



H.B. Fuller (FUL)

Updated March 28th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$81	5 Year CAGR Estimate:	2.4%	Market Cap:	\$4.3 B
Fair Value Price:	\$65	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	4/17/24
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.5%	Dividend Payment Date:	5/2/24
Dividend Yield:	1.0%	5 Year Price Target	\$86	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

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 \$4.3 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 March, H.B. Fuller reported (3/27/24) financial results for the first quarter of fiscal 2024. Revenue was flat and organic revenue dipped -4% over the prior year's quarter. It was the fifth decline in sales after 8 consecutive quarters of solid growth due to poor demand amid de-stocking actions of its customers and lackluster industrial demand. On the bright side, earnings-per-share grew 22%, from \$0.55 to \$0.67, thanks to price hikes and material cost reductions, and exceeded the analysts' consensus by \$0.04. It was the second earnings beat after 4 consecutive quarters of missing analysts' estimates.

H.B. Fuller reiterated its positive guidance for fiscal 2024, as it expects its customers to begin rebuilding inventories after extensive destocking in 2023. It thus expects to grow its revenue by 2%-6% and its earnings-per-share by 7%-15% this year, from \$3.87 to \$4.15-\$4.45. Accordingly, we have kept our forecast for the year intact.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.97	\$1.69	\$2.42	\$1.13	\$3.00	\$2.96	\$2.84	\$3.47	\$4.00	\$3.87	\$4.30	\$5.75
DPS	\$0.46	\$0.51	\$0.55	\$0.59	\$0.62	\$0.64	\$0.65	\$0.67	\$0.74	\$0.81	\$0.82	\$1.10
Shares²	50.3	50.1	50.1	50.2	52.0	52.4	52.9	55.0	55.5	56.2	57.0	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 a 6.9% average annual rate over the last seven years and by 5.2% per year on average over the last five 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 a 6.0% average annual rate over the next five years, roughly in line with its historical growth pace.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	48.1	24.1	17.7	46.9	17.1	16.0	15.5	18.9	17.2	18.0	18.8	15.0
Avg. Yld.	1.0%	1.3%	1.3%	1.1%	1.2%	1.4%	1.5%	1.0%	1.1%	1.2%	1.0%	1.3%

¹ Estimated date.

² In millions

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H.B. Fuller is currently trading at a price-to-earnings ratio of 18.8. While the historical average earnings multiple is 17.1, 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 -4.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	47.4%	30.2%	22.7%	52.2%	20.7%	21.6%	22.9%	19.3%	18.5%	20.9%	19.1%	19.1%

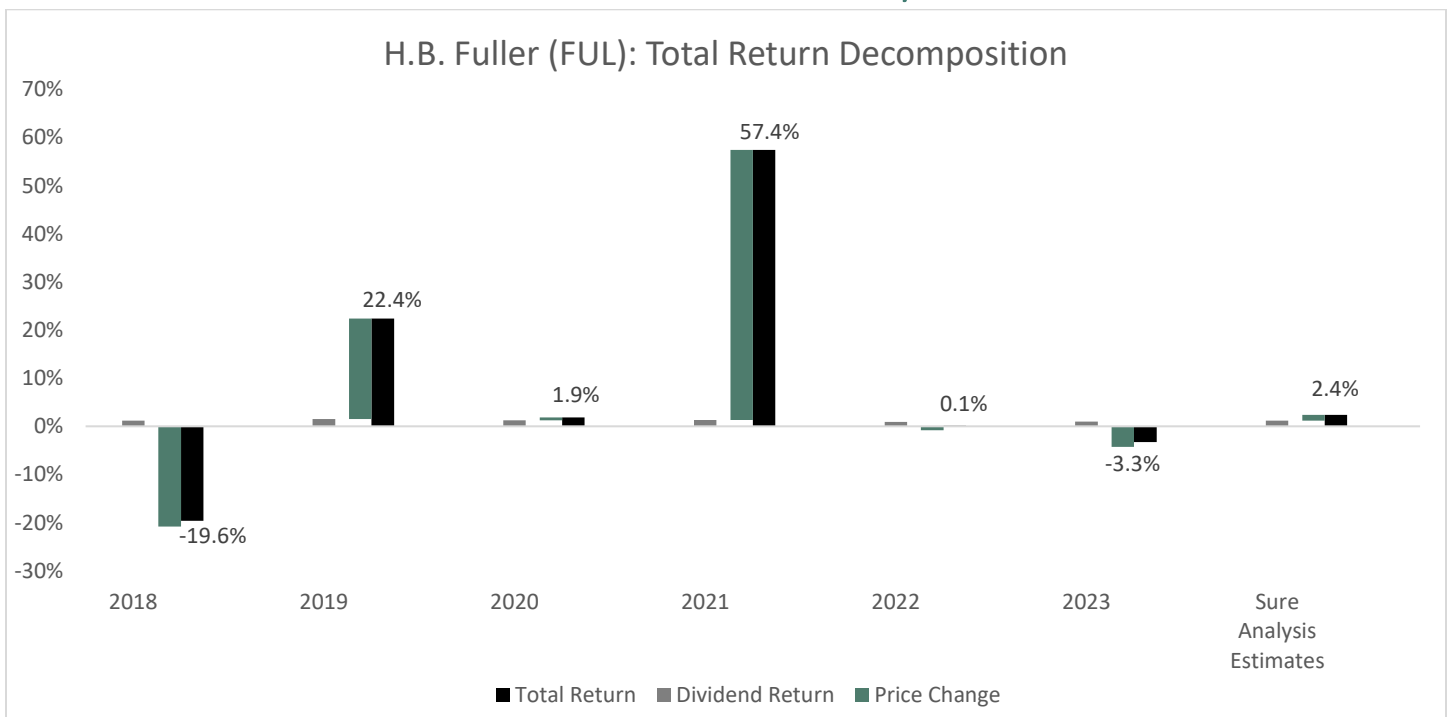
Due to the acquisition of Royal Adhesives & Sealants, interest coverage fell to 2.0 in 2018 but it has bounced to 2.9, as the company has been using a major portion of its free cash flows to reduce debt. In addition, the company has a healthy leverage ratio (Net Debt to EBITDA) of 2.8. H.B. Fuller has raised its dividend for 54 consecutive years and is likely to keep raising its dividend for years thanks to its low payout ratio but it is offering a dividend yield of only 1.0%.

