



HNI Corporation (HNI)

Updated November 12th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	6.4%	Market Cap:	\$1.8 billion
Fair Value Price:	\$34	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	11/17/23
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	12/01/23
Dividend Yield:	3.4%	5 Year Price Target	\$45	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 \$2.1 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. The company has now announced or paid the same dividend amount for seven consecutive quarters.

On June 1st, 2023, HNI Corporation announced that it had completed its acquisition of Kimbell International.

On October 31st, 2023, HNI reported third quarter results for the period ending September 30th, 2023. Revenue increased 18.8% to \$711.6 million, but this was \$1.3 million less than expected. Adjusted earnings-per-share of \$0.93 compared favorably to \$0.71 in the prior year, which topped estimates by \$0.30.

The addition of Kimbell International added \$158 million to results. Organic sales fell 7.1% for the quarter, which was a deceleration from a 15% decline in the second quarter of the year. For the quarter, revenue for the Workplace Furnishings surged 43.1% to \$536.8 million, but this was mostly due to the addition of Kimbell. Legacy revenue grew 1% while organic sales for the segment were higher by 1.7%. Residential Building Products generated revenue of \$174.8 million, which was 21.8% lower than prior year. New construction and remodel sales were weak during the period.

Due to abnormal seasonality trends over the past three years, HNI expects 2023 will face a difficult comparison. Following the earnings release, we now project that the company will earn \$2.44 in 2023, compared to \$2.15, \$1.89, and \$1.61 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.43	\$1.97	\$2.58	\$2.62	\$1.97	\$2.41	\$2.59	\$1.79	\$1.63	\$2.20	\$2.44	\$3.19
DPS	\$0.96	\$0.99	\$1.05	\$1.09	\$1.14	\$1.18	\$1.21	\$1.22	\$1.24	\$1.27	\$1.28	\$1.57
Shares¹	45	44	44	44	45	44	43	43	43	43	43	43

Because of HNI's extreme cyclicity, 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 cyclicity, which hurts its growth potential.

We maintain our earnings-per-share growth estimate of to 5.5% per year through 2028, which is in the middle of the medium- and long-term averages. We are cautious due to the company's guidance for 2023, 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 despite the recent pause, 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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	25.0	19.7	18.7	16.7	21.2	16.0	14.0	17.5	25.8	12.9	15.6	14.0
Avg. Yld.	2.7%	2.5%	2.2%	2.5%	2.7%	3.0%	3.3%	3.9%	2.9%	4.5%	3.4%	3.5%

HNI's price-to-earnings multiple has experienced volatility over the last decade, which is something you would expect for a cyclical stock. We are reaffirming our 2028 target price-to-earnings ratio of 14. The share price has increased \$6, or 18.8%, since our August 10th, 2023 report. Based on the current price and earnings estimates for 2023, HNI trades with a P/E ratio of 15.6. Reaching our target valuation by 2028 could lead to a 2.1% annual headwind from multiple compression over this period. Shares offer a current yield of 3.4%, above the stock's long-term average of 3.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	66%	49%	40%	41%	56%	49%	47%	68%	76%	58%	52%	49%

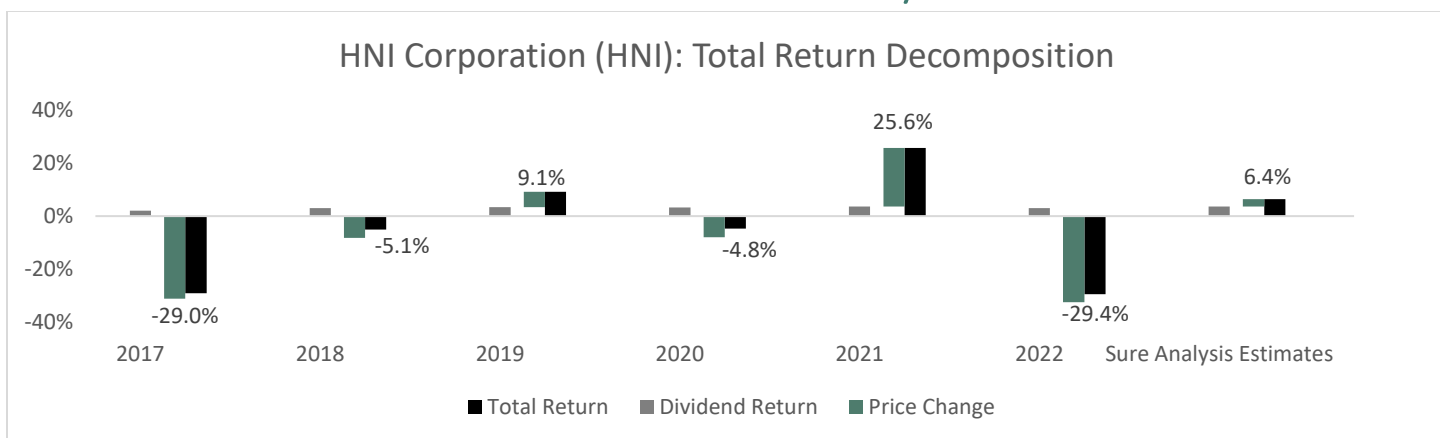
HNI's quality metrics have been somewhat volatile during the past decade but again, its results are expected to be as such. Its balance sheet has looked very much the same in terms of leverage at around 60% debt financing and excluding 2009, its interest coverage has been more than sufficient. The payout ratio has also been reasonable, 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. Efficiency efforts, price increases, and the closing of the small office furniture business have helped drive margins higher in recent quarters.

