

FORTUNE BRANDS

Fortune Brands Home & Security, Inc. (NYSE: FBHS)

By: Harshil Chooramun, Nameer Jamal, Pratyush Shah, Joshua Turcios

Market Data as of 30-Nov-2022

Business Overview

- FBHS operates in 3 main segments: Water Innovations, Outdoor and Security, and Cabinets
- Makes money by selling various products (faucets, doors, locks, cabinets) to wholesalers, retailers, remodelling-oriented home centers, e-commerce, industrial distributors, etc.

Investment Thesis

Pending spin-off provides an opportunity to buy high-quality businesses with strong fundamentals at an attractive valuation (trading at 10-year low multiples of 8.0x EV/EBITDA). Our SOTP and DCF analysis supports upside

Why Is This a Good Business?

- Oligopolistic positioning across the major segments results in high quality consistent free cash flow
- Portfolio of brands is highly recognized FBHS has established major partnerships with Home Depot, Lowes; other competitors such as Masco are limited to a partnership with only 1 of the 2
- FBHS's most profitable segment (plumbing) offers high quality necessary services which has allowed them to command higher pricing power than the industry

What Is The Market Missing?

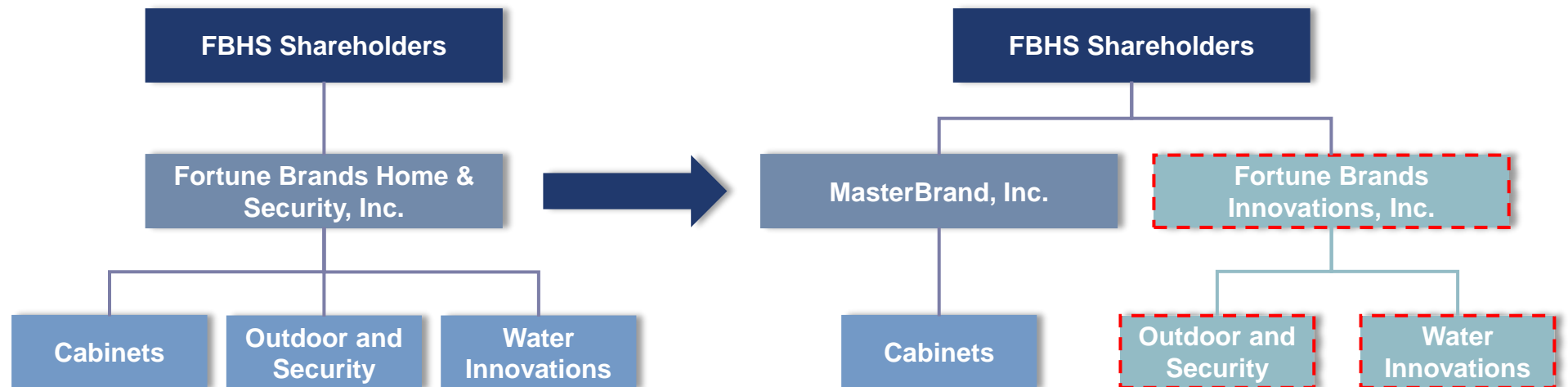
- Value to be unlocked through the spin-off of cabinets, supported by our SOTP/DCF valuations, and an analysis of return on net tangible assets of the RemainCo entity
- The market has over-punished FBHS for a temporary build-up of inventory that management expects to normalize over the next 1-2 years, as well as it's 35% linkage to the U.S. housing market
- Spin-off of cabinets segment should result in a less cyclical, more profitable business that management will be able to dedicate their attention towards

We recommend YUSIF buy FBHS with a price target of ~\$72, an implied upside of ~14%

The Spin-Off Story

Cabinet segment will be spun-off into MasterBrand, Inc. on December 14th

Spin-Off Structure



What's Happening?

- Apr 28, 2022 – Announced intentions to separate into 2 publicly traded companies via a tax-free spin-off; cabinets business would be divested into a standalone entity; expected to be completed on Dec 14, 2022
 - Not the first time the Company has undergone a divestiture; FBHS itself was spun off American Brands Inc, a conglomerate that had liquor, home furnishings, and golf product-related businesses
- Rationale for the spin-off is to allow management to better focus on the water innovations and outdoor & security business
 - Cabinet segment follows a different growth trajectory and is underpinned by dynamics in the housing market, giving it more cyclical
 - Plumbing and security segments have more opportunity for organic growth and have experienced much steadier topline and margin expansion
- We believe that the spin-off would result in the RemainCo (“New FBHS”) re-rating to a higher multiple, based on an analysis of peer competitors, as well as the fact that the 2 remaining segments are higher-growth, higher-ROIC generating businesses with strong tailwinds
 - The 2 segments complement one another and have synergy opportunities, which management will be better positioned to focus on without having a disparate cabinet segment standing in the way

When Should We Buy The Stock?

Spin-off situation results in some uncertainty regarding when we should enter a position

■ 2 Choices:

Purchasing the stock prior to spin-off on December 14, 2022:

- As illustrated through our SOTP and DCF valuation, we believe FBHS is currently undervalued with multiples trading at 10-year lows; current valuation of the entire entity provides an attractive buying opportunity
- Downside is that there is limited information on the post spin-off capital structure, and we would inherit shares in the less desirable cabinets business

Waiting for the separation to be completed

- More certainty and information surrounding the capital structure
- Avoids the risk of having the share price of the cabinets business dropping significantly upon trading
- Stock price may rise closer to the spin-off date

Given YUSIF's investment philosophy of buying attractive businesses with stable free cash flow and strong moats, we recommend the fund buy FBHS once the spin-off is completed to avoid exposure to the less attractive cabinets business

