



H.B. Fuller (FUL)

Updated January 19th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	8.0%	Market Cap:	\$3.8 B
Fair Value Price:	\$66	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	2/7/23 ¹
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-0.9%	Dividend Payment Date:	2/22/23 ¹
Dividend Yield:	1.1%	5 Year Price Target	\$97	Years Of Dividend Growth:	53
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	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 \$3.8 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 mid-January, H.B. Fuller reported (1/18/23) financial results for the fourth quarter of fiscal 2022. Revenue and organic revenue grew 7% and 6%, respectively, over last year's quarter thanks to 11.4% price hikes, which more than offset a -5.0% volume decline. The company markedly decelerated vs. recent quarters due to poor demand amid de-stocking actions of its customers, lockdowns in China, cost inflation and a strong dollar. As a result, earnings-per-share dipped -5%, from \$1.09 to \$1.05, and missed the analysts' consensus by a massive \$0.20. It was the first earnings miss after 11 consecutive quarters and the first quarter with single-digit sales growth after 7 quarters with double-digit sales growth.

H.B. Fuller has posted record earnings in each of the last two years. It generates less than 1% of its sales in Russia and Ukraine but the war has caused supply chain disruptions and high inflation. Despite these headwinds and a currency headwind from a strong dollar, H.B. Fuller expects earnings-per-share of \$4.15-\$4.55 in 2023, implying 4%-14% growth.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.89	\$0.97	\$1.69	\$2.42	\$1.13	\$3.00	\$2.96	\$2.84	\$3.47	\$4.00	\$4.40	\$6.47
DPS	\$0.39	\$0.46	\$0.51	\$0.55	\$0.59	\$0.62	\$0.64	\$0.65	\$0.67	\$0.74	\$0.76	\$1.02
Shares²	50.2	50.3	50.1	50.1	50.2	52.0	52.4	52.9	55.0	55.5	56.0	60.0

H.B. Fuller has exhibited a volatile performance record throughout the last decade. It is also very sensitive to the underlying global economic growth. However, the company has improved its performance in recent years. It has grown its earnings-per-share at an 8.7% average annual rate over the last decade and over the last six years. Moreover, the pandemic has subsided and the global economy is in decent 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, in line with its historical growth pace.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	21.5	48.1	24.1	17.7	46.9	17.1	16.0	15.5	18.9	17.2	15.7	15.0
Avg. Yld.	1.0%	1.0%	1.3%	1.3%	1.1%	1.2%	1.4%	1.5%	1.0%	1.1%	1.1%	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 15.7. While the historical average earnings multiple is 16.8, 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 incur a -0.9% annualized drag in its returns due to the contraction of its earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	20.6%	47.4%	30.2%	22.7%	52.2%	20.7%	21.6%	22.9%	19.3%	18.5%	17.3%	15.7%

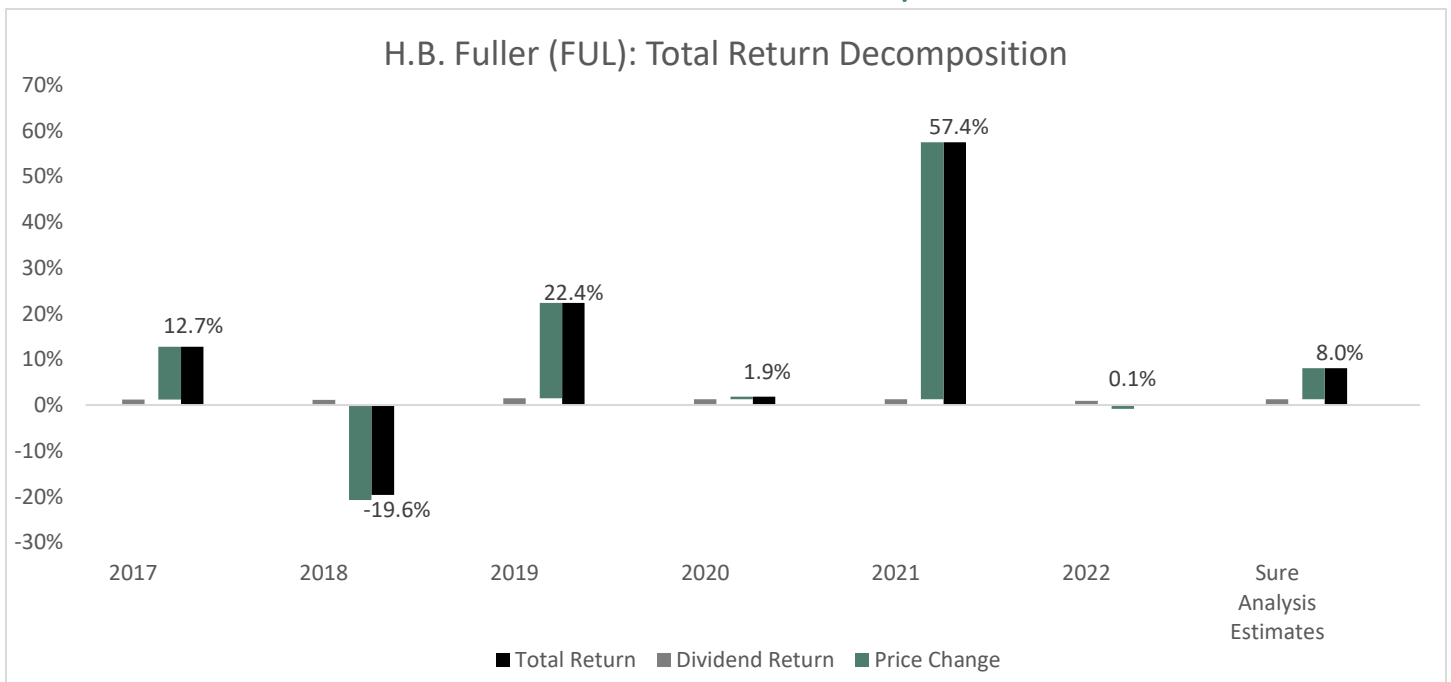
Due to the acquisition of Royal Adhesives & Sealants, interest coverage fell to 2.0 in 2018 but it has bounced to 3.4, as the company has been using a major portion of its free cash flows to reduce debt. In addition, the company has a healthy leverage ratio (Net Debt to EBITDA) of 3.2.

