



H.B. Fuller (FUL)

Updated April 11th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	8.7%	Market Cap:	\$3.6 B
Fair Value Price:	\$66	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	4/19/23
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	5/4/23
Dividend Yield:	1.2%	5 Year Price Target	\$97	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	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 \$3.6 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 Adecol in late 2017 to improve its growth prospects in Brazil.

In late March, H.B. Fuller reported (3/29/23) financial results for the first quarter of fiscal 2023. Revenue and organic revenue dipped -5.5% and -2.5%, respectively, over last year's quarter, as price hikes of 8.3% were more than offset by a -10.8% volume decline. It was the first decline in sales after 8 consecutive quarters of solid growth due to poor demand amid de-stocking actions of its customers, slower global economic growth, and a strong dollar. As a result, earnings-per-share declined -31%, from \$0.80 to \$0.55, and missed the analysts' consensus by \$0.04. It was the second consecutive earnings miss after 11 consecutive quarters of beating analysts' estimates.

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 \$4.10-\$4.50 in 2023, implying 3%-13% growth. It also raised its dividend by 8% and thus it has now raised its dividend for 54 consecutive years.

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	\$0.82	\$1.10
Shares¹	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	15.2	15.0
Avg. Yld.	1.0%	1.0%	1.3%	1.3%	1.1%	1.2%	1.4%	1.5%	1.0%	1.1%	1.2%	1.1%

¹ In millions

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H.B. Fuller is currently trading at a price-to-earnings ratio of 15.2. 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 marginal -0.3% 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%	18.6%	17.0%

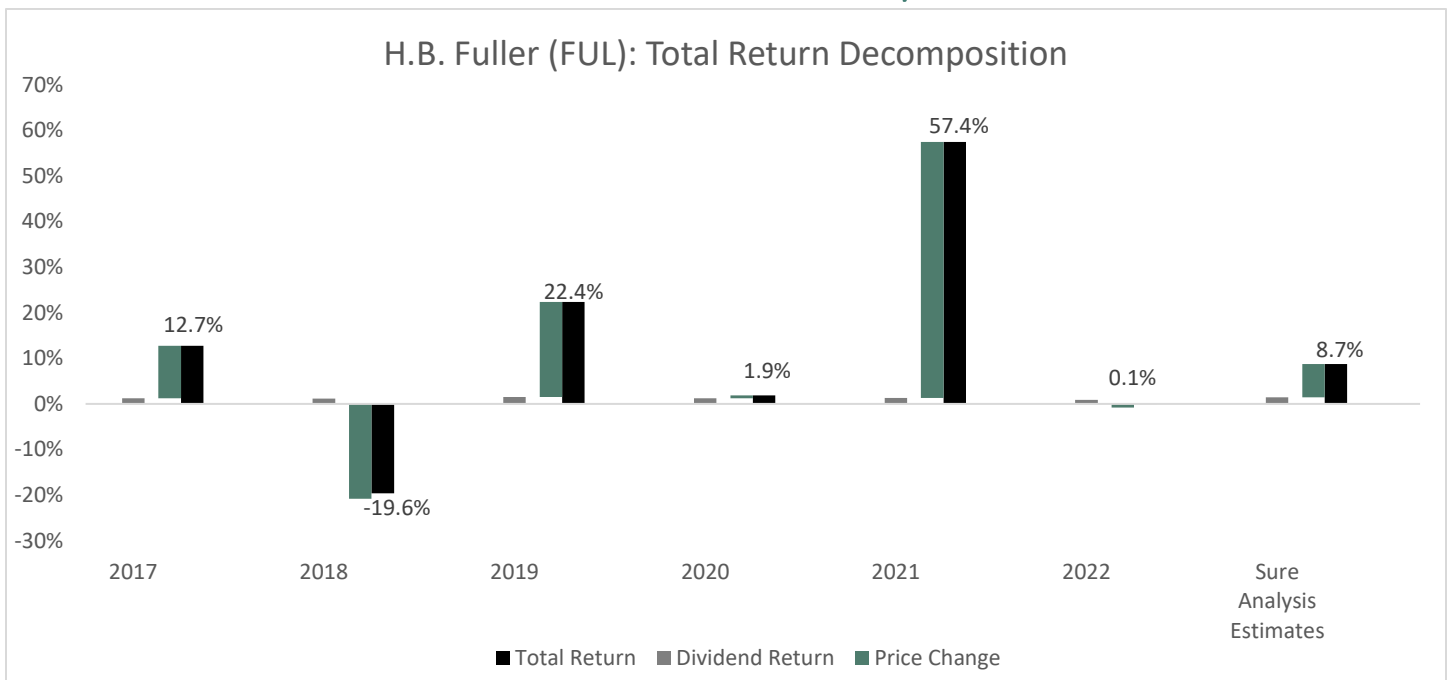
Due to the acquisition of Royal Adhesives & Sealants, interest coverage fell to 2.0 in 2018 but it has bounced to 3.2, as the company has been using a major portion of its free cash flows to reduce debt. In addition, the company has a healthy leverage ratio (Net Debt to EBITDA) of 3.2.