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 does not save it from recessions; the COVID-19 pandemic caused a sizable downswing in HNI's earnings.

Final Thoughts & Recommendation

Following third quarter results, HNI Corporation is now expected to return 6.4% annually through 2028, down from our previous estimate of 7.8%. Our return projection stems from a 5.5% earnings growth rate and a starting yield of 3.4% that are partially offset by a small from valuation reversion. HNI ended 2022 on a solid note, but the company's guidance for a weaker 2023 has been accurate so far. The addition of Kimbell International has been a tailwind to results. We have raised our 2028 target price \$6 to \$45 due to revised EPS estimates for the year, but HNI continues to receive a hold recommendation due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,060	2,223	2,304	2,203	2,176	2,258	2,247	1,955	2,184	2,362
Gross Profit	715	784	847	835	784	835	834	721	757	835
Gross Margin	34.7%	35.3%	36.8%	37.9%	36.0%	37.0%	37.1%	36.9%	34.7%	35.4%
SG&A Exp.	607	649	672	668	672	691	680	621	666	723
D&A Exp.	47	57	58	69	73	75	77	78	83	84
Operating Profit	109	135	175	167	112	144	154	100	92	112
Operating Margin	5.3%	6.1%	7.6%	7.6%	5.2%	6.4%	6.8%	5.1%	4.2%	4.7%
Net Profit	64	61	105	86	90	93	111	42	60	124
Net Margin	3.1%	2.8%	4.6%	3.9%	4.1%	4.1%	4.9%	2.1%	2.7%	5.2%
Free Cash Flow	86	55	58	104	6	123	152	173	65	13
Income Tax	33	44	52	43	(19)	25	32	12	18	23

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,135	1,239	1,264	1,330	1,392	1,402	1,453	1,418	1,498	1,415
Cash & Equivalents	65	34	29	36	23	77	52	116	52	17
Accounts Receivable	229	240	243	229	259	255	275	202	237	215
Inventories	90	122	125	118	156	157	163	138	182	180
Goodwill & Int. Ass.	381	279	431	511	491	463	446	459	472	440
Total Liabilities	698	825	787	829	877	839	868	827	908	798
Accounts Payable	200	224		202	236	221	228	191	234	
Long-Term Debt	151	198	190	214	277	250	175	175	178	190
Shareholder's Equity	436	415	477	501	514	563	584	590	590	617
LTD/E Ratio	0.35	0.48	0.40	0.43	0.54	0.44	0.30	0.30	0.30	0.31

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.8%	5.2%	8.4%	6.6%	6.6%	6.7%	7.7%	2.9%	4.1%	8.5%
Return on Equity	14.9%	14.4%	23.7%	17.5%	17.7%	17.3%	19.3%	7.1%	10.1%	20.5%
ROIC	11.0%	10.3%	16.5%	12.4%	11.9%	11.6%	14.1%	5.5%	7.8%	15.7%
Shares Out.	45	44	44	44	45	44	43	43	43	42
Revenue/Share	44.82	48.77	50.71	48.43	48.53	50.94	51.66	45.52	49.69	55.97
FCF/Share	1.87	1.21	1.28	2.28	0.13	2.77	3.51	4.02	1.48	0.30

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

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