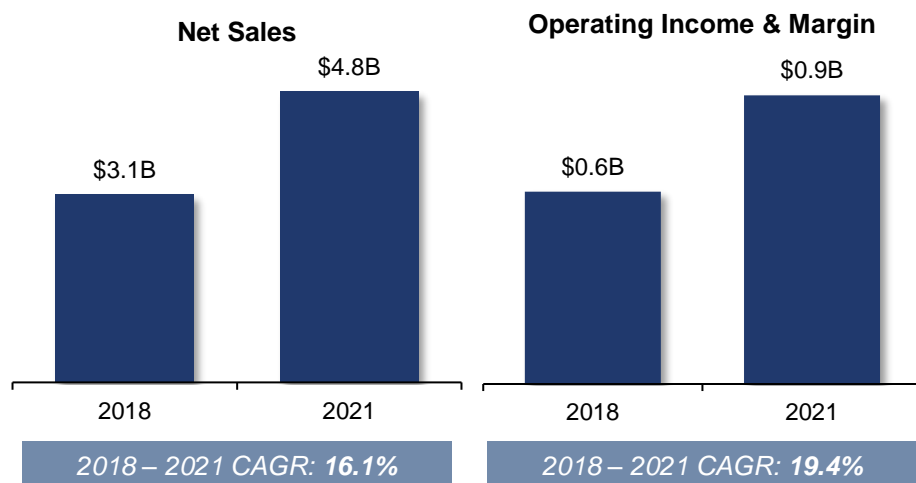
Business Overview

The largest and most diverse provider of home-oriented products

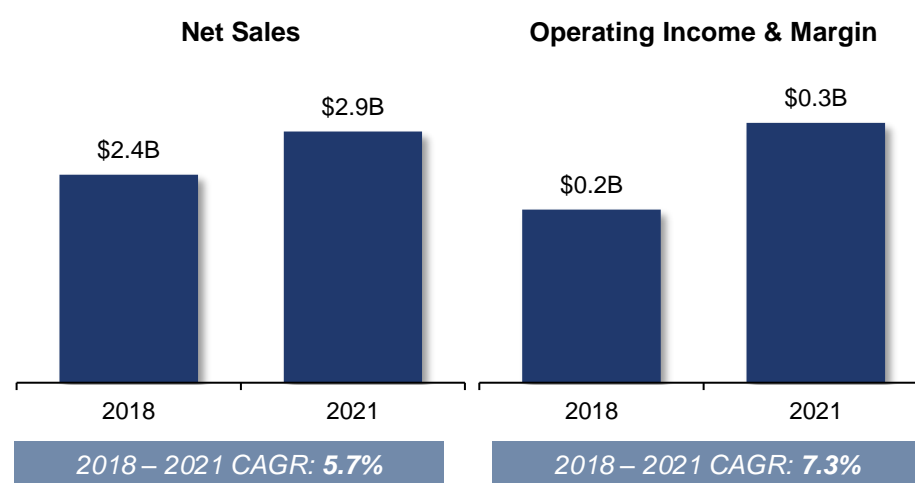
Segment Breakdown

- **Plumbing:** Manufacturing and sale of faucets, related accessories, kitchen sinks, and waste disposals for property owners in the US, China, Canada, Mexico, Southeast Asia, Europe, and South America
 - ~16% of 2021 net sales were to international markets; Home Depot and Lowe’s accounted for ~21% of 2021 net sales
 - Comprises 36% of the Company’s overall revenue and 52% of operating profits
- **Outdoors & Security:** Manufacturing and sale of fiberglass and steel entry door systems, lock sets, safety and security devices, and storm doors
 - ~10% of 2021 net sales were to international markets; Home Depot and Lowe’s each accounted for ~30% of 2021 net sales
 - Comprises 23% of the Company’s overall revenue and 22% of operating profits
- **Cabinets:** Manufacturing and sale of semi-custom and custom cabinetry as well as vanities and related products
 - ~6% of 2021 net sales were to international markets; Home Depot and Lowe’s each accounted for ~39% of 2021 net sales
 - Comprises 40% of the Company’s overall revenue and 26% of operating profits

Fortune Brands Innovations, Inc.



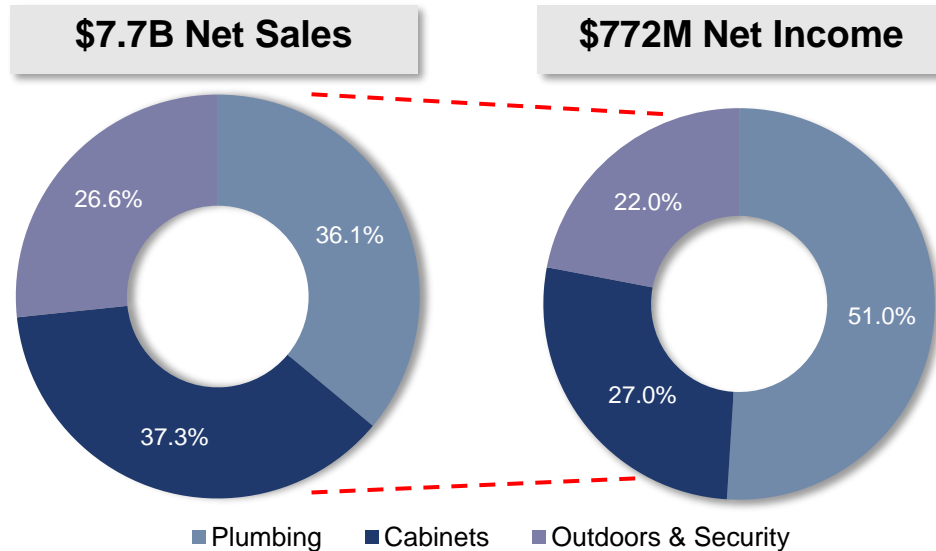
MasterBrand, Inc.



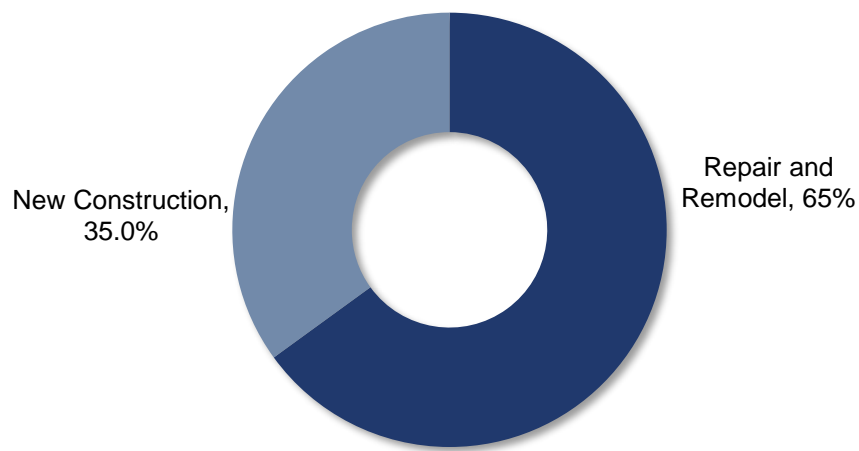
Business Overview

Diverse customer and business mix with high net sales

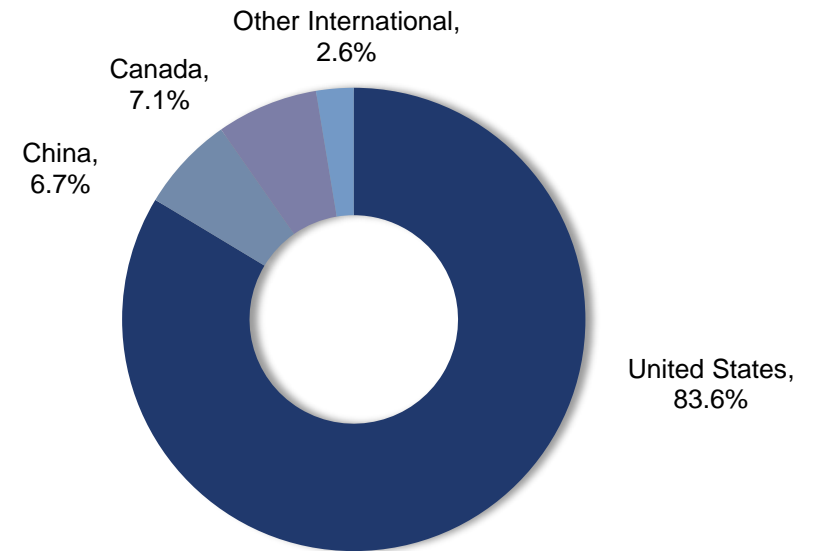
FBHS Net Profit Source (2021)



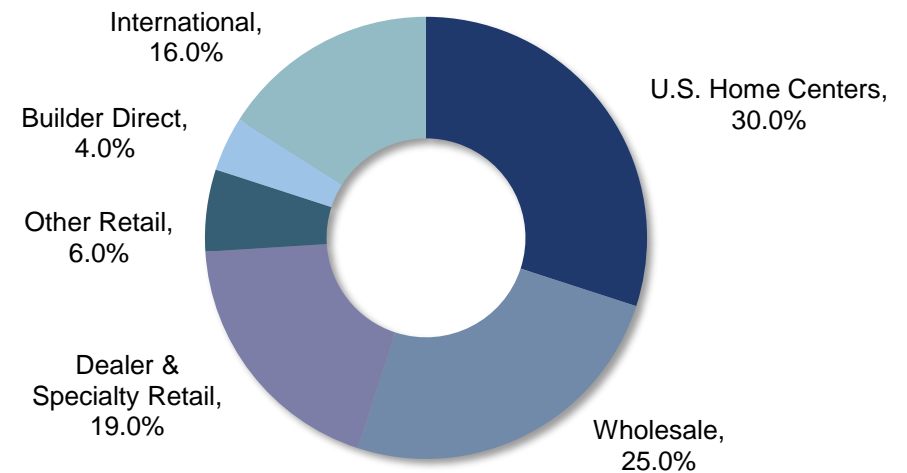
Business Mix by End Market



Sales by Geography (2021)