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 throughout the pandemic. It is also resilient to excessive cost inflation thanks to its strong pricing power. We expect the stock to offer an 8.0% average annual return over the next five years thanks to 8.0% growth of earnings-per-share and a 1.1% dividend, which may be partly offset by a -0.9% valuation headwind. The stock receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,886	2,047	2,104	2,084	2,095	2,306	3,041	2,897	2,790	3,278
Gross Profit	517	570	533	568	606	599	828	807	757	845
Gross Margin	27.4%	27.9%	25.3%	27.3%	28.9%	26.0%	27.2%	27.9%	27.1%	25.8%
SG&A Exp.	358	350	362	371	408	479	555	544	501	553
D&A Exp.	57	62	70	75	78	87	145	141	139	143
Operating Profit	138	196	150	170	198	120	238	226	218	253
Operating Margin	7.3%	9.6%	7.1%	8.2%	9.5%	5.2%	7.8%	7.8%	7.8%	7.7%
Net Profit	126	97	50	87	122	59	171	131	124	161
Net Margin	6.7%	4.7%	2.4%	4.2%	5.8%	2.6%	5.6%	4.5%	4.4%	4.9%
Free Cash Flow	73	6	(110)	152	132	111	185	207	244	117
Income Tax	30	40	34	56	49	10	(6)	49	42	63

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,786	1,873	1,869	2,042	2,056	4,373	4,176	3,986	4,037	4,275
Cash & Equivalents	200	155	78	119	142	194	151	112	101	62
Accounts Receivable	320	331	341	365	351	474	495	493	515	615
Inventories	209	222	251	249	247	372	348	337	323	448
Goodwill & Int. Ass.	488	483	452	567	572	2,338	2,213	2,081	2,068	1,986
Total Liabilities	1,008	943	979	1,169	1,118	3,321	3,023	2,763	2,655	2,677
Accounts Payable	163	202	174	178	163	268	273	299	316	500
Long-Term Debt	520	493	575	723	703	2,452	2,248	1,979	1,774	1,616
Shareholder's Equity	778	930	890	873	938	1,051	1,153	1,222	1,381	1,597
D/E Ratio	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
Return on Assets	8.3%	5.3%	2.7%	4.4%	5.9%	1.8%	4.0%	3.2%	3.1%	3.9%
Return on Equity	16.9%	11.3%	5.5%	9.8%	13.4%	6.0%	15.5%	11.0%	9.5%	10.8%
ROIC	11.2%	7.1%	3.4%	5.7%	7.5%	2.3%	5.0%	4.0%	3.9%	5.1%
Shares Out.	49.8	50.2	50.3	50.1	50.1	50.2	52.0	52.4	52.9	55.0
Revenue/Share	37.26	40.03	41.06	40.54	40.85	44.67	58.51	55.73	53.13	60.35
FCF/Share	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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