



H.B. Fuller (FUL)

Updated June 24th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	6.0%	Market Cap:	\$3.4 B
Fair Value Price:	\$54	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	7/20/21 ¹
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.6%	Dividend Payment Date:	8/5/21 ¹
Dividend Yield:	1.0%	5 Year Price Target	\$83	Years Of Dividend Growth:	52
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	3.1%

Overview & Current Events

H.B. Fuller is a leading global manufacturer of adhesives, sealants, and other specialty chemical products. The category of industrial adhesives is the core product offering of the company.

Given the \$3.4 billion market cap of H.B Fuller, it is evident that its acquisition of Royal Adhesives & Sealants for \$1.6 billion is critically important. This acquisition, which is the largest in the history of the company, boosted its annual sales by \$735 million (32% growth) and enhanced its reach to more highly specialized adhesive segments. H.B. Fuller also acquired Adecol in late 2017 to improve its growth prospects in Brazil.

In late June, H.B. Fuller reported (6/23/21) financial results for the second quarter of fiscal 2021. Despite some shortages in raw material and packaging, organic revenue grew 19% thanks to strong demand and market share gains. Given also lower interest expense thanks to debt reduction, adjusted earnings-per-share grew 38% over last year's quarter, from \$0.68 to \$0.94, and exceeded analysts' consensus by \$0.02.

H.B. Fuller is recovering strongly from the pandemic. Management reiterated its guidance for 12%-17% adjusted EBITDA growth for fiscal 2021. Moreover, management raised the dividend by 3.1%, thus confirming its confidence in a swift recovery from the pandemic. Thanks to the sustained business momentum, we have raised our earnings-per-share forecast from \$3.50 to \$3.60.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.79	\$1.90	\$1.89	\$0.97	\$1.69	\$2.42	\$1.13	\$3.00	\$2.96	\$2.84	\$3.60	\$5.54
DPS	\$0.30	\$0.33	\$0.39	\$0.46	\$0.51	\$0.55	\$0.59	\$0.62	\$0.64	\$0.65	\$0.67	\$0.86
Shares²	49.5	49.8	50.2	50.3	50.1	50.1	50.2	52.0	52.4	52.9	54.5	57.0

H.B. Fuller has exhibited a volatile performance record throughout the last decade. It is also very sensitive to the underlying global economic growth. If the pandemic takes a turn for the worse, H.B. Fuller may be significantly affected. However, the company has improved its performance in recent years. It has grown its earnings-per-share at a 5.3% average annual rate over the last decade and at a 10.9% average annual rate over the last five years. Moreover, the pandemic has begun to subside and the global economy is in strong recovery mode right now. H.B. Fuller has already begun to recover strongly from the pandemic. Overall, we expect H.B. Fuller to grow its earnings-per-share at a 9.0% average annual rate over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.0	15.7	21.5	48.1	24.1	17.7	46.9	17.1	16.0	15.5	18.1	15.0
Avg. Yld.	1.4%	1.1%	1.0%	1.0%	1.3%	1.3%	1.1%	1.2%	1.4%	1.5%	1.0%	1.0%

¹ Estimated date.

² In millions

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H.B. Fuller is currently trading at a price-to-earnings ratio of 18.1. While the historical average earnings multiple of the stock is 20.5, we assume a fair price-to-earnings ratio of 15.0 due to the high cyclicality of the stock. If the stock trades at our fair valuation level in five years, it will incur a -3.6% annualized drag in its returns due to the contraction of its earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	16.8%	17.4%	20.6%	47.4%	30.2%	22.7%	52.2%	20.7%	21.6%	22.9%	18.6%	15.4%

