HNI Corporation (HNI)

Updated May 1st, 2021 by Nathan Parsh

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	2.8%	**Market Cap:**	$1.8 billion
Fair Value Price:	$32	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	5/14/2021[1]
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-5.5%	**Dividend Payment Date:**	6/1/2021[2]
Dividend Yield:	2.9%	**5 Year Price Target**	$41	**Years Of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	3.4%

HNI Corporation was founded in 1944 as an office furniture manufacturer. The company continues to be a leader in that space as it has expanded its portfolio of brands and added a full array of hearth products including fireplaces, inserts and stoves. HNI generates about $2.1 billion in annual revenues.

HNI announced earnings results for the first quarter on 4/28/2021. Revenue grew 3.3% to $484.3 million, coming in $25.4 million better than expected. Adjusted earnings-per-share of $0.36 was a 71% increase from the prior year and $0.27 above estimates.

Reversing a trend seen through much of last year, organic sales grew 2%. Net sales for the Workplace Furnishings businesses decreased 10.5% to $302.7 million, but this was a deacceleration from the 19% decline experienced in the fourth quarter of last year. Small and mid-sized customers held up better than larger customers. Contract sales were only partially offset by strength in e-commerce and the international business. Residential Building Products continues to perform well with net sales growing 39.3% to $181.5 million. Acquisitions aided results, but this segment had strong organic growth of 37.4%. HNI is now expected to earn $2.26 per share in 2021, up from $1.73 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.05	$1.12	$1.43	$1.97	$2.58	$2.62	$1.97	$2.41	$2.59	$1.79	***$2.26***	***$2.95***
DPS	$0.92	$0.95	$0.96	$0.99	$1.05	$1.09	$1.14	$1.18	$1.21	$1.22	***$1.22***	***$1.50***
Shares[3]	45	45	45	44	44	44	45	44	43	43	***43***	***43***

Because of HNI's extreme cyclicality, earnings-per-share have been volatile over the past decade. Importantly, the trend has been up, but growth has been anything but linear. The company has struggled at times with revenue growth due to its cyclicality, which hurts its growth potential.

We maintain our earnings-per-share growth estimate of to 5.5% per year through 2026, which nearly matches the company's growth rate for the last decade. Our growth estimate is made up of low-single-digit revenue growth, flat to slightly higher margins, and share repurchases. Again, these results may not occur in a linear fashion, but if the company is able to see a reversal in slowing in the office furniture segment, HNI looks setup for further growth. Margins should also improve in 2021 as weak results from the COVID-19 pandemic are lapped.

We see the dividend continuing to rise as well, given HNI's track record of returning excess cash to shareholders. HNI increased its dividend by 3.4% for the 6/3/2019 payment. The company did not raise its dividend as it normally does for the June payment in 2020, likely in response to the ongoing pandemic. Shareholders have received the same dividend for eight consecutive quarters. Still, we forecast dividends per share of $1.50 or so in five years.

---

[1] Estimated ex-dividend date

[2] Estimated dividend payment date

[3] In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

HNI Corporation (HNI)

Updated May 1st, 2021 by Nathan Parsh

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	24.3	23.7	25.0	19.7	18.7	16.7	21.2	16.0	14	17.5	***18.6***	***14.0***
Avg. Yld.	3.6%	3.6%	2.7%	2.5%	2.2%	2.5%	2.7%	3.0%	3.3%	3.9%	***2.9%***	***3.6%***

HNI's price-to-earnings multiple has experienced volatility over the last decade, which is something you'd expect for a cyclical stock. We are reaffirming our 2026 target price-to-earnings ratio of 14 due for the year. The share price is higher by $4, or 10.5%, since our 3/1/2021 report. Based on the current price and earnings estimates for 2021, HNI trades with a P/E ratio of 18.6. We are therefore forecasting a 5.5% headwind to annual total returns due to multiple reversion over the next five years. Shares offer a current yield of 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	86%	84%	66%	49%	40%	41%	56%	49%	47%	68%	***54%***	***51%***

