



HNI Corporation (HNI)

Updated February 26th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	7.6%	Market Cap:	\$2.0 billion
Fair Value Price:	\$41	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	02/23/24
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	03/06/24
Dividend Yield:	3.0%	5 Year Price Target	\$53	Years Of Dividend Growth:	12
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 \$2.7 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. Because of the timing of the increase, the streak now stands at 12 years. The company has now announced or paid the same dividend amount for eight consecutive quarters.

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

On February 22nd, 2024, HNI announced fourth quarter and full year results for the period ending December 30th, 2023. Revenue grew 19.5% to \$679.8 million, but this was \$5.1 million less than expected. Adjusted earnings-per-share of \$0.98 compared favorably to \$0.63 in the prior year and was \$0.16 above estimates. For the year, revenue grew 3.1% to \$2.4 billion while adjusted earnings-per-share of \$2.65 compared to \$2.20 in 2022.

The addition of Kimbell International added \$147.4 million to results. Organic sales declined 6.4% for the quarter, which was a deceleration from a 7.1% and 15% decline that occurred in third and second quarter of the year, respectively. For the quarter, revenue for the Workplace Furnishings improved 39.7% to \$490.7 million, but this was mostly due to the addition of Kimbell. Organic sales for the segment fell 2.3%. Residential Building Products generated revenue of \$189.1 million, which was 13.1% lower than prior year. Housing market weakness impacted this segment.

HNI expects organic revenue growth in the low single-digit range in 2024. Kimbell International is expected to add \$215 million to \$225 million in revenue during the year. We expect that the company will produce earnings-per-share of \$2.91 in 2024, which would be a 9.8% increase from the prior year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.97	\$2.58	\$2.62	\$1.97	\$2.41	\$2.59	\$1.79	\$1.63	\$2.20	\$2.65	\$2.91	\$3.80
DPS	\$0.99	\$1.05	\$1.09	\$1.14	\$1.18	\$1.21	\$1.22	\$1.24	\$1.27	\$1.28	\$1.28	\$1.56
Shares¹	44	44	44	45	44	43	43	43	43	47	47	47

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 2029. 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 \$1.56 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.7	18.7	16.7	21.2	16.0	14.0	17.5	25.8	12.9	15.8	14.4	14.0
Avg. Yld.	2.5%	2.2%	2.5%	2.7%	3.0%	3.3%	3.9%	2.9%	4.5%	3.0%	3.0%	2.9%

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 2029 target price-to-earnings ratio of 14. The share price has increased \$4, or 10.5%, since our November 12th, 2023 report. Based on the current price and earnings estimates for 2024, HNI trades with a P/E ratio of 14.4. Reaching our target valuation by 2029 could lead to a 0.6% annual headwind from multiple compression over this period. Shares offer a current yield of 3.0% which is just below the long-term average yield of 3.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	49%	40%	41%	56%	49%	47%	68%	76%	58%	48%	44%	41%

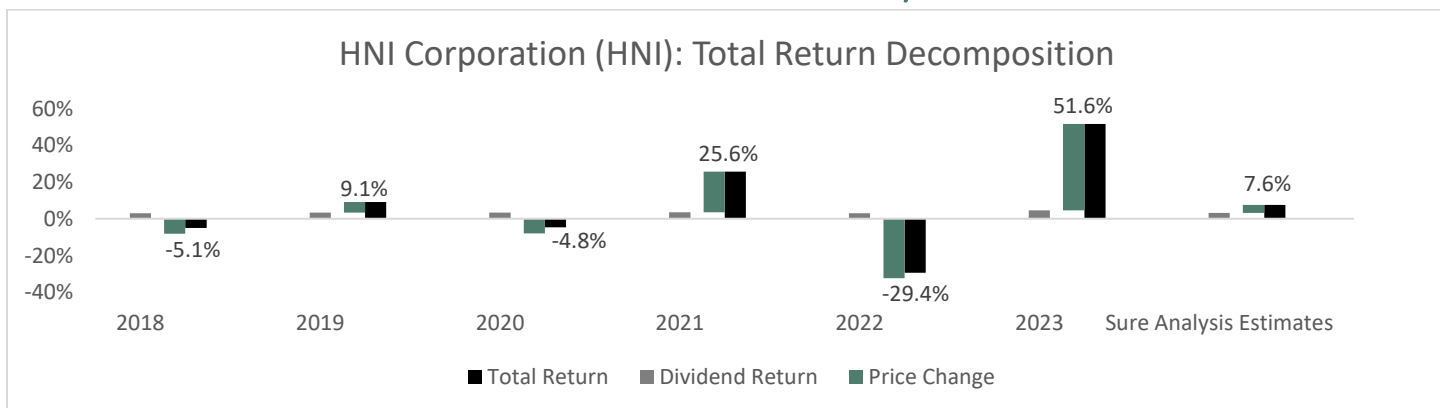
HNI's quality metrics have been somewhat volatile during the past decade but again, its results are expected to be as such. Its balance sheet has looked very much the same in terms of leverage at around 60% debt financing and excluding 2009, its interest coverage has been more than sufficient. The payout 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. We do note that the dividend has not been increased since 2022. 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