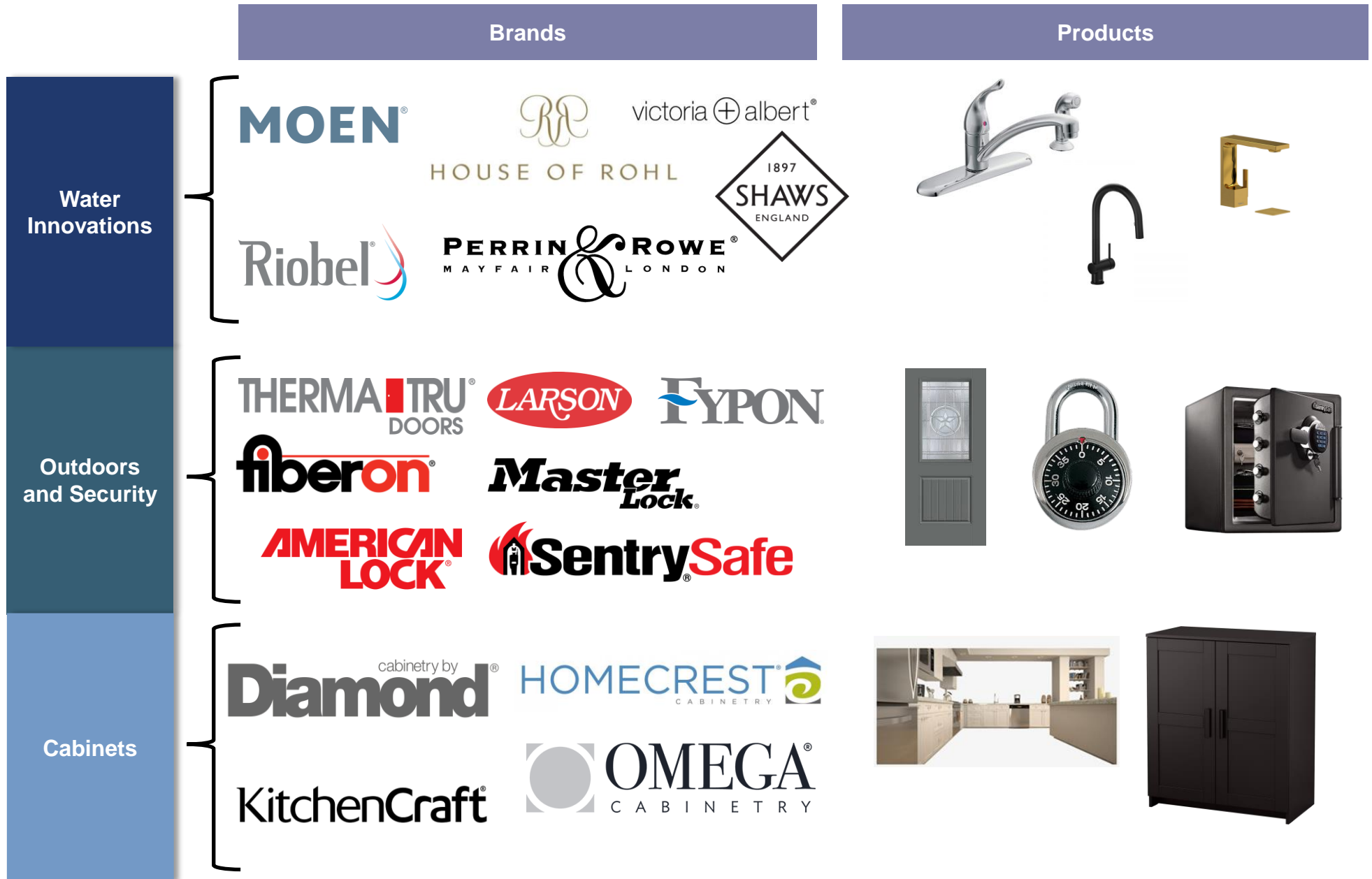
Business Mix by Channel



Source(s): Company Filings

Product Portfolio

Wide portfolio of highly-recognizable brands and products



5-Year Share Price Performance

Poor YTD stock performance attributed to macroeconomic environment

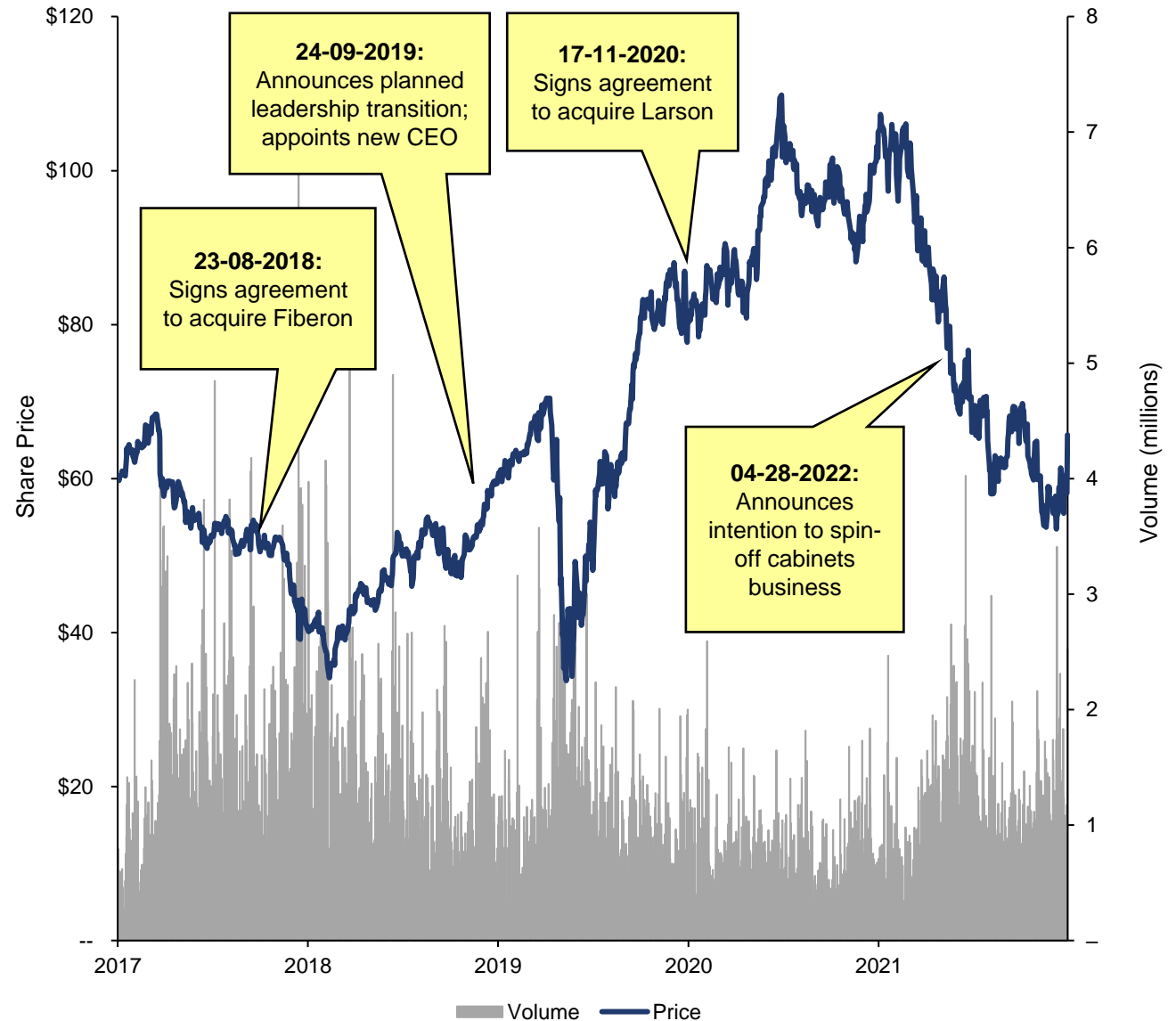
Why is the Stock Down?

