

Fortune Brands Innovations Inc

2024 outlook implies organic growth improvement in 2H

Reiterate Rating: UNDERPERFORM | PO: 72.00 USD | Price: 80.79 USD

2024 guide above consensus; Reiterate Underperform

FBIN reported 4Q23 earnings slightly above our/Street estimates driven by a stronger margins in the security segment. FBIN initiated full year EPS guidance of \$4.20 - \$4.40 (mid-point 3% below consensus). We lower our 2024E/2025E EPS forecast by 2%/2% to reflect a weaker demand environment in 1Q. Our PO remains \$72, still based on 10.5X 2025E EV/EBITDA. We reiterate our Underperform rating given the challenging macro backdrop in R&R spending and FBIN's premium valuation relative to peers.

1Q outlook < consensus, but demand should improve in 2H

FBIN's EPS 1Q24 guidance of \$0.71-\$0.75 was 7-12% below consensus. Sell-out in January has slowed materially, but we think its driven by exceptionally unfavorable weather during a low volume period. FBIN's 2024 outlook implies an improvement in 2H organic revenue growth to +2-3% in 2H24 (vs. 1H24 organic revenue guidance of down low single digits). Management expects 40% operating leverage in 2024 (1Q likely the low point) driven by internal productivity initiatives, favorable fixed-cost leverage and positive price-cost. We remain cautious on the repair & remodel (R&R) demand given weak consumer spending on discretionary categories and continued headwinds from depressed existing home sales – see our Year Ahead report: [Building Products: 2024 outlook: prefer new construction > R&R; upgrade BLDR on stronger starts](#)

Demand environment will remain challenging near-term

FBIN initiated 2024 revenue growth guidance of +3.5% to 5.5% YoY, with organic sales down (2%) to (1%). By segment: (1) Water Innovations: up 3-5% driven by M&A and flat to down (2%) organic due to lower R&R sales and weaker sales in China, (2) Outdoors: up 1% to 3% with improving single-family new home construction offsetting a challenging R&R environment and (3) Security up 10% to 12% driven by M&A and flat to up 2% organic. Management's global industry outlook of flat to down (3%) was relatively consistent with the outlook provided in October supported by US R&R market down (2%) to (4%), US new home construction up 5% to 7% and China down (9%) to (7%).

4Q23 roughly in-line with our forecast, but sales below

FBIN reported 4Q23 adjusted EPS of \$0.95, slightly above our \$0.94 forecast. Revenue increased 3% YoY (2% below our forecast) with water innovations up +3% (-2% organic) and security up 20% (+4% organic), but outdoors declined (7%). Point-of-sale was down YoY in 4Q, but management estimates FBIN outperformed the market by 100bps. Adjusted operating margin fell ~30bps YoY, which was in line with our forecast.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.16	3.91	4.17	4.62	4.95
EPS Change (YoY)	-27.4%	-6.2%	6.8%	10.6%	7.3%
Consensus EPS (Bloomberg)			4.19	4.81	5.35
DPS	1.12	1.12	1.12	1.12	1.12
Valuation (Dec)					
P/E	19.4x	20.7x	19.4x	17.5x	16.3x
Dividend Yield	1.4%	1.4%	0%	0%	1.4%
EV / EBITDA*	12.7x	13.5x	12.3x	11.5x	10.9x
Free Cash Flow Yield*	3.1%	7.2%	5.0%	5.3%	5.5%

* For full definitions of *IQmethod*SM measures, see page 6.

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	4.25	4.17
2025E EPS	4.69	4.62
2026E EPS	5.00	4.95

Rafe Jadrosich
Research Analyst
BofAS
+1 646 855 5815
rafe.jadrosich@bofa.com

Shaun Calnan, CFA
Research Analyst
BofAS
+1 646 855 1362
shaun.calnan@bofa.com

Victoria Piskarev
Research Analyst
BofAS
+1 646 855 0657
victoria.piskarev@bofa.com

Stock Data

Price	80.79 USD
Price Objective	72.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-3-7
52-Week Range	54.10 USD - 80.91 USD
Mrkt Val (mn) / Shares Out (mn)	10,319 USD / 127.7
Free Float	99.1%
Average Daily Value (mn)	89.98 USD
BofA Ticker / Exchange	FBIN / NYS
Bloomberg / Reuters	FBIN US / FBIN.N
ROE (2024E)	20.8%
Net Dbt to Eqty (Dec-2023A)	100.4%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 31 January 2024 07:52AM EST

iQprofileSM Fortune Brands Innovations Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.9%	11.2%	11.0%	11.1%	10.9%
Return on Equity	21.2%	22.8%	20.8%	19.3%	17.9%
Operating Margin	16.8%	16.0%	16.6%	17.3%	17.5%
Free Cash Flow	320	744	516	545	569

