



# H.B. Fuller (FUL)

Updated September 22<sup>nd</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$61	<b>5 Year CAGR Estimate:</b>	9.7%	<b>Market Cap:</b>	\$3.2 B
<b>Fair Value Price:</b>	\$63	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	10/12/22 <sup>1</sup>
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.6%	<b>Dividend Payment Date:</b>	10/27/22 <sup>1</sup>
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$93	<b>Years Of Dividend Growth:</b>	53
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 \$3.2 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 nearly one-third and enhanced its reach to more highly specialized adhesive segments. H.B. Fuller also acquired Adocol in late 2017 to improve its growth prospects in Brazil.

In late September, H.B. Fuller reported (9/21/22) financial results for the third quarter of fiscal 2022. Revenue and organic revenue grew 14% and 18%, respectively, over last year's quarter thanks to 18.7% price hikes, which more than offset a -0.3% volume decline. The company continued to enjoy strong growth in all segments. Despite cost inflation, gross profit expanded from 23.7% to 26.5% thanks to the strong price hikes and earnings-per-share grew 34%.

H.B. Fuller has recovered strongly from the pandemic, it posted record earnings in 2021 and is on track to post record earnings this year as well. It generates less than 1% of its sales in Russia and Ukraine but the ongoing war has caused supply chain disruptions and inflationary pressures. Despite these headwinds and a currency headwind from a strong dollar, H.B. Fuller expects to achieve earnings-per-share of \$4.13-\$4.27, implying 19%-23% growth. It has grown sales at a double-digit rate for 7 consecutive quarters and has not missed the analysts' consensus for 11 consecutive quarters.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.90	\$1.89	\$0.97	\$1.69	\$2.42	\$1.13	\$3.00	\$2.96	\$2.84	\$3.47	<b>\$4.20</b>	<b>\$6.17</b>
<b>DPS</b>	\$0.33	\$0.39	\$0.46	\$0.51	\$0.55	\$0.59	\$0.62	\$0.64	\$0.65	\$0.67	<b>\$0.76</b>	<b>\$1.02</b>
<b>Shares<sup>2</sup></b>	49.8	50.2	50.3	50.1	50.1	50.2	52.0	52.4	52.9	55.0	<b>56.0</b>	<b>60.0</b>

H.B. Fuller has exhibited a volatile performance record throughout the last decade. It is also very sensitive to the underlying global economic growth. However, the company has improved its performance in recent years. It has grown its earnings-per-share at a 6.9% average annual rate over the last decade and at a 7.5% average annual rate over the last five years. Moreover, the pandemic has begun to subside and the global economy is in good shape, albeit with high inflation. H.B. Fuller has already emerged stronger from the pandemic. Overall, we expect H.B. Fuller to grow its earnings-per-share at an 8.0% average annual rate over the next five years off this year's expected record level.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	15.7	21.5	48.1	24.1	17.7	46.9	17.1	16.0	15.5	18.9	<b>14.5</b>	<b>15.0</b>
<b>Avg. Yld.</b>	1.1%	1.0%	1.0%	1.3%	1.3%	1.1%	1.2%	1.4%	1.5%	1.0%	<b>1.2%</b>	<b>1.1%</b>

<sup>1</sup> Estimated date.

<sup>2</sup> In millions

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H.B. Fuller is currently trading at a price-to-earnings ratio of 14.5. While the historical average earnings multiple is 17.7, we assume a fair price-to-earnings ratio of 15.0 due to the high cyclical nature of the stock. If the stock trades at our fair valuation level in five years, it will enjoy a 0.6% annualized gain in its returns thanks to the expansion of its earnings multiple.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	17.4%	20.6%	47.4%	30.2%	22.7%	52.2%	20.7%	21.6%	22.9%	19.3%	<b>18.1%</b>	<b>16.5%</b>