- The stock sold off alongside other housing-related companies due to rising interest rates; 35% of FBHS' sales are tied to new residential construction in N.A.
- Temporary supply chain issues have put pressure on FCF generation given heightened working capital levels
- Stock is down ~38% YTD

Key Financial Information

Market Cap (Nov 30)	\$8.3B
Share Price (Nov 30)	\$63.08
5-Year Revenue Growth	7.7%
5-Year EBITDA Growth	9.5%
FCF Margin (2021)	6.0%
Stock CAGR Since Inception (Oct 7, 2011)	16.0%

5-Year Share Price Performance



Industry Overview

Industry Overview: Water Innovations

Increasing non-residential revenues expected in the next 5 years

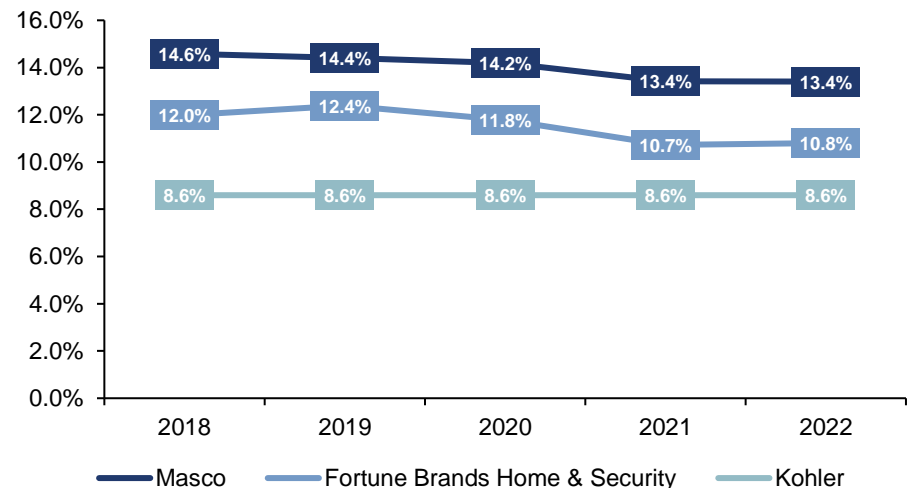
Faucet Manufacturing Industry Overview

- Faucet manufacturing is a mature industry that remains fragmented (the top 4 Companies have ~44% market share)
- Two main demand drivers are residential (single-family and multi-family homes) and non-residential (office buildings, airports, convention centers, and shopping malls)
 - Residential demand is driven by housing starts and remodeling activity
 - Non-residential demand is determined by the functionality, durability, and cost savings the product offers
- Price largely affects consumer purchasing patterns due to low-product differentiation

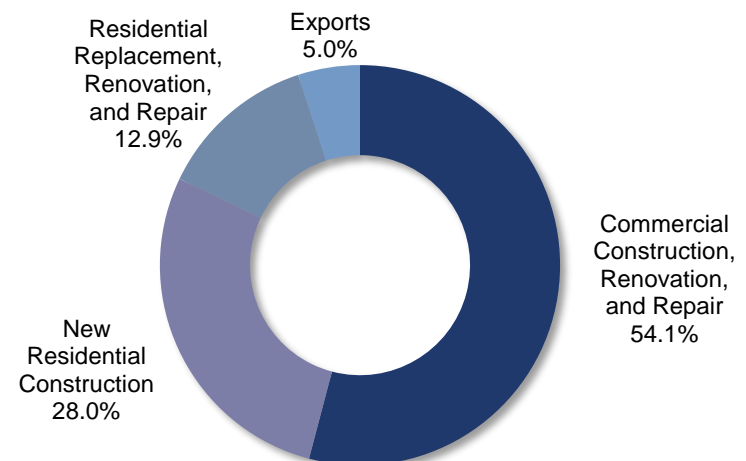
Faucet Manufacturing Industry Trends

- **Increasing Regulatory Pressures:** More pressure to shift towards lead-free brass or suitable alternatives may negatively impact margins
 - Current legislation permits a maximum lead level of 0.25% which may move down to zero
- **Increased Non-Residential Demand:** The value of non-residential construction is expected to increase at a rate of ~1% in the next 5 years increasing demand modestly
 - Increase partly due to pandemic restrictions postponing projects and hindering the market

Declining Market Share of Largest Players (\$6.0bn)



Non-Residential is the Largest Market



Industry Overview: Outdoor and Security

Increasing focus on domestic production in the United States

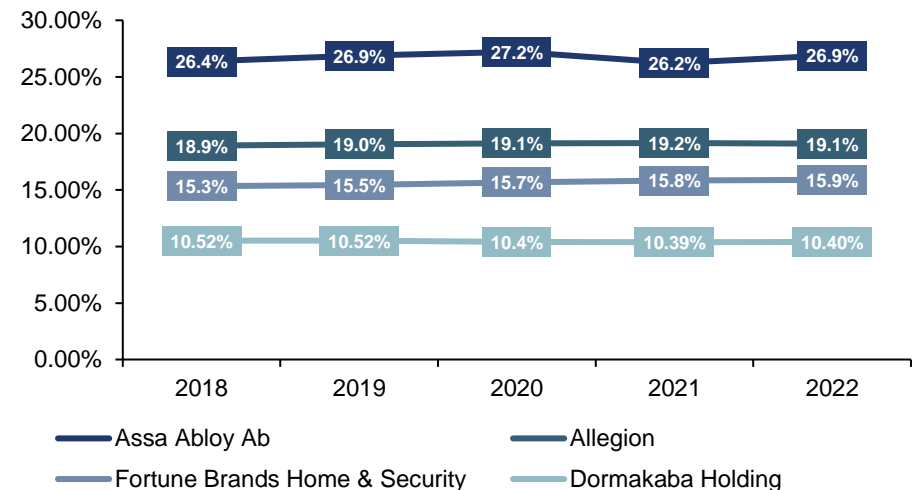
Lockset Manufacturing Industry Overview

- Door lock & lockset manufacturing is a mature industry with high market concentration (top 4 players have ~72% market share)
- Four large markets with different demand drivers
 - **Home Improvement Stores:** Mainly DIY residential sales affected by income and crime rates
 - **Contractors:** Mainly in construction requiring door locks and locksets to install doors to secure entryways
 - **Automobile:** Door locks and fuel cap locks, demand depends on car production levels
 - **Office Furniture Manufacturing:** Locks for safes, office doors, and desks currently declining due to work-from-home

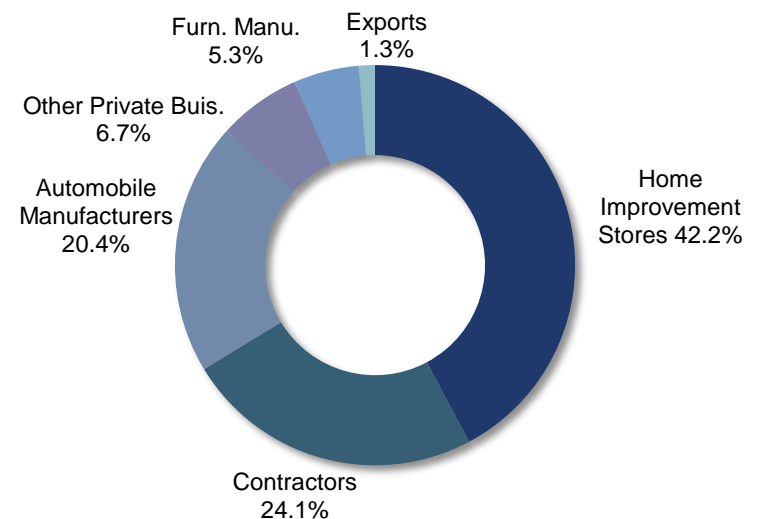
Manufacturing Industry Trends

- **Increasing Domestic Manufacturing:** Rising wages abroad, pandemic hindering globalization, and industry assistance such as a normal trade relations (NTR) duty between 3%-5% have caused this reemergence
 - Pre-pandemic manufacturing was increasingly moving abroad, primarily to Mexico which accounts for ~44% of imports
- **Increased Focus On Higher Margin Digital Products:** Increasing manufacturing of electronic and mobile-enabled locking systems which are sold for a higher margin in the U.S.