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	2.0x	1.4x	1.4x	1.3x
Asset Replacement Ratio	1.9x	2.8x	1.7x	2.0x	2.0x
Tax Rate	20.7%	22.1%	23.5%	23.5%	23.5%
Net Debt-to-Equity Ratio	97.3%	100.4%	66.8%	46.3%	29.8%
Interest Cover	6.7x	6.5x	6.9x	7.5x	7.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,723	4,626	4,843	5,069	5,306
% Change	-38.3%	-2.0%	4.7%	4.7%	4.7%
Gross Profit	1,929	1,933	2,072	2,172	2,279
% Change	NA	NA	NA	NA	NA
EBITDA	969	912	1,000	1,075	1,129
% Change	-25.9%	-5.9%	9.7%	7.5%	5.0%
Net Interest & Other Income	(107)	(98)	(114)	(114)	(114)
Net Income (Adjusted)	546	499	529	583	623
% Change	-11.1%	-35.4%	19.2%	10.2%	6.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	687	444	529	583	623
Depreciation & Amortization	175	156	190	195	196
Change in Working Capital	(475)	358	(61)	(31)	(48)
Deferred Taxation Charge	15	(9)	10	10	10
Other Adjustments, Net	165	61	48	48	48
Capital Expenditure	(246)	(266)	(200)	(260)	(260)
Free Cash Flow	320	744	516	545	569
% Change	NA	NA	NA	NA	NA
Share / Issue Repurchase	1	9	0	0	0
Cost of Dividends Paid	(146)	(123)	(142)	(141)	(141)
Change in Debt	1,063	755	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	643	366	805	1,169	1,557
Trade Receivables	522	534	557	583	611
Other Current Assets	1,296	1,097	1,022	1,061	1,102
Property, Plant & Equipment	784	975	1,055	1,187	1,315
Other Non-Current Assets	2,877	3,551	3,471	3,394	3,320
Total Assets	6,121	6,524	6,910	7,395	7,905
Short-Term Debt	599	0	0	0	0
Other Current Liabilities	946	1,159	1,045	1,080	1,101
Long-Term Debt	2,074	2,670	2,670	2,670	2,670
Other Non-Current Liabilities	415	401	401	401	401
Total Liabilities	4,034	4,231	4,117	4,152	4,172
Total Equity	2,087	2,293	2,793	3,243	3,733
Total Equity & Liabilities	6,121	6,524	6,910	7,395	7,905

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Building Products

Company Description

FBIN is a leading building products company, manufacturing and selling faucets, shower heads and other plumbing products, doors, decking and residential and commercial locks and safes. Approximately 84% of 2020 sales occurred in the US, 7% in Canada, 7% in China and 2% in other international markets. Residential R&R accounted for roughly 65% of the company's NA home product sales in 2020, with the remainder largely attributable to residential new construction.

Investment Rationale

We rate FBIN shares at Underperform. FBIN currently trades at a premium to building product peers. We see some risk to 2023 due to: (1) weak R&R trends and (2) International headwinds.

Stock Data

Average Daily Volume 1,113,777

Quarterly Earnings Estimates

	2023	2024
Q1	0.69A	0.74E
Q2	1.07A	1.15E
Q3	1.19A	1.23E
Q4	0.95A	1.05E

Exhibit 1: FBIN 4Q23 variance table

FBIN reported EPS slightly ahead of our estimate, but revenue missed

Income Statement	YoY Change			Variance vs BofAe		
	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
Sales (\$ mm)	\$1,132	\$1,161	3%	\$1,187	\$1,161	(2%)
Gross Margin	41.7%	43.4%	167 bps	42.4%	43.4%	100 bps
SG&A % of Sales	23.6%	26.0%	242 bps	25.0%	26.0%	103 bps
Operating Margin	16.1%	15.8%	-29 bps	15.8%	15.8%	-2 bps
EBITDA Margin	21.1%	20.1%	-100 bps	20.0%	20.1%	2 bps
Pre-tax Margin	13.7%	13.4%	-35 bps	13.4%	13.4%	-1 bps
Operating EPS	\$0.99	\$0.95	(5%)	\$0.94	\$0.95	1%
GAAP EPS	\$0.85	\$0.64	(25%)	\$0.94	\$0.64	(32%)
Segment Results	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
Sales						
Plumbing (Water innovations)	\$642	\$663	3.4%	\$661	\$663	0%
Outdoors	\$333	\$309	(7.1%)	\$333	\$309	(7%)
Security	\$157	\$189	20.1%	\$194	\$189	(2%)
Operating Profit						
Plumbing (Water innovations)	\$154	\$144	(6.4%)	\$151	\$144	(4%)
Outdoors	\$46	\$43	(6.7%)	\$47	\$43	(8%)
Security	\$27	\$33	21.6%	\$24	\$33	35%
Operating Margin						
Plumbing (Water innovations)	24.0%	21.8%	-227 bps	22.8%	21.8%	-104 bps
Outdoors	13.8%	13.9%	6 bps	14.0%	13.9%	-13 bps
Security	17.0%	17.2%	21 bps	12.5%	17.2%	474 bps