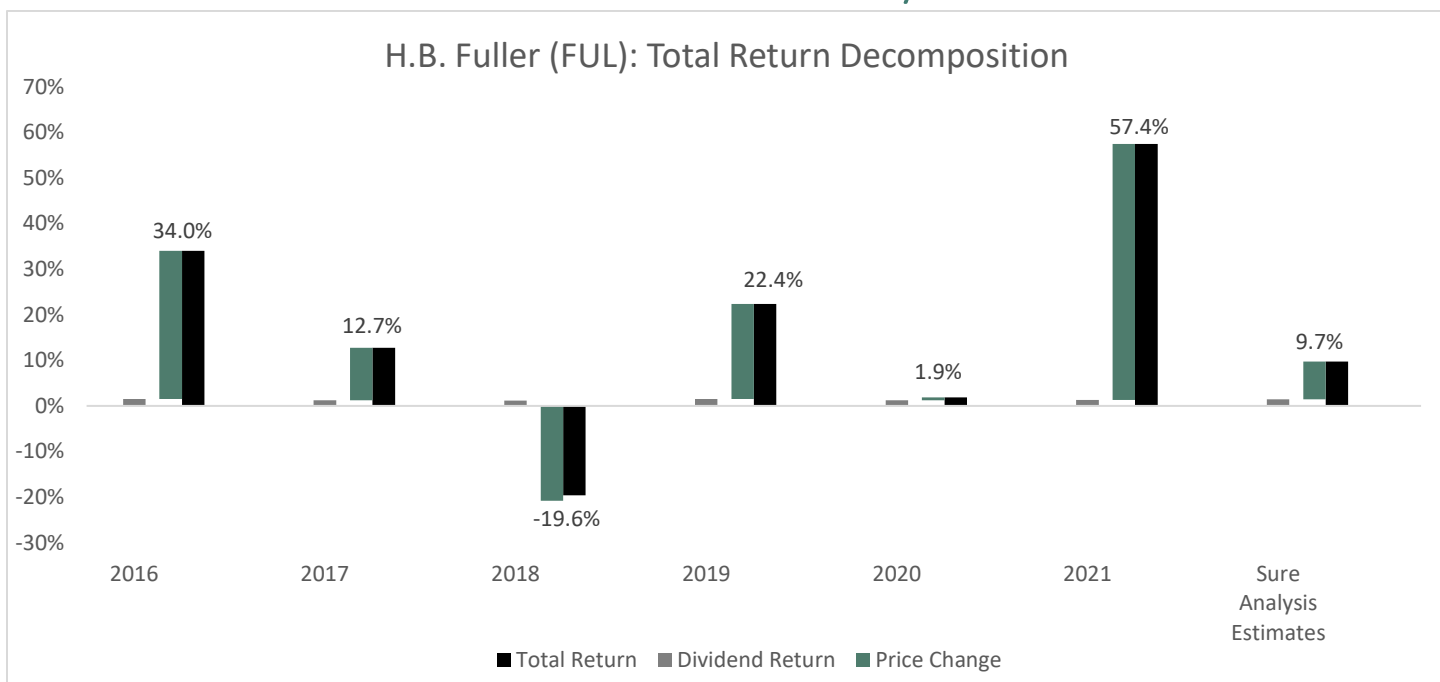
Due to the acquisition of Royal Adhesives & Sealants, interest coverage fell to 2.0 in 2018 but it has bounced to 4.3, as the company has been using a major portion of its free cash flows to reduce debt. The company reduced its debt by \$268 million in 2019, by \$205 million in 2020 and by \$157 million in 2021. As a result, its interest coverage has returned to healthy levels.

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 has proved markedly resilient throughout the coronavirus crisis.

## Final Thoughts & Recommendation

H.B. Fuller has a volatile earnings record and is vulnerable to economic downturns. However, the company has proven to be more resilient than expected during the pandemic and has emerged stronger from this crisis, primarily thanks to pent-up demand and the unprecedented fiscal stimulus packages offered by most governments. We expect the stock to offer a 9.7% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	1,886	2,047	2,104	2,084	2,095	2,306	3,041	2,897	2,790	3,278
<b>Gross Profit</b>	517	570	533	568	606	599	828	807	757	845
<b>Gross Margin</b>	27.4%	27.9%	25.3%	27.3%	28.9%	26.0%	27.2%	27.9%	27.1%	25.8%
<b>SG&amp;A Exp.</b>	358	350	362	371	408	479	555	544	501	553
<b>D&amp;A Exp.</b>	57	62	70	75	78	87	145	141	139	143
<b>Operating Profit</b>	138	196	150	170	198	120	238	226	218	253
<b>Operating Margin</b>	7.3%	9.6%	7.1%	8.2%	9.5%	5.2%	7.8%	7.8%	7.8%	7.7%
<b>Net Profit</b>	126	97	50	87	122	59	171	131	124	161
<b>Net Margin</b>	6.7%	4.7%	2.4%	4.2%	5.8%	2.6%	5.6%	4.5%	4.4%	4.9%
<b>Free Cash Flow</b>	73	6	(110)	152	132	111	185	207	244	117
<b>Income Tax</b>	30	40	34	56	49	10	(6)	49	42	63

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	1,786	1,873	1,869	2,042	2,056	4,373	4,176	3,986	4,037	4,275
<b>Cash &amp; Equivalents</b>	200	155	78	119	142	194	151	112	101	62
<b>Accounts Receivable</b>	320	331	341	365	351	474	495	493	515	615
<b>Inventories</b>	209	222	251	249	247	372	348	337	323	448
<b>Goodwill &amp; Int. Ass.</b>	488	483	452	567	572	2,338	2,213	2,081	2,068	1,986
<b>Total Liabilities</b>	1,008	943	979	1,169	1,118	3,321	3,023	2,763	2,655	2,677
<b>Accounts Payable</b>	163	202	174	178	163	268	273	299	316	500
<b>Long-Term Debt</b>	520	493	575	723	703	2,452	2,248	1,979	1,774	1,616
<b>Shareholder's Equity</b>	778	930	890	873	938	1,051	1,153	1,222	1,381	1,597
<b>D/E Ratio</b>	0.67	0.53	0.65	0.83	0.75	2.33	1.95	1.62	1.28	1.01

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	8.3%	5.3%	2.7%	4.4%	5.9%	1.8%	4.0%	3.2%	3.1%	3.9%
<b>Return on Equity</b>	16.9%	11.3%	5.5%	9.8%	13.4%	6.0%	15.5%	11.0%	9.5%	10.8%
<b>ROIC</b>	11.2%	7.1%	3.4%	5.7%	7.5%	2.3%	5.0%	4.0%	3.9%	5.1%
<b>Shares Out.</b>	49.8	50.2	50.3	50.1	50.1	50.2	52.0	52.4	52.9	55.0
<b>Revenue/Share</b>	37.26	40.03	41.06	40.54	40.85	44.67	58.51	55.73	53.13	60.35
<b>FCF/Share</b>	1.44	0.12	(2.15)	2.96	2.58	2.16	3.56	3.99	4.65	2.16

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

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