Armstrong World Industries, Inc. (AWI)

Updated December 13th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$155	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$6.85 B
Fair Value Price:	$149	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	02/28/2025[1]
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Dividend Payment Date:**	03/14/2025
Dividend Yield:	0.8%	**5 Year Price Target**	$219	**Years Of Dividend Growth:**	7
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Armstrong World Industries is a leading manufacturer of innovative ceiling and wall systems, offering high-performance solutions for commercial and residential spaces. Serving end markets such as office, education, healthcare, and retail across the Americas, AWI operates through two key segments: Mineral Fiber, providing acoustical ceiling tiles and suspension systems, and Architectural Specialties, delivering customized ceiling and wall designs. Based in Lancaster, Pennsylvania, the company employs about 3,500 people and has a market cap of $6.85 billion. AWI generated roughly $1.30 billion in revenue last year.

On October 29th, 2024, Armstrong World Industries reported its Q3 results for the period ending September 30th, 2024. Net sales grew by 11.3% to $386.6 million, drive by 3.3% growth in the Mineral Fiber segment and 31.8% growth in the Architectural Specialties segment. Adjusted EBITDA grew by 11.2% to $139 million, while adjusted EPS 13.1% to $1.81. For the full-year, management raised their guidance, expecting adjusted EPS between $6.15 and $6.25. We have used the midpoint of this range in our estimates. All past figures in our table reflect GAAP accounting.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.15	$1.69	$1.88	$2.23	$3.61	$4.39	($2.07)	$3.84	$4.38	$5.00	***$6.20***	***$9.11***
DPS	---	---	---	---	$0.18	$0.73	$0.82	$0.88	$0.97	$1.07	***$1.23***	***$1.81***
Shares[2]	55.0	55.5	55.4	53.3	51.3	48.7	47.9	47.6	46.3	44.7	***44.1***	***40.0***

Armstrong World Industries' EPS has grown at a compound annual growth rate (CAGR) of 17.7% over the past decade, driven by its focus on high-margin products, operational efficiency, and market dynamics. EPS increased steadily from $1.15 in 2014 to $2.23 in 2017, powered by growth in its core Mineral Fiber segment and the acquisition of Tectum in 2017, which expanded the Architectural Specialties portfolio. The sale of its European and Asia-Pacific businesses in 2018 enabled AWI to streamline operations and focus on the Americas market, contributing to a boost in EPS to $3.61.

The growth lasted into 2019 with EPS hitting $4.39 as the Architectural Specialties segment benefited from acquisitions and organic growth. While EPS turned negative in 2020 due to COVID-19-related disruptions in commercial construction activity, a strong recovery followed in 2021, with EPS rebounding to $3.84, driven by increased renovation demand and the integration of three acquisitions that bolstered the Architectural Specialties segment. By 2022 and 2023, EPS rose further to $4.38 and $5.00, respectively, supported by robust demand in the Mineral Fiber segment, pricing actions to offset inflation, and further investment in digital tools like Kanopi and ProjectWorks, which grew customer engagement and operational efficiency. This period also recorded advancements in the Healthy Spaces initiative, targeting improved indoor environmental quality, which positioned the company for long-term growth in emerging markets like healthcare and education.

Moving forward, we believe the company is positioned for continued growth. We forecast EPS growth of 8% per annum through 2029, driven by rising demand for high-performance building materials, growth in the Architectural Specialties

[1] Estimated dates based on past dividend dates.
[2] Share count is in millions.
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.

segment via acquisitions, and the growing adoption of digital tools like Kanopi and ProjectWorks to capture underserved markets. We have set our dividend growth forecast at a similar rate, with AWI having raised its payouts every year since initiating a dividend in 2018.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	46.6	31.3	23.6	20.5	16.5	18.5	40.7	23.8	21.1	15.3	***25.1***	***24.0***
Avg. Yld.	---	---	---	---	0.3%	0.9%	1.0%	1.0%	1.0%	1.4%	***0.8%***	***0.8%***

Armstrong World Industries' P/E ratio has seen significant swings over the years, reflecting changes in earnings growth expectations, market sentiment, and industry dynamics. In 2014-2015, high P/E ratios of 46.6 and 31.3 were driven by investor optimism about restructuring efforts and growth potential. As earnings stabilized, the P/E compressed to 20.5 by 2017 and further to 16.5 in 2018, reflecting strong EPS growth and AWI's streamlined focus on the Americas market. The 2020 spike was due to pandemic disruptions and recovery expectations, but the P/E ratio has now normalized. We believe the stock is slightly overvalued today, having set out fair P/E at 24 times. The dividend yield is rather small.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	5%	17%	40%	23%	22%	21%	***20%***	***20%***