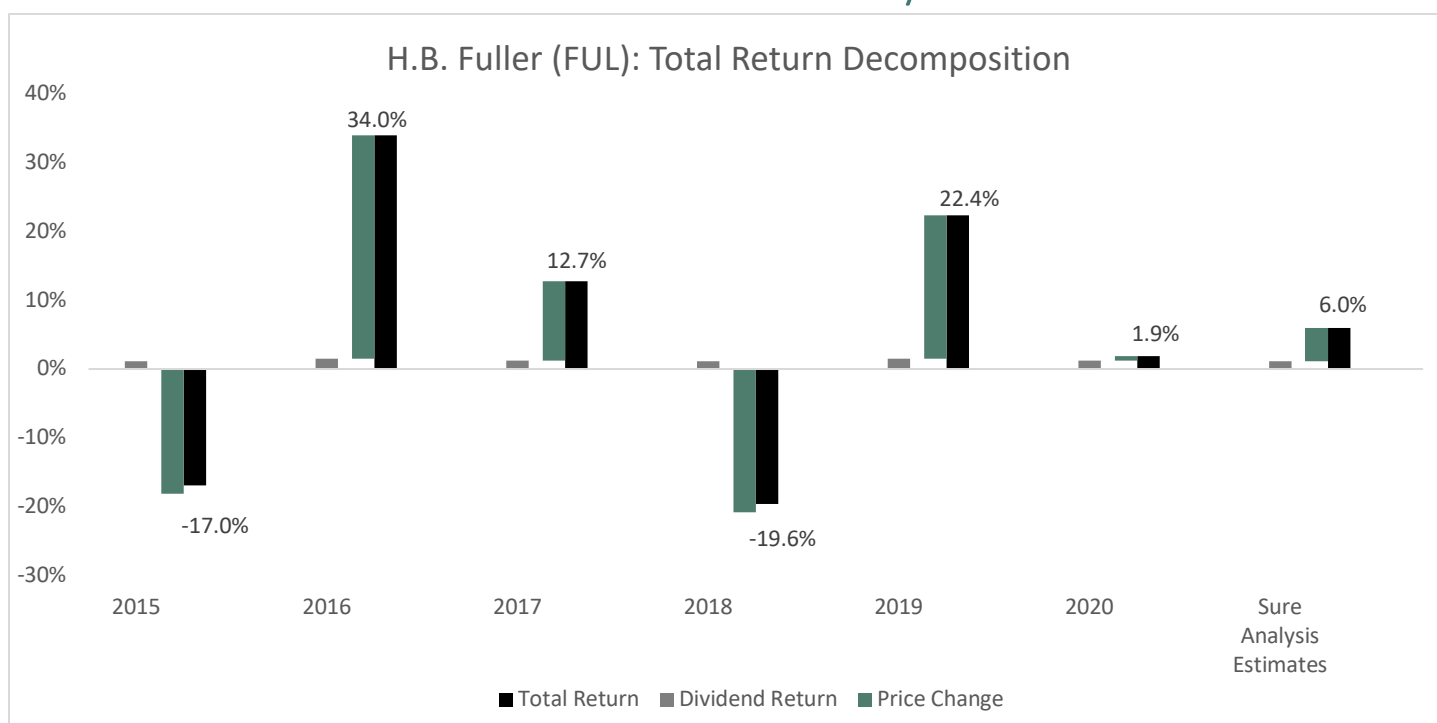
Due to the acquisition of Royal Adhesives & Sealants, interest coverage has fallen to 3.6. However, management has repeatedly confirmed that it will be using a major portion of free cash flow to reduce debt. The company reduced its debt by \$268 million in 2019 and by \$205 million in 2020 and is on track to reduce it by another \$200 million this year. As a result, its interest coverage is likely to revert towards its historical values soon.

As the customers of H.B. Fuller are manufacturers of a wide range of products, the performance of H.B. Fuller is closely tied to underlying economic conditions. Moreover, H.B. Fuller is highly leveraged to economic growth and hence the stock could outperform the market in rallies and underperform the market in rough periods. The company is notably vulnerable to recessions. During the Great Recession, its earnings-per-share plunged -79%, from \$1.68 in 2007 to \$0.36 in 2008, and the stock lost two-thirds of its market cap in less than six months. This is a significant risk factor to keep in mind, although the company proved markedly resilient in the coronavirus crisis.

Final Thoughts & Recommendation

H.B Fuller has a volatile earnings record, and it is vulnerable to economic downturns. However, the company has proved more resilient than expected during the pandemic and has begun to recover strongly. We expect the stock to offer a 6.0% average annual return over the next five years and hence we rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,444	1,886	2,047	2,104	2,084	2,095	2,306	3,041	2,897	2,790
Gross Profit	404	517	570	533	568	606	599	828	807	757
Gross Margin	28.0%	27.4%	27.9%	25.3%	27.3%	28.9%	26.0%	27.2%	27.9%	27.1%
SG&A Exp.	291	358	350	362	371	408	479	590	581	538
D&A Exp.	39	57	62	70	75	78	87	145	141	139
Operating Profit	113	138	196	150	170	198	120	238	226	218
Operating Margin	7.8%	7.3%	9.6%	7.1%	8.2%	9.5%	5.2%	7.8%	7.8%	7.8%
Net Profit	89	126	97	50	87	122	59	171	131	124
Net Margin	6.2%	6.7%	4.7%	2.4%	4.2%	5.8%	2.6%	5.6%	4.5%	4.4%
Free Cash Flow	55	73	6	(110)	152	132	111	185	207	244
Income Tax	31	30	40	34	56	49	10	(6)	49	42

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,228	1,786	1,873	1,869	2,042	2,056	4,373	4,176	3,986	4,037
Cash & Equivalents	155	200	155	78	119	142	194	151	112	101
Accounts Receivable	217	320	331	341	365	351	474	495	493	515
Inventories	116	209	222	251	249	247	372	348	337	323
Goodwill & Int. Ass.	242	488	483	452	567	572	2,338	2,213	2,081	2,068
Total Liabilities	518	1,008	943	979	1,169	1,118	3,321	3,023	2,763	2,655
Accounts Payable	104	163	202	174	178	163	268	273	299	316
Long-Term Debt	232	520	493	575	723	703	2,452	2,248	1,979	1,774
Shareholder's Equity	705	778	930	890	873	938	1,051	1,153	1,222	1,381
D/E Ratio	0.33	0.67	0.53	0.65	0.83	0.75	2.33	1.95	1.62	1.28

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.5%	8.3%	5.3%	2.7%	4.4%	5.9%	1.8%	4.0%	3.2%	3.1%
Return on Equity	13.3%	16.9%	11.3%	5.5%	9.8%	13.4%	6.0%	15.5%	11.0%	9.5%
ROIC	9.8%	11.2%	7.1%	3.4%	5.7%	7.5%	2.3%	5.0%	4.0%	3.9%
Shares Out.	49.5	49.8	50.2	50.3	50.1	50.1	50.2	52.0	52.4	52.9
Revenue/Share	28.96	37.26	40.03	41.06	40.54	40.85	44.67	58.51	55.73	53.13
FCF/Share	1.11	1.44	0.12	(2.15)	2.96	2.58	2.16	3.56	3.99	4.65

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

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