HNI Corporation (HNI)

Updated July 30th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	7.5%	**Market Cap:**	$1.5 billion
Fair Value Price:	$33	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	08/19/22[1]
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	09/01/22[2]
Dividend Yield:	3.7%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 $2.5 billion in annual revenues.

On May 17th, 2022, HNI announced it was raising its quarterly dividend 3.2% to $0.32, extending the company's dividend growth streak to 11 consecutive years.

On July 28th, 2022, HNI reported second quarter results for the period ending June 30th, 2022. Revenue grew 21.8% to $621.7 million, which was $15.1 million better than expected. Adjusted earnings-per-share of $0.52 compared favorably to $0.40 in the prior year and was $0.18 above estimates.

Organic sales grew 18.9% companywide for the quarter. Revenue for the Workplace Furnishings segment grew 18.2% to $406.7 million due to much higher volumes and favorable pricing, but was offset by lower productivity. Residential Building Products generated revenue of $215.1 million, a 29.3% improvement from the prior year. Results were again aided by acquisitions, but organic growth totaled 20.5%, showing that HNI's products remain in high demand. HNI reaffirmed its outlook and continues to expect to see at least low teens organic revenue growth for both segments in 2022 due to additional capacity and price increases.

HNI is expected to earn $2.35 per share in 2022, down from $2.71 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.12	$1.43	$1.97	$2.58	$2.62	$1.97	$2.41	$2.59	$1.79	$1.63	***$2.35***	***$3.07***
DPS	$0.95	$0.96	$0.99	$1.05	$1.09	$1.14	$1.18	$1.21	$1.22	$1.24	***$1.28***	***$1.57***
Shares[3]	45	45	44	44	44	45	44	43	43	43	***42***	***42***

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 2027, which is in the middle of the medium- and long-term averages. We are enthused by the company's guidance for 2022, but maintain our expected growth rate. 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.

We see the dividend continuing to rise as well, given HNI's track record of returning excess cash to shareholders. We forecast dividends per share of $1.57 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.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	23.7	25.0	19.7	18.7	16.7	21.2	16.0	14.0	17.5	25.8	***14.9***	***14.0***
Avg. Yld.	3.6%	2.7%	2.5%	2.2%	2.5%	2.7%	3.0%	3.3%	3.9%	2.9%	***3.7%***	***3.7%***

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 2027 target price-to-earnings ratio of 14 for the year. The share price has decreased $1, or 2.8%, since our May 2nd, 2022 report. Based on the current price and earnings estimates for 2022, HNI trades with a P/E ratio of 14.9. We are therefore forecasting a 1.2% headwind to annual total returns due to multiple reversion over the next five years. Shares offer a current yield of 3.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	84%	66%	49%	40%	41%	56%	49%	47%	68%	76%	***54%***	***51%***

