4% and increasing 5.6% from the prior year. Net sales of \$6.71 billion also grew 0.8% from the year-ago period but slightly lagged analysts' expectation of \$6.72 billion.

Adjusted gross and operating margins contracted 20 bps and 40 bps, respectively, from 2018.

2020 View Strong

Backed by strong repair and remodel industry — which now represents approximately 90% of its business — the company provided higher year-over-year adjusted earnings guidance, despite input costs woes. Masco expects its 2020 adjusted earnings guidance in the range of \$2.35-\$2.55 per share, indicating 4.4-13.3% year-over-year growth.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	-0.94%
EPS Surprise	1.89%
Quarterly EPS	0.54
Annual EPS (TTM)	2.54

Valuation

Masco shares are down 9.5% in the year-to-date period, but up 9.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 8% and 5.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 11.2% and 14.5%, respectively.

The S&P 500 index is down 3.9% in the year-to-date period but up 11.8% in the past year.

The stock is currently trading at 17.05X forward 12-month price to earnings, which compares to 12.79X for the Zacks sub-industry, 14.8X for the Zacks sector and 17.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.61X and as low as 9.74X, with a 5-year median of 17.46X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46 price target reflects 18.11X forward 12-month earnings.

The table below shows summary valuation data for MAS

Valuation Multiples - MAS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.05	12.79	14.81	17.66
	5-Year High	22.61	17.9	18.86	19.34
	5-Year Low	9.74	7.13	10.71	15.18
	5-Year Median	17.46	13.85	15.95	17.46
P/S F12M	Current	1.76	1.12	1.81	3.26
	5-Year High	2.05	3.59	2.23	3.43
	5-Year Low	0.94	0.69	1.25	2.54
	5-Year Median	1.37	0.88	1.65	3.01
EV/EBITDA TTM	Current	10.64	20.11	19.28	10.93
	5-Year High	23.98	30.63	22.93	12.88
	5-Year Low	8.19	17.86	14.63	8.49
	5-Year Median	10.84	23.43	19.35	10.79

As of 3/02/2020

Industry Analysis Zacks Industry Rank: Top 33% (84 out of 255)



Top Peers

Armstrong World Industries, Inc. (AWI)	Outperform
Louisiana-Pacific Corporation (LPX)	Outperform
Acuity Brands Inc (AYI)	Neutral
Fortune Brands Home & Security, Inc. (FBHS)	Neutral
Owens Corning Inc (OC)	Neutral
Gibraltar Industries, Inc. (ROCK)	Neutral
Simpson Manufacturing Company, Inc. (SSD)	Neutral
Caesarstone Ltd. (CSTE)	Underperform

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	MAS Neutral	X Industry	S&P 500	AWI Outperform	LPX Outperform	OC Neutral
VGM Score	C	-	-	C	B	B
Market Cap	12.04 B	938.45 M	22.14 B	4.99 B	3.35 B	6.33 B
# of Analysts	7	2	13	4	4	8
Dividend Yield	1.25%	0.00%	1.98%	0.77%	1.94%	1.64%
Value Score	B	-	-	C	B	A
Cash/Price	0.06	0.11	0.05	0.01	0.06	0.03
EV/EBITDA	11.35	8.31	12.79	13.45	32.57	7.88
PEG Ratio	1.90	1.31	1.92	1.97	NA	0.99
Price/Book (P/B)	NA	1.51	3.00	13.82	3.54	1.36
Price/Cash Flow (P/CF)	15.16	10.56	11.97	16.17	20.89	6.64
P/E (F1)	17.69	16.98	17.43	19.67	16.55	11.52
Price/Sales (P/S)	1.55	1.18	2.48	4.81	1.45	0.88
Earnings Yield	5.72%	5.76%	5.74%	5.08%	6.02%	8.68%
Debt/Equity	-49.48	0.47	0.70	1.66	0.39	0.67
Cash Flow (\$/share)	2.86	2.52	6.94	6.43	1.43	8.80
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	22.75%	20.63%	10.85%	18.60%	13.59%	20.63%
Proj. EPS Growth (F1/F0)	10.22%	13.37%	6.48%	10.56%	387.84%	11.73%
Curr. Cash Flow Growth	-13.53%	8.86%	6.03%	15.31%	-67.52%	-2.64%
Hist. Cash Flow Growth (3-5 yrs)	8.58%	14.76%	8.52%	3.83%	32.59%	13.33%
Current Ratio	1.75	1.76	1.23	1.57	2.54	1.55
Debt/Capital	99.18%	39.42%	42.57%	62.36%	28.45%	40.08%
Net Margin	12.03%	4.54%	11.57%	20.66%	-0.22%	5.66%
Return on Equity	3,655.00%	11.50%	16.66%	76.46%	3.79%	11.30%
Sales/Assets	1.43	1.05	0.54	0.61	1.15	0.71
Proj. Sales Growth (F1/F0)	-12.11%	3.58%	4.07%	6.96%	15.11%	1.16%
Momentum Score	F	-	-	D	A	D
Daily Price Chg	4.91%	2.46%	3.82%	3.81%	5.03%	3.42%
1 Week Price Chg	-8.54%	-10.24%	-12.06%	-5.92%	-16.30%	-14.16%
4 Week Price Chg	-10.06%	-6.08%	-6.43%	2.64%	-4.17%	-4.68%
12 Week Price Chg	-5.72%	-3.62%	-5.15%	10.01%	4.55%	-10.21%
52 Week Price Chg	8.48%	9.29%	4.77%	38.72%	18.67%	15.91%
20 Day Average Volume	3,590,667	183,217	2,363,047	377,481	1,422,476	1,410,929
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.29%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.05%	-1.17%	-0.04%	3.07%	3.44%	-1.27%
(F1) EPS Est 12 week change	-4.98%	-1.33%	-0.33%	3.32%	10.57%	-1.33%
(Q1) EPS Est Mthly Chg	-12.73%	-3.81%	-0.38%	2.46%	-28.21%	-11.71%

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	B
Momentum Score	F
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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