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 2: FBIN Income Statement

We expect EPS to increase in 2024

YE 12/31 (\$ mm)	2024E				2023	2024E	2025E
	3/31/2024	6/30/2024	9/30/2024	12/31/2024	12/31/2023	12/31/2024	12/31/2025
Net Sales	\$1,102.6	\$1,242.4	\$1,293.8	\$1,204.0	\$4,626.2	\$4,842.8	\$5,068.8
Cost of sales	645.0	714.4	731.0	680.2	2,693.3	2,770.6	2,896.8
Gross Profit	\$457.6	\$528.0	\$562.8	\$523.7	\$1,932.9	\$2,072.1	\$2,172.1
Selling, general & administrative	288.9	290.7	313.1	303.4	1,132.8	1,196.1	1,228.8
Amortization of intangible assets	17.9	17.7	17.5	17.3	62.1	70.4	67.2
Operating income (adjusted)	\$150.8	\$219.6	\$232.2	\$203.0	\$738.0	\$805.6	\$876.1
Interest expense	29.5	29.5	29.5	29.5	116.5	118.0	118.0
Other expense (income), net	(1.0)	(1.0)	(1.0)	(1.0)	(19.0)	(4.0)	(4.0)
Earnings before income taxes	\$122.3	\$191.1	\$203.7	\$174.5	\$640.5	\$691.6	\$762.1
Income tax expense	28.7	44.9	47.9	41.0	141.5	162.5	179.1
Earnings from continuing operations	\$93.6	\$146.2	\$155.8	\$133.5	\$499.0	\$529.1	\$583.0
Loss from discontinued operations	-	-	-	-	(1.0)	-	-
Net income attributable to noncontrolling interest	-	-	-	-	-	-	-
Net income attributable to FBHS	\$93.6	\$146.2	\$155.8	\$133.5	\$498.0	\$529.1	\$583.0
Diluted EPS (Cont. Ops.)	\$0.74	\$1.15	\$1.23	\$1.05	\$3.91	\$4.17	\$4.62
Adjusted Common Shares Outstanding:							
Diluted	127.0	126.9	126.7	126.6	127.7	126.8	126.3
Dividend per share	\$0.28	\$0.28	\$0.28	\$0.28	\$1.12	\$1.12	\$1.12
YoY growth in Dividend/share	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA Calculation							
Adjusted Operating Profit	\$150.8	\$219.6	\$232.2	\$203.0	\$738.0	\$805.6	\$876.1
(+) Other Income	1.0	1.0	1.0	1.0	19.0	4.0	4.0
(=) Adjusted EBIT	\$151.8	\$220.6	\$233.2	\$204.0	\$757.0	\$809.6	\$880.1
(+) D&A	47.9	47.7	47.5	#REF!	154.7	190.4	195.2
(=) Adjusted EBITDA	\$200.7	\$268.3	\$280.7	\$251.3	\$911.7	\$1,000.0	\$1,075.3
Margins							
Gross Margin	41.5%	42.5%	43.5%	43.5%	41.8%	42.8%	42.9%
SG&A % Sales	26.2%	23.4%	24.2%	25.2%	24.5%	24.7%	24.2%
Operating Margin	13.7%	17.7%	17.9%	16.9%	16.0%	16.6%	17.3%
Adjusted EBIT Margin	13.8%	17.8%	18.0%	16.9%	16.4%	16.7%	17.4%
Adjusted EBITDA Margin	18.2%	21.6%	21.7%	20.9%	19.7%	20.6%	21.2%
Pre-tax Margin	11.1%	15.4%	15.7%	14.5%	13.8%	14.3%	15.0%
Net Margin post-noncontrolling interest (continuing ops)	8.5%	11.8%	12.0%	11.1%	10.8%	10.9%	11.5%
Net Margin (attributable to FBHS)	8.5%	11.8%	12.0%	11.1%	10.8%	10.9%	11.5%
Tax rate	23.5%	23.5%	23.5%	23.5%	22.1%	23.5%	23.5%

