



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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4/24/2017

What's New?

- Masco reports 1Q earnings on Tuesday, April 25.
 - Release at about 7:00 a.m.
 - Conference call at 8:00.

What do we expect?

- Our 2017 estimate is \$1.81 per share, which represents growth of 20%.
 - We continue to believe that macro factors support continuing growth.
 - Based on management's success in controlling costs and gaining market share to raise operating margin, we continue to expect the company to exceed its earnings objective goal of \$1.80.
 - The average analyst estimate is \$1.87 according to Bloomberg.
 - We are not bearish, just being conservative.
- Our 1Q estimate is \$0.35 per share, consensus is \$0.36.
- Our 1Q revenue estimate is \$1.8 billion, Bloomberg consensus \$1.76 billion.
- Average earnings day move is 5.8%, options implied move is 4.4%

Recent Data Points:

- April 20: The National Association of Home Builders' (NAHB) Remodeling Market Index (RMI) rose to 58 in 1Q17, the highest reading since 2015.
 - "Remodelers are seeing stronger market conditions with customers more willing to spend money on both small and large projects."
- Harvard 4/20: Leading Indicator of Remodeling Activity:
 - The LIRA suggests growth in home improvement and repair spending will remain above its long-term trend of 5 percent this year.
 - Harvard does expect some moderating from 7.3% in 1Q17 down to 6.1% in 1Q 2018.
 - "Homeowners are continuing to spend more on improvements as house prices strengthen in most parts of the country," Chris Herbert, Managing Director of the Joint Center for Housing Studies said in last week's release.
- SpendTrend on Bloomberg
 - Building Materials Stores:
 - +5.6% Jan.
 - +6.4% Feb.
 - +6.7% March.
- U.S. Commerce Department Retail Sales.
 - Year over Year growth Building Materials Stores.
 - 8.6% Jan.
 - 4.4% Feb.
 - 6.3% March.

Recap of 4Q:

- On February 9, Masco reported 4Q16 net revenues of \$1.76 billion, up 3% from the prior year.
 - This was slightly below our estimate of \$1.81 billion.
 - Above the StreetAccount consensus of \$1.75 billion.
- Adjusted earnings rose 14% to \$0.33 per share, which missed the StreetAccount consensus of \$0.34 and our estimate of \$0.34.
 - One unanticipated factor was that quarterly results were hurt by approximately \$0.02 per share as a result of some very unfortunate medical costs by employees that are self-insured by the company.
 - The shares were off initially but rebounded after the Street seemed to understand these costs.
- North American sales rose 3%.
 - Sales remained strong in big box stores.
 - Management also believes that its domestic and international markets are seeing continuing growth.
 - MAS believes it is gaining market share in the plumbing and paint segments and with the KraftMaid cabinet brand.
- International sales increased 8% in local currency, boosted by the international plumbing businesses.
- 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.

What Does Masco Do?

- Masco manufactures home improvement and building products.
- Masco has four segments, which had 2016 sales of \$7.4 billion:
 - Cabinets and Related Products, which include the KraftMaid brand (13% of 2016 sales).
 - Plumbing Products, including Delta Faucets (48%).
 - Decorative Architectural Products, including Behr paint (28%).
 - Windows and Other Specialty Products, including Milgard (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 80% of revenue is linked to repair and remodel and 20% to new construction.
- MAS is one of the biggest suppliers to Home Depot & Lowe's.
 - 33% of Masco's 2015 sales were to HD.
 - Lowe's represents less than 10%.

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.
 - About 30% of the company's 2016 sales came from products that were introduced within the prior 36 months.
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