Relatively Stable Market Share (\$3.8bn)



Home Improvement DIY Is The Largest Market



Industry Overview: Cabinet Industry

Increasing market share concentration in the cabinet manufacturing industry

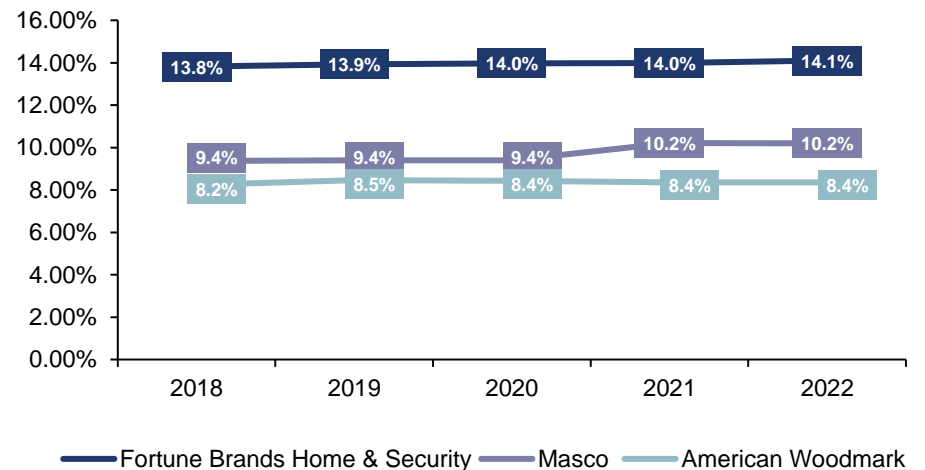
Cabinet Manufacturing Industry Overview

- Cabinet manufacturing is a mature industry with low market share concentration, with ~75% of operators being small (10 or fewer employees)
- Demand is primarily from two downstream channels; remodeling activity and new home construction
- Largest market is retailers, which account for 35% of sales. Home Depot and Lowe's dominate the market, accounting for 80% of retail sales
 - Retailers primarily buy from large cabinet manufacturers due to national distribution networks and economies of scale allowing them to provide large quantities of cheap products and logistics simplification

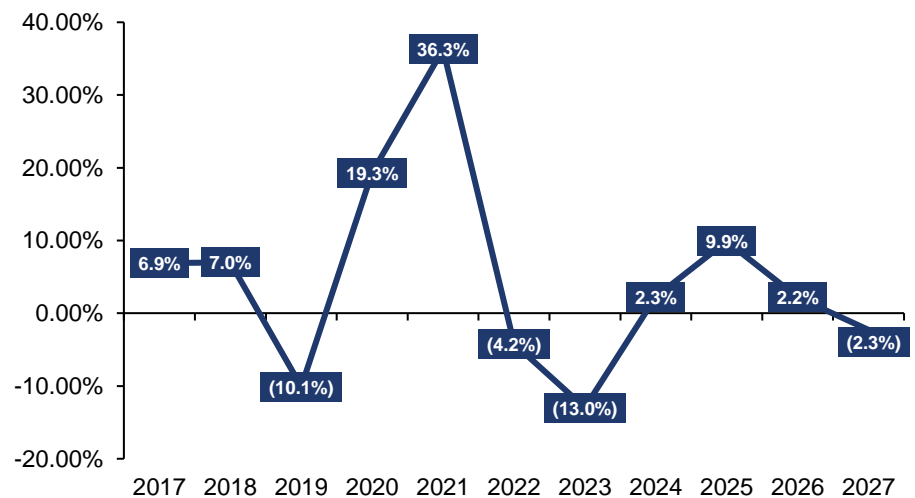
Cabinet Manufacturing Industry Trends

- **Falling Price of Sawmill Lumber:** Prices are expected to fall at an annualized rate of 7% over 5 years till 2027 after surging amid the boom in housing demand
 - This is expected to cause margin expansion given most products are manufactured from wood
- **Increasing Market Share Concentration:** Significant growth of market share by major players following the pandemic as smaller operators go bankrupt amid economic conditions

Rise In Market Share of Major Players (\$17.9bn)



Large Expected Fall in Sawmill Prices



Investment Theses

Investment Thesis: Why Is This a Good Business?

Strong branding and cost management have consistently expanded margins

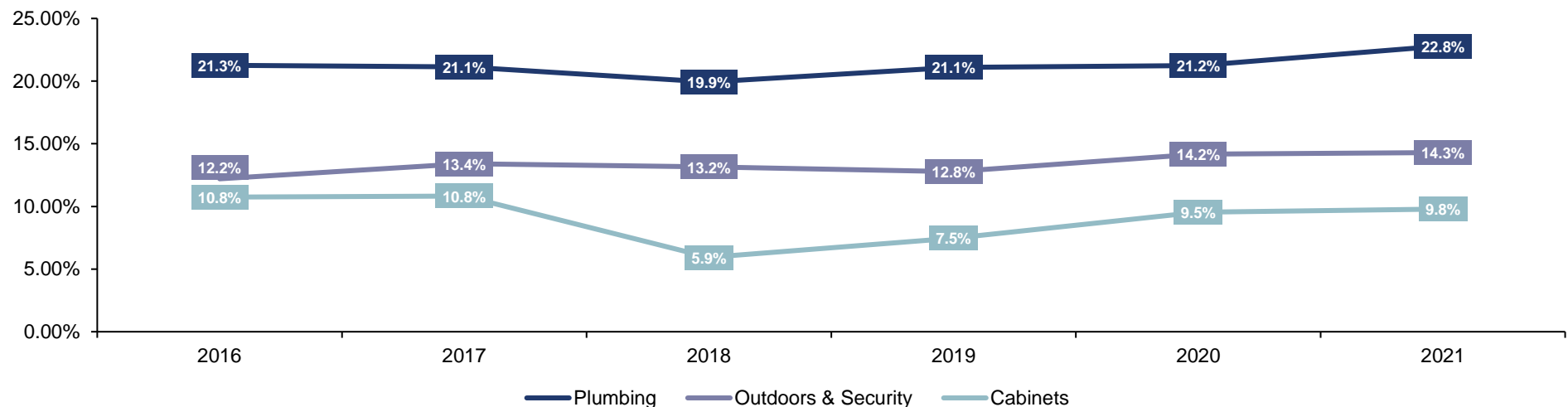
Strong And Diversified Branding

- Strong branding power in the plumbing and outdoors & security segments has allowed FBHS to increase prices at levels greater than inflation
 - Moen is one of their strongest brands selling water-efficient and long-lasting faucets with innovations such as the Moen Smart Network
- Diversified brands targeting all market segments, which broadens FBHS market exposure
 - For example, Moen targets non-residential customers or those looking for efficiency and Rohl is a luxury-class faucets for higher end-markets

Effective Cost Management and Structure

- Simplification of the portfolio and standardized manufacturing has led to cost reductions and margin gains
 - **Example:** In 2018, FBHS had seven brands under its plumbing segment but has now cut down to six in 2022 with a focus on Moen and Rohl banners
- Effective global supply chain management reduces costs by procuring cheap materials from abroad
 - Makes declining input prices, specifically of copper and lumber, impactful given they are a big cost of plumbing
- Historically decentralized structure has allowed for effective management of highly different segments

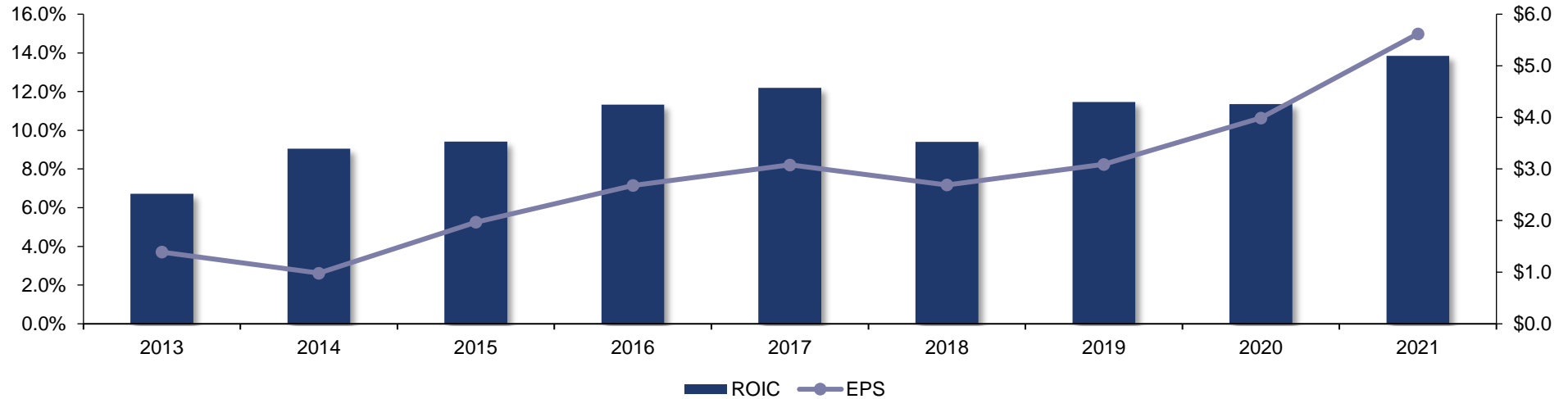
Historic EBITDA Margin Expansion Trend in Plumbing and Outdoors & Security Segment