Exhibit 2: FBIN Income Statement

We expect EPS to increase in 2024

YE 12/31	2024E				2023	2024E	2025E
YoY % Change							
Sales	6.0%	6.8%	2.6%	3.7%	(2.0%)	4.7%	4.7%
Gross Profit	12.0%	11.4%	2.9%	3.9%	0.2%	7.2%	4.8%
Operating Profit	10.3%	11.0%	5.6%	10.6%	(7.3%)	9.2%	8.7%
EBIT	6.2%	8.7%	2.8%	10.8%	(6.3%)	7.0%	8.7%
EBITDA	14.8%	13.1%	5.2%	7.9%	(5.9%)	9.7%	7.5%
Pre-tax Profit	5.2%	9.0%	5.2%	12.3%	(7.0%)	8.0%	10.2%
Net Income post-noncontrolling interest (continuing ops)	4.8%	6.9%	2.2%	10.8%	(8.7%)	6.0%	10.2%
Net Income (attributable to FBHS)	6.0%	6.9%	2.2%	10.8%	(25.0%)	6.2%	10.2%
EPS	6.0%	7.5%	3.0%	11.2%	(6.2%)	6.8%	10.6%
YoY BPS Change							
Gross Margin	223 bps	179 bps	15 bps	10 bps	94 bps	101 bps	6 bps
SG&A % Sales	129 bps	77 bps	-22 bps	-83 bps	173 bps	21 bps	-46 bps
Operating Margin	53 bps	68 bps	51 bps	105 bps	-90 bps	68 bps	65 bps
EBIT Margin	2 bps	31 bps	3 bps	109 bps	-75 bps	35 bps	64 bps
EBITDA Margin	139 bps	121 bps	55 bps	81 bps	-81 bps	94 bps	56 bps
Pre-tax Margin	-8 bps	32 bps	39 bps	111 bps	-73 bps	44 bps	75 bps
Net Margin post-noncontrolling interest (continuing ops)	-10 bps	2 bps	-5 bps	71 bps	-78 bps	14 bps	58 bps
Net Margin (attributable to FBHS)	-1 bps	2 bps	-5 bps	71 bps	-329 bps	16 bps	58 bps
Tax rate	35 bps	148 bps	227 bps	104 bps	144 bps	141 bps	0 bps

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Fortune Brands Innovations Inc (FBIN)

Our \$72 PO for FBIN shares is based on a 2025E adjusted EV/EBITDA multiple of roughly 10.5x. At 10.5x adjusted EV/EBITDA, FBIN would trade near the mid-point of its historical valuation range.

Downside risks to our PO are: 1) slowing in the residential R&R market, 2) failure to successfully integrate acquisitions, 3) failure to meet long term outlook, 4) pricing pressure from large customers, 5) greater than expected input cost inflation, 6) rising interest rates increasing the cost of home equity loans, 7) tariffs on imported goods, 8) slowing US economy.

Upside risks to our PO are: 1) acceleration in the residential R&R market, 2), relief on Chinese tariffs, 3) portfolio rationalization, 4) faster than expected Cabinet business restructuring, 5) greater than expected declines in raw material costs.

Analyst Certification

I, Rafe Jadrosich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	Leslie's	LESL	LESL US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
NEUTRAL				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
UNDERPERFORM				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

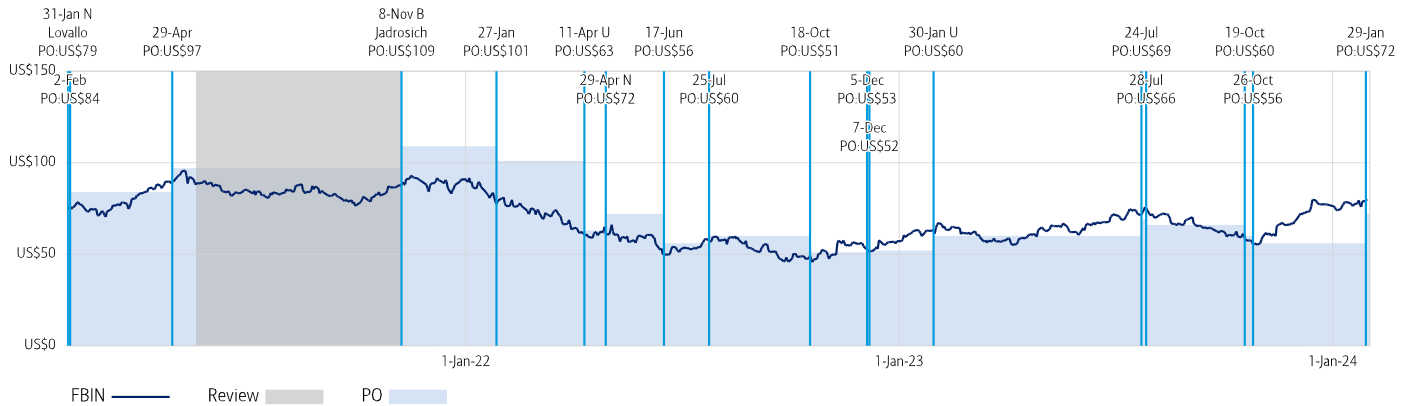
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Disclosures

Important Disclosures

Fortune Brands Inc (FBIN) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Building Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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