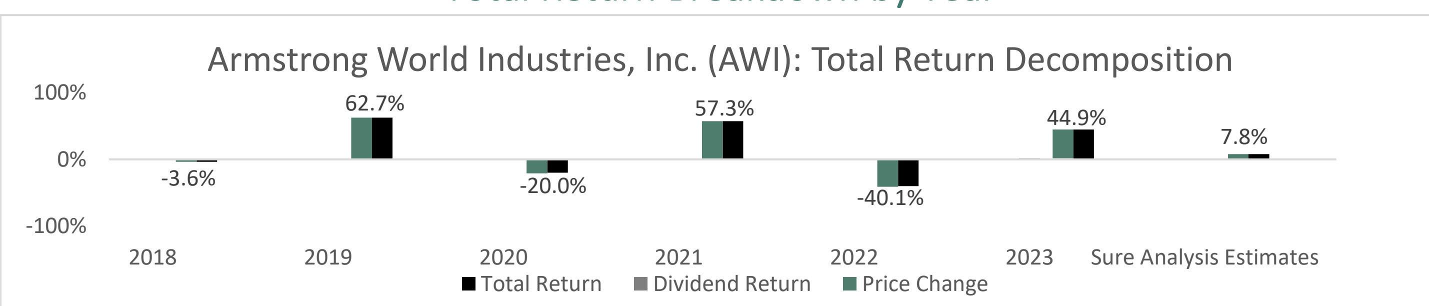
AWI's competitive advantage lies in its strong brand recognition, market leadership in ceiling and wall systems, and its large product portfolio that serves multiple commercial and residential markets. Its focus on high-margin segments like Architectural Specialties and investments in digital platforms provide differentiation and boost customer engagement.

However, the company operates in a highly competitive market with big players like USG Corporation and CertainTeed, which have significant resources and broad product offerings. Further, the construction materials industry is inherently susceptible to economic downturns, as reduced commercial construction and renovation activity directly hurts demand. AWI mitigates this risk through a focus on renovation markets, which are less cyclical, and by leveraging indoor quality trends to drive product innovation and sales. Its streamlined Americas-focused business and solid operational efficiency further bolster resilience in challenging economic conditions. Still, earnings temporarily plunged both during the Great Financial Crisis and the COVID-19 pandemic. Regardless, we believe AWI's modest dividend is fairly safe.

Final Thoughts & Recommendation

AWI offers a solid investment case with its focus on high-margin ceiling and wall systems, supported by steady growth in Architectural Specialties and innovative digital platforms. While facing competitive pressure from larger players, we view its streamlined operations, focus on the Americas, and alignment with sustainability and healthy building trends position it for consistent long-term growth. We see annualized returns of 7.8% through 2029, driven by our 6% growth estimate, the 0.8% starting dividend yield, and the potential of a 0.9% annual valuation headwind. Shares earn a hold 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	1,294	805	837	894	975	1,038	937	1,107	1,233	1,295
SG&A Exp.	250	181	184	139	159	174	163	232	232	257
D&A Exp.	129	118	89	89	79	72	84	97	84	89
Net Profit	64	94	105	120	186	215	(99)	183	203	224
Net Margin	4.9%	11.7%	12.5%	13.4%	19.1%	20.7%	-10.6%	16.6%	16.5%	17.3%
Free Cash Flow	(14)	33	(55)	81	131	111	163	107	108	150
Income Tax	69	37	51	2	53	57	(43)	57	58	75

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,606	2,687	1,758	1,874	1,838	1,493	1,719	1,710	1,687	1,672
Cash & Equivalents	185	209	142	160	326	45	137	98	106	71
Total Liab.	1,957	1,918	1,492	1,454	1,612	1,128	1,268	1,190	1,152	1,081
Accounts Payable	225	128	69	68	82	79	81	106	105	91
Long-Term Debt	1,043	988	874	850	820	611	716	631	651	587
Total Equity	649	769	266	419	226	365	451	520	535	592
LTD/E Ratio	1.61	1.29	3.28	2.03	3.63	1.67	1.59	1.21	1.22	0.99

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.3%	3.6%	4.7%	6.6%	10.0%	12.9%	-6.2%	10.7%	11.9%	13.3%
Return on Equity	9.6%	13.3%	20.2%	34.9%	57.6%	72.6%	-24.3%	37.7%	38.5%	39.7%
ROIC	3.7%	5.5%	7.2%	9.9%	16.1%	21.2%	-9.3%	15.8%	17.4%	18.9%
Shares Out.	55.0	55.5	55.4	53.3	51.3	48.7	47.9	47.6	46.3	44.7
Revenue/Share	23.36	14.40	15.03	16.58	18.72	20.97	19.56	23.10	26.58	28.91
FCF/Share	(0.25)	0.59	(0.99)	1.50	2.52	2.25	3.41	2.24	2.32	3.34

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