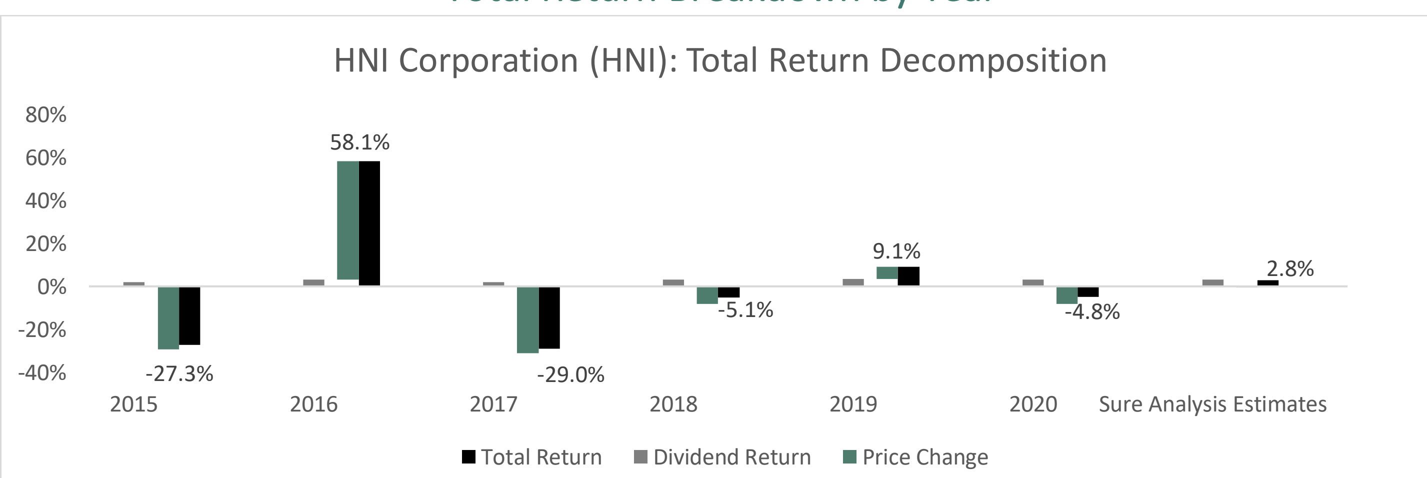
HNI's quality metrics have been somewhat volatile during the past decade but again, its results are expected to be as such. Its balance sheet has looked very much the same in terms of leverage at around 60% debt financing and excluding 2009, its interest coverage has been more than sufficient. The payout ratio has also been relatively low, and we see it moving slightly lower over time as earnings growth outpaces dividend growth by a small margin; this also allows for increased safety of the dividend during the next downturn. The somewhat troubling trend stems from gross margins, which have been weakening since 2016. Efficiency efforts and the closing of the small office furniture business should help. However, it certainly bears watching in the coming quarters for any signs of weakness.

HNI's competitive advantage is its scale furniture business, as well as its long operating history and track record with customers. HNI has some of the most recognizable brands in the sector but that doesn't save it from recessions; the COVID-19 pandemic caused a sizable downswing in HNI's earnings.

Final Thoughts & Recommendation

After first quarter results, HNI Corporation is now expected to return 2.8% annually through 2026, up from our previous estimate of a return of 0.3%. HNI is starting to see a less steep decline in Workplace Furnishings while Residential Building Products continues to perform very well. We have increased our 2026 price target $9 to $41 due to EPS expectations, but maintain our sell rating on HNI due to mediocre projected returns.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

HNI Corporation (HNI)

Updated May 1st, 2021 by Nathan Parsh

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,833	2,004	2,060	2,223	2,304	2,203	2,176	2,258	2,247	1,955
Gross Profit	639	689	715	784	847	835	784	835	834	721
Gross Margin	34.9%	34.4%	34.7%	35.3%	36.8%	37.9%	36.0%	37.0%	37.1%	36.9%
SG&A Exp.	554	600	607	649	672	668	672	691	680	621
D&A Exp.	46	43	47	57	58	69	73	75	77	78
Operating Profit	85	90	109	135	175	167	112	144	154	100
Operating Margin	4.6%	4.5%	5.3%	6.1%	7.6%	7.6%	5.2%	6.4%	6.8%	5.1%
Net Profit	46	49	64	61	105	86	90	93	111	42
Net Margin	2.5%	2.4%	3.1%	2.8%	4.6%	3.9%	4.1%	4.1%	4.9%	2.1%
Free Cash Flow	103	85	86	55	58	104	6	123	152	173
Income Tax	24	29	33	44	52	43	(19)	25	32	12

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,052	1,077	1,135	1,239	1,264	1,330	1,392	1,402	1,453	1,418
Cash & Equivalents	73	42	65	34	29	36	23	77	52	116
Accounts Receivable	204	213	229	240	243	229	259	255	275	202
Inventories	102	94	90	122	125	118	156	157	163	138
Goodwill & Int. Ass.	335	375	381	279	431	511	491	463	446	459
Total Liabilities	632	656	698	825	787	829	877	839	868	827
Accounts Payable	159	189	200	224		202	236	221	228	191
Long-Term Debt	181	155	154	201	196	218	280	255	177	178
Shareholder's Equity	419	420	436	415	477	501	514	563	584	590
D/E Ratio	0.43	0.37	0.35	0.49	0.41	0.44	0.54	0.45	0.30	0.30

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.5%	4.6%	5.8%	5.2%	8.4%	6.6%	6.6%	6.7%	7.7%	2.9%
Return on Equity	11.1%	11.7%	14.9%	14.4%	23.7%	17.5%	17.7%	17.3%	19.3%	7.1%
ROIC	7.6%	8.3%	10.9%	10.2%	16.4%	12.3%	11.9%	11.6%	14.0%	5.5%
Shares Out.	45	45	45	44	44	44	45	44	43	43
Revenue/Share	40.12	43.74	44.82	48.77	50.71	48.43	48.53	50.94	51.66	45.52
FCF/Share	2.26	1.84	1.87	1.21	1.28	2.28	0.13	2.77	3.51	4.02

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.