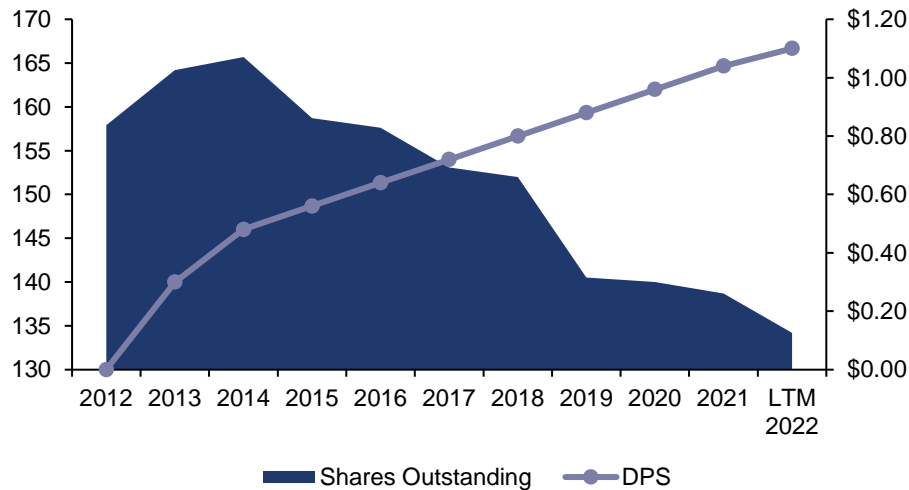
Investment Thesis: Why Is This a Good Business?

FBHS is committed to generating growth and shareholder value with a disciplined strategy

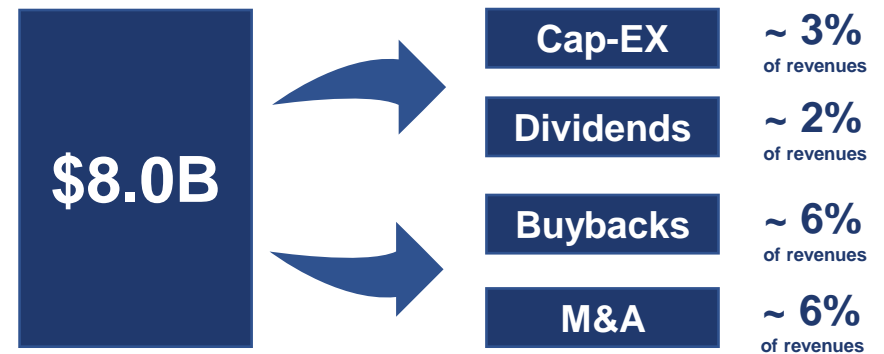
Stable ROIC and EPS Accretion



Strong Buyback and Dividend History



Disciplined Capital Allocation Strategy¹



FBHS **FOCUSED** ON VALUE CREATION

Source(s): Company Filings, S&P CapitalIQ

Spin-off will prioritize the more attractive segments – less cyclical and higher margins

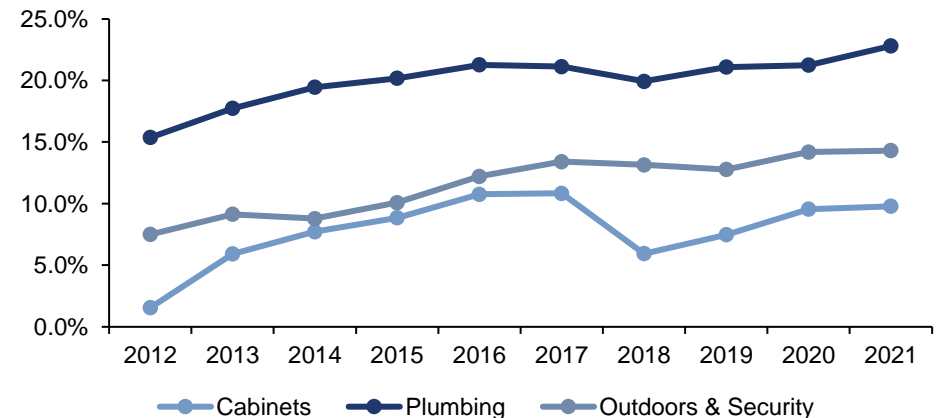
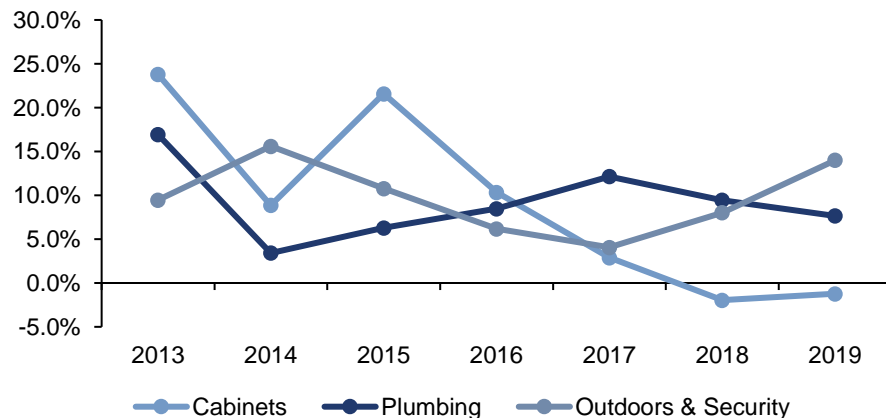
Spin-Off Will Allow FBHS to Prioritize Attractive Water-Innovations and Security Segment

- We believe that the market is over-looking the value-creation that will be created from the spin-off of the cabinet segment:
 - Water innovations possesses industry-leading brands that have consistently outgrown the industry
 - Also boasts the highest operating margins which it has been able to sustain given the large base of established brands in the Company's portfolio
- In comparison, the cabinets segment is the lowest quality segment within FBHS:
 - More cyclical topline and margins given the greater linkage to U.S. housing trends
 - While FBHS holds the industry-leading market share in cabinets (~14%), cabinets are more susceptible to cheaper alternatives (i.e., Chinese imports)
 - Greater branding opportunities in FBHS's other segments lowers the threat from low-cost competition

Segment Revenue Growth

Segment Operating Margins

FBHS's cabinets segment experiences heightened revenue and margin volatility given the exposure to U.S. Housing



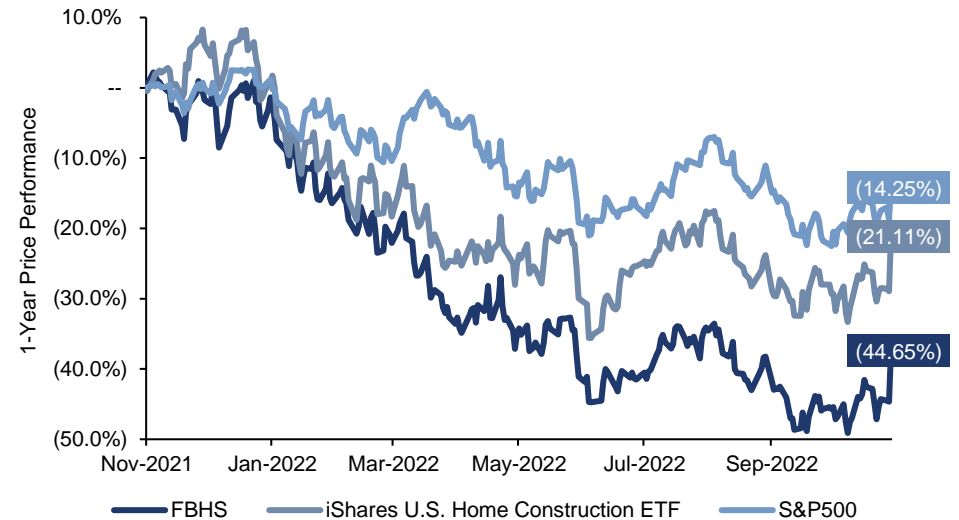
Investment Thesis: What Is The Market Missing?