After fourth quarter results, HNI Corporation is now expected to return 7.6% annually through 2029, up from our previous estimate of 6.4%. Our return projection stems from a 5.5% earnings growth rate and a starting yield of 3.0% that are partially offset by a small headwind from valuation compression. HNI ended 2023 on a solid note and the addition of Kimbell International has been a tailwind to results. We have raised our five-year target price \$8 to \$53 due to 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,223	2,304	2,203	2,176	2,258	2,247	1,955	2,184	2,362	2,434
Gross Profit	784	847	835	784	835	834	721	757	835	948
Gross Margin	35.3%	36.8%	37.9%	36.0%	37.0%	37.1%	36.9%	34.7%	35.4%	39.0%
SG&A Exp.	649	672	668	672	691	680	621	666	723	813
D&A Exp.	57	58	69	73	75	77	78	83	84	95
Operating Profit	135	175	167	112	144	154	100	92	112	135
Operating Margin	6.1%	7.6%	7.6%	5.2%	6.4%	6.8%	5.1%	4.2%	4.7%	5.6%
Net Profit	61	105	86	90	93	111	42	60	124	49
Net Margin	2.8%	4.6%	3.9%	4.1%	4.1%	4.9%	2.1%	2.7%	5.2%	2.0%
Free Cash Flow	55	58	104	6	123	152	173	65	13	188
Income Tax	44	52	43	(19)	25	32	13	19	23	16

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,239	1,264	1,330	1,392	1,402	1,453	1,418	1,498	1,415	1,929
Cash & Equivalents	34	29	36	23	77	52	116	52	17	29
Accounts Receivable	240	243	229	259	255	275	202	237	215	244
Inventories	122	125	118	156	157	163	138	182	180	197
Goodwill & Int. Ass.	279	431	511	491	463	446	459	471	440	652
Total Liabilities	825	787	829	877	839	868	827	908	798	1,167
Accounts Payable	224		202	236	221	228	191	234	165	
Long-Term Debt	198	190	214	277	250	175	175	178	190	436
Shareholder's Equity	415	477	501	514	563	584	590	590	617	761
LTD/E Ratio	0.48	0.40	0.43	0.54	0.44	0.30	0.30	0.30	0.31	0.57

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.2%	8.4%	6.6%	6.6%	6.7%	7.7%	2.9%	4.1%	8.5%	2.9%
Return on Equity	14.4%	23.6%	17.5%	17.7%	17.3%	19.3%	7.1%	10.1%	20.5%	7.1%
ROIC	10.3%	16.5%	12.4%	11.9%	11.6%	14.1%	5.5%	7.8%	15.7%	4.9%
Shares Out.	44	44	44	45	44	43	43	43	43	47
Revenue/Share	48.77	50.71	48.43	48.53	50.94	51.66	45.47	49.65	55.97	53.61
FCF/Share	1.21	1.28	2.28	0.13	2.77	3.51	4.02	1.48	0.30	4.15

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

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