HNI Corporation (HNI)

Updated July 28th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	2.0%	**Market Cap:**	$2.6 billion
Fair Value Price:	$41	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	08/23/24[1]
% Fair Value:	135%	**5 Year Valuation Multiple Estimate:**	-5.8%	**Dividend Payment Date:**	09/08/24[2]
Dividend Yield:	2.4%	**5 Year Price Target**	$53	**Years Of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Sell

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

On May 13th, 2024, HNI Corporation announced that it was increasing its quarterly dividend 3.0% to $0.33, extending the company's dividend growth streak to 13 consecutive years. The company had distributed the same dividend amount for eight consecutive quarters prior to this increase, but due to the timing of past raises, the dividend growth streak remained intact.

On July 25th, 2024, HNI announced second quarter results for the period ending June 29th, 2024. Revenue grew 10.7% to $623.7 million, but this was $14 million below estimates. Adjusted earnings-per-share of $0.79 compared favorably to $0.55 in the prior year and was $0.18 more than expected.

As with the prior quarter, the addition of Kimbell International contributed meaningfully to results, with this acquisition generating $139.6 million in revenue during the period. Organic sales for the company declined 3.0% year-over-year. For the quarter, revenue for the Workplace Furnishings increased 16.3% to $480.2 million, but this was mostly due to the addition of Kimbell. Organic sales for the segment were lower by 2.4%. Residential Building Products generated revenue of $143.5 million, which was 4.6% lower than prior year. Housing market weakness continued to be a headwind as remodel/retrofit demand declined at a faster rate than new construction. Both segments of the company are expected to return to growth in the second half of the year. Management also noted that synergies from the Kimball acquisition and a new facility in Mexico should yield savings of $70 million to $75 million over the next two years.

HNI did not change its guidance for 2024. Last quarter, the company stated that it expects organic revenue growth in the low single-digit range for the year. We continue to 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 and a record.

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	***$1.33***	***$1.62***
Shares[3]	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 Residential Building Products, HNI looks

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[1] Estimated ex-dividend date

[2] Estimated dividend payment date

[3] 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.

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 $1.62 or so by 2029.

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	***18.9***	***14.0***
Avg. Yld.	2.5%	2.2%	2.5%	2.7%	3.0%	3.3%	3.9%	2.9%	4.5%	3.0%	***2.4%***	***3.0%***

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. Shares have gained $13, or 31%, since our April 29th, 2024 report. Based on the current price and earnings estimates for 2024, HNI trades with a P/E ratio of 18.9. Reaching our target valuation by 2029 could lead to a 5.8% annual headwind from multiple compression over this period. Shares offer a current yield of 2.4% which is 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%	***46%***	***43%***

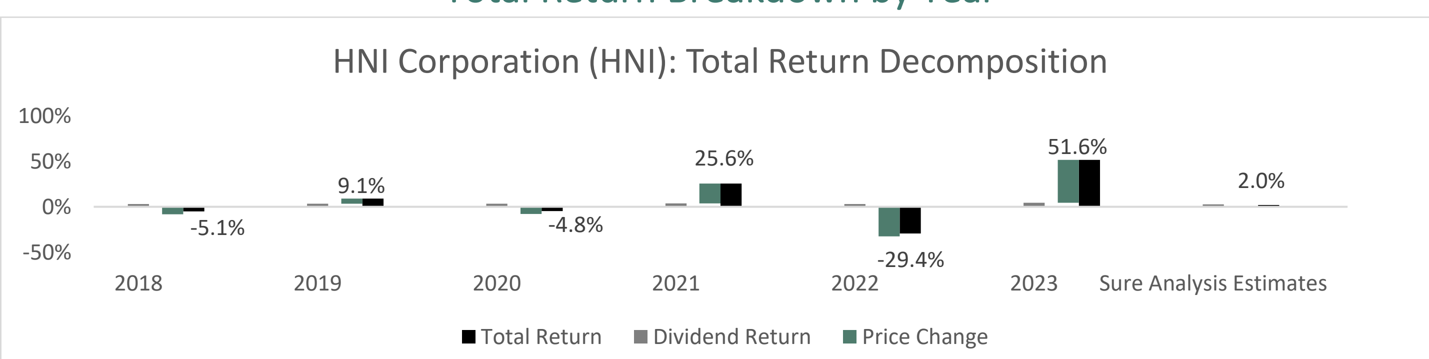
HNI's quality metrics have been somewhat volatile during the past decade but again, its results are expected to be as such. Its balance sheet has looked very much the same in terms of leverage at around 60% debt financing and excluding 2009, its interest coverage has been more than sufficient. The payout 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 second quarter results, HNI Corporation is expected to return 2.0% annually through 2029, down from our prior estimate of 7.6%. Our return projection stems from a 5.5% earnings growth rate and a starting yield of 2.4% that are largely offset by a mid-single-digit headwind from multiple compression. HNI is still seeing organic growth declines as its Residential Building Products segment continues to struggle. The addition of Kimbell International, however, continues to add to results. We maintain our five-year target price of $53 due to EPS estimates for the year, but now rate shares of HNI as a sell 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.