Being punished for temporary inventory glut; spin-off alleviates pressure

Over-Punished for Short-Term Headwinds

- We believe that FBHS has been overly punished for short-term headwinds impacting the housing market as well as FCF generation
- FBHS has experienced a buildup of inventory in recent quarters; labour availability and supply chain challenges resulted in headwinds during H2 2021
 - Q3'22 inventory balance sits at a record ~\$1.5B; represents a ~26% increase from 2021 levels, and a ~73% increase from 2020
- Management estimates that they brought on an additional \$600M in working capital investment onto their balance sheet during COVID. The focus is on destocking, which may result in lower near-term margins

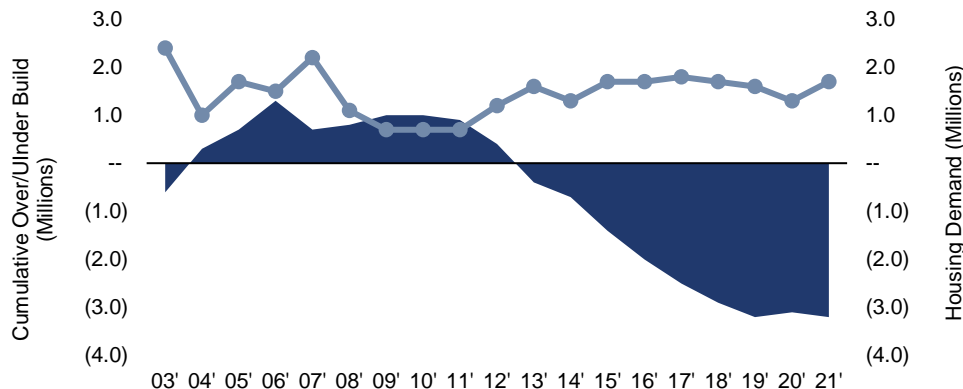
FBHS 1-Year Performance vs. Overall Market



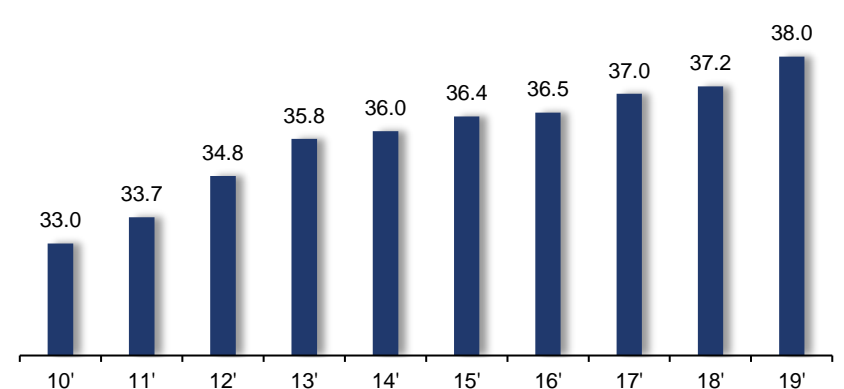
Long-Term Housing Market Dynamics

FBHS's businesses are underpinned by favourable housing market dynamics over the long-term; while short-term headwinds may result in substandard financial performance, we believe that the business is poised to succeed looking out 5 years+

Cumulative Over/Under Build vs. Housing Demand



Aging Installed Base of Homes



Source(s): Company Filings, 2021 Investor Presentation

Similar industrial spin-offs have performed well

A Review of Similar Industrial Spin-Offs

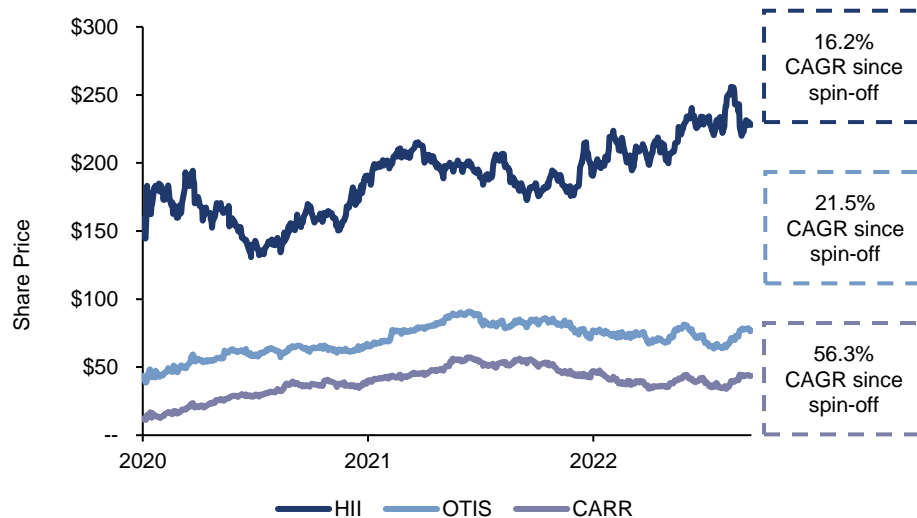
■ Huntington Ingalls Industries, Inc. (HII) from Northrop Grumman (NOC) – Completed March 2011:

- NOC (aerospace and defense Company) spun off its narrowly profitable military shipbuilding segment
- Rationale was for management to focus on their aerospace and technology segment, without the capital-intensive, low margin, and cyclical shipbuilding business distracting them
 - NOC has since returned ~21% annually to shareholders with earnings growing at ~15% per year; operating margins have expanded ~400 bps
 - HII has since returned ~16% annually to shareholders with earnings growing at ~17% per year; operating margins have expanded ~800 bps

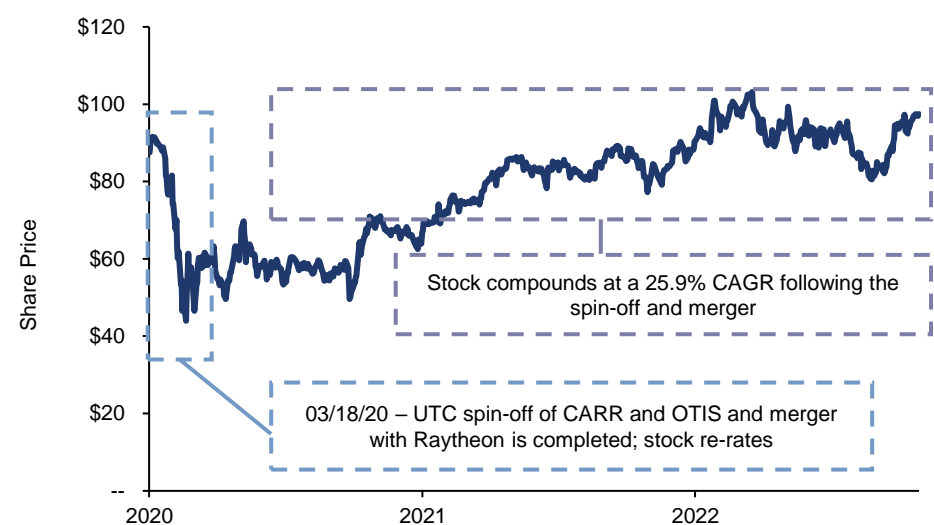
■ Otis Worldwide Corp (OTIS) and Carrier Global Corp (CARR) from UTC – Completed March 2020:

- UTC was a conglomerate that operated in aerospace, HVAC, elevators, security, and automation segments; the Company merged with Raytheon and spun off their elevator and HVAC businesses (OTIS and CARR, respectively)
- OTIS and CARR have returned ~22% and ~56% annually (respectively) since being spun-off from UTC; while the remaining merged entity—Raytheon Technologies (RTX)—has compounded at ~26%