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 8.7% average annual return over the next five years thanks to 8.0% growth of earnings-per-share and a 1.2% dividend, partly offset by a -0.3% valuation tailwind. The stock receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,047	2,104	2,084	2,095	2,306	3,041	2,897	2,790	3,278	3,749
Gross Profit	570	533	568	606	599	828	807	757	845	964
Gross Margin	27.9%	25.3%	27.3%	28.9%	26.0%	27.2%	27.9%	27.1%	25.8%	25.7%
SG&A Exp.	350	362	371	408	479	555	544	501	553	596
D&A Exp.	62	70	75	78	87	145	141	139	143	147
Operating Profit	196	150	170	198	120	238	226	218	253	323
Operating Margin	9.6%	7.1%	8.2%	9.5%	5.2%	7.8%	7.8%	7.8%	7.7%	8.6%
Net Profit	97	50	87	122	59	171	131	124	161	180
Net Margin	4.7%	2.4%	4.2%	5.8%	2.6%	5.6%	4.5%	4.4%	4.9%	4.8%
Free Cash Flow	6	(110)	152	132	111	185	207	244	117	127
Income Tax	40	34	56	49	10	(6)	49	42	63	77

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,873	1,869	2,042	2,056	4,373	4,176	3,986	4,037	4,275	4,464
Cash & Equivalents	155	78	119	142	194	151	112	101	62	80
Accounts Receivable	331	341	365	351	474	495	493	515	615	607
Inventories	222	251	249	247	372	348	337	323	448	492
Goodwill & Int. Ass.	483	452	567	572	2,338	2,213	2,081	2,068	1,986	2,095
Total Liabilities	943	979	1,169	1,118	3,321	3,023	2,763	2,655	2,677	2,853
Accounts Payable	202	174	178	163	268	273	299	316	500	461
Long-Term Debt	493	575	723	703	2,452	2,248	1,979	1,774	1,616	1,765
Shareholder's Equity	930	890	873	938	1,051	1,153	1,222	1,381	1,597	1,610
D/E Ratio	0.53	0.65	0.83	0.75	2.33	1.95	1.62	1.28	1.01	1.10

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.3%	2.7%	4.4%	5.9%	1.8%	4.0%	3.2%	3.1%	3.9%	4.1%
Return on Equity	11.3%	5.5%	9.8%	13.4%	6.0%	15.5%	11.0%	9.5%	10.8%	11.2%
ROIC	7.1%	3.4%	5.7%	7.5%	2.3%	5.0%	4.0%	3.9%	5.1%	5.5%
Shares Out.	50.2	50.3	50.1	50.1	50.2	52.0	52.4	52.9	55.0	55.3
Revenue/Share	40.03	41.06	40.54	40.85	44.67	58.51	55.73	53.13	60.35	67.84
FCF/Share	0.12	(2.15)	2.96	2.58	2.16	3.56	3.99	4.65	2.16	2.29

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

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