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 proved markedly resilient throughout the coronavirus crisis.

Final Thoughts & Recommendation

H.B. Fuller has a volatile earnings record and is vulnerable to economic downturns. After posting record earnings in 2021 and 2022, the company is facing deceleration of its business due to a slowing global economy and high cost inflation. We expect the stock to offer a 2.4% average annual return over the next five years thanks to 6.0% growth of earnings-per-share and a 1.0% dividend, partly offset by a -4.5% valuation headwind. The stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,104	2,084	2,095	2,306	3,041	2,897	2,790	3,278	3,749	3,511
Gross Profit	533	568	606	599	828	807	757	845	964	1,009
Gross Margin	25.3%	27.3%	28.9%	26.0%	27.2%	27.9%	27.1%	25.8%	25.7%	28.7%
SG&A Exp.	362	371	408	479	555	544	501	553	596	654
D&A Exp.	70	75	78	87	145	141	139	143	147	160
Operating Profit	150	170	198	120	238	226	218	253	323	355
Operating Margin	7.1%	8.2%	9.5%	5.2%	7.8%	7.8%	7.8%	7.7%	8.6%	10.1%
Net Profit	50	87	122	59	171	131	124	161	80	145
Net Margin	2.4%	4.2%	5.8%	2.6%	5.6%	4.5%	4.4%	4.9%	2.1%	4.1%
Free Cash Flow	(110)	152	132	111	185	207	244	117	127	259
Income Tax	34	56	49	10	(6)	49	42	63	77	94

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,869	2,042	2,056	4,373	4,176	3,986	4,037	4,275	4,464	4,724
Cash & Equivalents	78	119	142	194	151	112	101	62	80	179
Accounts Receivable	341	365	351	474	495	493	515	615	607	578
Inventories	251	249	247	372	348	337	323	448	492	442
Goodwill & Int. Ass.	452	567	572	2,338	2,213	2,081	2,068	1,986	2,095	2,216
Total Liabilities	979	1,169	1,118	3,321	3,023	2,763	2,655	2,677	2,853	2,968
Accounts Payable	174	178	163	268	273	299	316	500	461	440
Long-Term Debt	575	723	703	2,452	2,248	1,979	1,774	1,616	1,765	1,838
Shareholder's Equity	890	873	938	1,051	1,153	1,222	1,381	1,597	1,610	1,755
D/E Ratio	0.65	0.83	0.75	2.33	1.95	1.62	1.28	1.01	1.10	1.05

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.7%	4.4%	5.9%	1.8%	4.0%	3.2%	3.1%	3.9%	4.1%	3.2%
Return on Equity	5.5%	9.8%	13.4%	6.0%	15.5%	11.0%	9.5%	10.8%	11.2%	8.6%
ROIC	3.4%	5.7%	7.5%	2.3%	5.0%	4.0%	3.9%	5.1%	5.5%	4.2%
Shares Out.	50.3	50.1	50.1	50.2	52.0	52.4	52.9	55.0	55.3	56.0
Revenue/Share	41.06	40.54	40.85	44.67	58.51	55.73	53.13	60.35	67.84	62.74
FCF/Share	(2.15)	2.96	2.58	2.16	3.56	3.99	4.65	2.16	2.29	4.63

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

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