



ANALYST QUICK NOTES

New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. **Important disclaimer information is on the last page of this document.**

Masco Corp. (NYSE: MAS: BUY)

Target Price: \$40

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What's New?

- Masco reports 4Q on Thursday, Feb 9
- We see about 16% potential upside to our \$40 target.

The Numbers:

- 4Q Bloomberg earnings consensus: \$0.34
 - Argus also \$0.34.
 - No movement in consensus over last 4 weeks.
- Revenue consensus: \$1.753 billion.
 - Consensus down by \$3 million in last 4 weeks.
- Average move on earnings day is 5.8%.
 - Implied move for 1/9 is 5.18% based on options trading.

Existing Guidance for 2017:

- Sales: \$8.3 billion.
- Operating Profit \$: \$1.15 billion.
- EPS: \$1.80.
 - Consensus: \$1.89.

Why Buy Masco?

- Recent indications of strong holiday sales at building supply stores suggest continuing demand for home improvement products.
 - SpendTrend: +10.1 Dec, 7.5 Nov, 8.1 Oct.
 - Commerce Dept.: 0.9% Dec, 8.2% Nov, 1.6% Oct.
 - Reminder: HD was lapping a 10.6% U.S. comp in December 2015.
 - MAS is one of the biggest suppliers to Home Depot & Lowe's. Some 33% of Masco's 2015 sales were to HD. Lowe's represents less than 10%.

- Masco is categorized as an Industrial stock. The sector is outperforming Retail since the election.
- Masco has more insulation from Internet competition than most of our consumer/retail universe.

What about Interest Rates?

- We do not expect the current cycle to peak unless 30-year mortgage rates jump towards 6% (from a current 4.2%).
 - About 85% of revenue is linked to repair and remodel and 15% to new construction.
- Private Fixed Residential Investment is still near a 66-year low, at 3.5% of GDP, and well below the average of 4.6% since 1946.
 - We would expect PFRI to approach and likely exceed the long-term average before this current expansion is done.
 - Based on calculations from the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, Private Fixed Residential Investment is only expected to reach 3.6% of GDP when the final numbers are tallied for 2016 and 3.7% of GDP for 2017.

Color on the sector:

- Masco: End markets in both North America, and Internationally remain strong.
- Continue to leverage underlying market strength by introducing new products, improving sales mix penetrating new markets and gaining share with industry leading brands.
- Double-digit sales growth with Pro Paint initiative at HD. Doubling Pro Hub stores to 200 this year. Hopes this will drive additional comp growth in 2017.
- Behr Marquee, highest price point DIY product posting exceptional comps, again at HD.
- Based on success, MAS expanding a KraftMaid cabinet product for Lowe's to 500 from 250 stores.
- Strong demand for repair and remodel products...consumers are trading up.
- Plumbing, strong consumer-driven demand at both wholesale and "large retail customers."
- KraftMaid – strong performance in the retail channel resulting in double-digit growth and share gains.
- "The consistent thing about this recovery has been some choppiness."
- "Fundamentally the demand drivers and the foot traffic that we're seeing particularly in repair and remodeling are strong."
- Seeing good growth in spas and cabinets, which are big ticket and in entry level – "A good sign for the nature of the recovery."
- Management said that the housing market continues to be choppy at times, but the multi-year recovery remains on track. As a reminder, the company is deliberately discontinuing some cabinets that had been sold directly to builders at unfavorable margins.
- Masco CEO: "Fundamentally my view hasn't changed – good macros."

What Does Masco Do?

- Masco manufactures home improvement and building products. Following the spinoff of the installation business in 2015 Masco has 4 segments, which had 2015 sales of \$7.1 billion:
 - Cabinets and Related Products, which include the KraftMaid brand (14% of 2015 sales).
 - Plumbing Products, including Delta Faucets (47%).
 - Decorative Architectural Products, including Behr paint (28%).
 - Windows and Other Specialty Products, including Milgard windows (11%).

- Approximately 20% of the company's sales are international dominated by the UK and Europe.
 - Plumbing has the most international exposure, about 40%.
- About 85% of revenue is linked to repair and remodel and 15% to new construction.

Investment Conclusion:

- We remain optimistic that Masco's expertise in developing new products and management's efforts to make the business more efficient will boost the shares as the housing and remodeling market improves. We continue to expect a multiyear housing recovery.
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