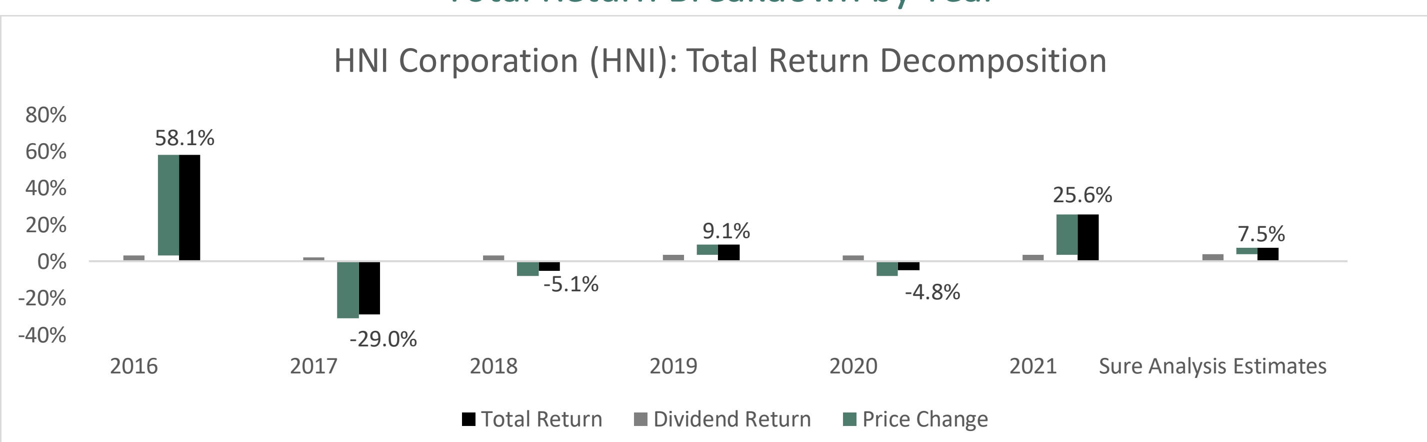
HNI's quality metrics have been somewhat volatile during the past decade but again, its results are expected to be as such. Its balance sheet has looked very much the same in terms of leverage at around 60% debt financing and excluding 2009, its interest coverage has been more than sufficient. The payout 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 second quarter results, HNI Corporation is now expected to return 7.5% annually through 2027, down from our previous estimate of 9.5%. Our return projection stems from a 5.5% earnings growth rate and a starting yield of 3.7%, offset by a small headwind from multiple contraction. HNI has now produced excellent growth rates for several quarters in a row, speaking to the company's brand strength. That said, we have lowered our 2027 target price $7 to $43 due to EPS estimates for the year and continue to rate HNI as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,004	2,060	2,223	2,304	2,203	2,176	2,258	2,247	1,955	2,184
Gross Profit	689	715	784	847	835	784	835	834	721	757
Gross Margin	34.4%	34.7%	35.3%	36.8%	37.9%	36.0%	37.0%	37.1%	36.9%	34.7%
SG&A Exp.	600	607	649	672	668	672	691	680	621	666
D&A Exp.	43	47	57	58	69	73	75	77	78	83
Operating Profit	90	109	135	175	167	112	144	154	100	92
Operating Margin	4.5%	5.3%	6.1%	7.6%	7.6%	5.2%	6.4%	6.8%	5.1%	4.2%
Net Profit	49	64	61	105	86	90	93	111	42	60
Net Margin	2.4%	3.1%	2.8%	4.6%	3.9%	4.1%	4.1%	4.9%	2.1%	2.7%
Free Cash Flow	85	86	55	58	104	6	123	152	173	65
Income Tax	29	33	44	52	43	(19)	25	32	12	18

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,077	1,135	1,239	1,264	1,330	1,392	1,402	1,453	1,418	1,498
Cash & Equivalents	42	65	34	29	36	23	77	52	116	52
Accounts Receivable	213	229	240	243	229	259	255	275	202	237
Inventories	94	90	122	125	118	156	157	163	138	182
Goodwill & Int. Ass.	375	381	279	431	511	491	463	446	459	472
Total Liabilities	656	698	825	787	829	877	839	868	827	908
Accounts Payable	189	200	224		202	236	221	228	191	234
Long-Term Debt	155	151	198	190	214	277	250	175	175	178
Shareholder's Equity	420	436	415	477	501	514	563	584	590	590
LTD/E Ratio	0.37	0.35	0.48	0.40	0.43	0.54	0.44	0.30	0.30	0.30

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.6%	5.8%	5.2%	8.4%	6.6%	6.6%	6.7%	7.7%	2.9%	4.1%
Return on Equity	11.7%	14.9%	14.4%	23.7%	17.5%	17.7%	17.3%	19.3%	7.1%	10.1%
ROIC	8.3%	11.0%	10.3%	16.5%	12.4%	11.9%	11.6%	14.1%	5.5%	7.8%
Shares Out.	45	45	44	44	44	45	44	43	43	43
Revenue/Share	43.74	44.82	48.77	50.71	48.43	48.53	50.94	51.66	45.52	49.69
FCF/Share	1.84	1.87	1.21	1.28	2.28	0.13	2.77	3.51	4.02	1.48

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