Price Performance of Similar Industrial Spin-Offs



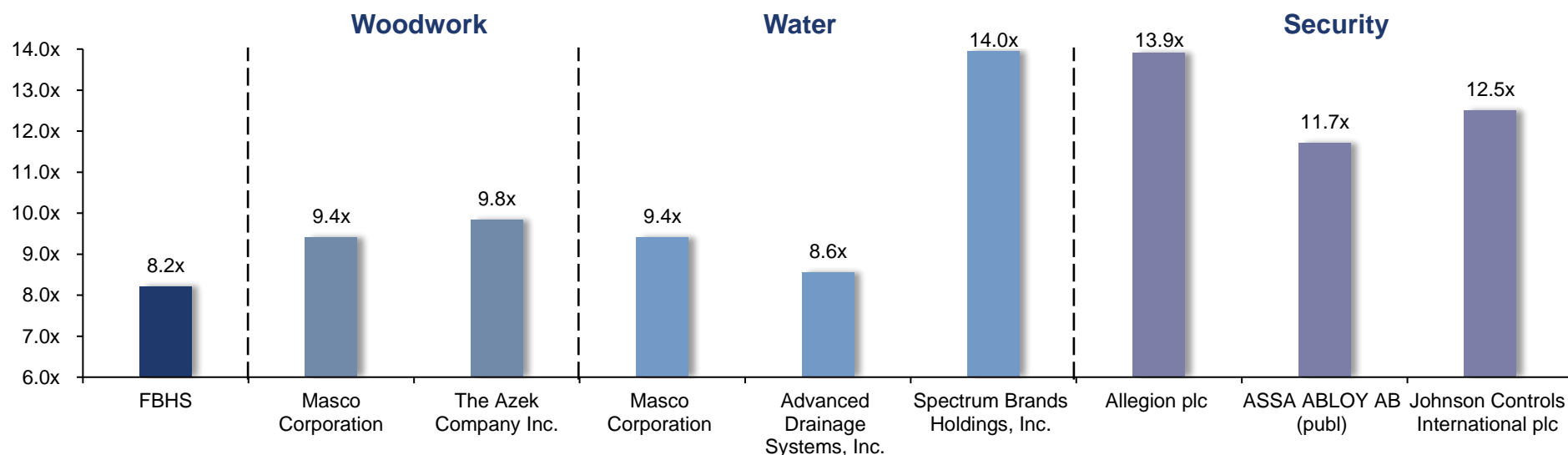
Raytheon (RTX) Price Performance Post-Spin



Investment Thesis: What Is The Market Missing?

FBHS trades at a meaningful discount to major peers in all of its core businesses

Valuation of Peers to FBHS's Core Businesses (FY2023 EV/EBITDA)



Value Within FBHS to be Unlocked Post-Spin

Fortune Brands Innovations, Inc.	
Water Innovations EBITDA (2022E)	626.2
Applicable Multiple	12.0x
EV	7,514.9
Outdoor & Security EBITDA (2022E)	313.5
Applicable Multiple	12.0x
EV	3,762.4
Implied EV of New FBHS	11,277.3
Plus: Cash	345.3
Less: Debt	(2,443.2)
Implied Equity Value	9,179.4
Diluted Shares Outstanding	131.7
Implied Share Price	\$69.70

Fortune Brands Innovations, Inc.	
Operating Income	\$921.6
Net Tangible Assets (BoY)	\$1,329.5
Net Tangible Assets (EoY)	\$1,038.4
Average Net Tangible Assets	\$1,184.0
Return on Net Tangible Assets	77.8%

MasterBrand, Inc.	
Operating Income	\$279.3
Net Tangible Assets (BoY)	\$742.8
Net Tangible Assets (EoY)	\$636.5
Average Net Tangible Assets	\$689.7
Return on Net Tangible Assets	40.5%

- A SOTP analysis Fortune Brands Innovations implies that the value of New FBHS is worth more than current price levels for FBHS (assuming peer multiples)
- An illustrative DCF of New FBHS implies that ~80% of FBHS's value is derived from the Water Innovations and Outdoor and Security segments
- Water innovations and outdoor and security have historically generated higher returns on net tangible assets than the cabinet segment; New FBHS would exhibit RONTA ~14% greater than current FBHS, and ~37% greater than the standalone cabinets business

Investment Thesis: What Is The Market Missing?

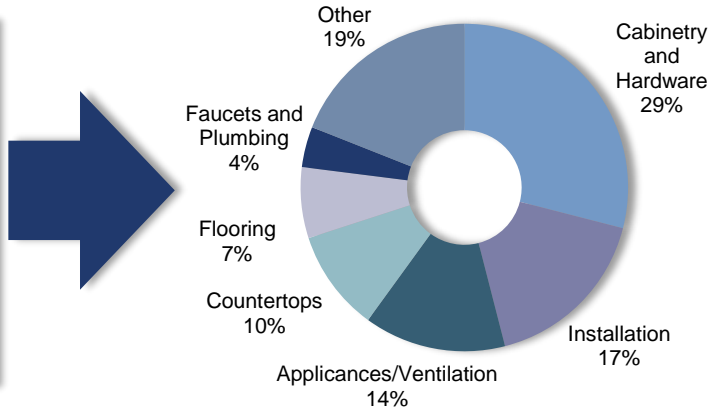
Spin-off will allow FBHS to prioritize water innovations segment—opportunity for margin expansion

Brand	Recorded Time	Average Price at Recorded Time	Average Price (Present)	Price Increase
	2016	\$428.17	\$606.24	1.42x 5.97% CAGR
	2012	\$248.85	\$494.31	1.99x 7.10% CAGR
Top Selling Kitchen Faucets (Lowe's)	2016	\$134.63	\$208.35	1.55x 7.55% CAGR
Top Selling Kitchen Pullout Faucets (faucetdepot.com)	2016	\$457.94	\$748.68	1.63x 8.54% CAGR



The price of faucets have increased significantly over the periods in which we observed, while cabinet prices have remained relatively stagnant in comparison (normalizing for the effects of Covid). **Why has this been the case?**

The average price typical cost to remodel a kitchen sits at ~\$15,000



- Faucets and plumbing make up very little of the total cost to remodel a kitchen (4% on average, ~\$250 average cost)
- The fact that faucets are an integral part of a kitchen's design while comprising a small portion of the total cost has allowed the product line to compete on quality as opposed to price (the same cannot be said for the cabinets segment)—this is why FBHS has been able to raise prices and increase margins
- Spinning-off the cabinets segment will enable FBHS to prioritize it's attractive water innovations segment; we believe the margin expansion trend will continue especially given the increasing interest on modern homes featuring luxury faucets

Source(s): web.archive.org, kolani.ca / homedepot.com / lowes.ca / faucetdepot.com, <https://www.remodelingcosts.org/kitchen-remodel-cost/>

ESG, Risks, Valuation

ESG: Environmental and Social

FBHS maintains strong environmental and social practices



Climate Goals

The Company has set 2030 carbon reduction and renewable energy goals



Intensity Trend Improvements

U.S. intensity for energy, water and waste continuously being improved



Global Reporting

Expanded environmental disclosures to now include global data, critical for setting future goals



Reducing Landfill Impact

FBHS' U.S. facilities have recycled, reused or re-purposed more than two-thirds of the total waste generated in 2021



Financial Wellbeing

Most associates are eligible to participate in a Company-sponsored 401(k) plan and eligible to receive a Company match



Advancing Gender Equality

In 2021, women represented 40% of FBHS U.S. hourly workforce and 42% of its U.S. salaried workforce. Women now represent 40% of the Leadership Team



Health & Wellbeing

\$371 million invested in associate health and wellbeing programs in 2021

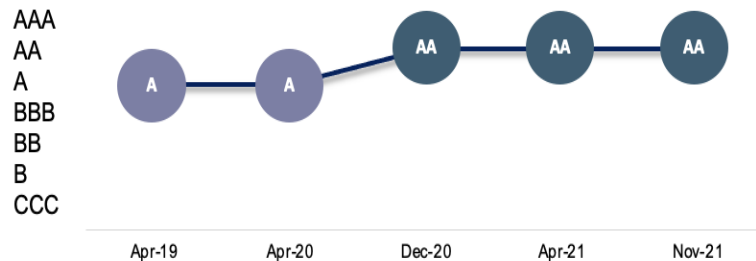


ERGs

Established four enterprise-wide employee resource groups, with more on the way



ESG Rating History



Key Scores

	Weight	Score (0-10)
Industry-Adjusted Score (Last Updated: November 26, 2021)		8.4
Weighted-Average Key Issue Score (Last updated: August 30, 2022)		6.7
Environmental Pillar Score	40%	40%
Social Pillar Score	25%	25%
Governance Pillar Score	35%	35%

How are management and shareholders aligned?: Board structure and refreshment

- Embedded a formal ESG steering committee that reports directly to the CEO – overseen by a Nominated, Environmental, Social & Governance (“NESG”) Committee
 - The NESG and the Board believe that board refreshment and director succession are important to ensuring that the board composition is aligned with shareholders
 - NESG regularly assesses board composition and aims to balance longer-term service members with newer ones; appointed 4 new directors since 2019
- The Board is 90% independent and the CEO and Chairman roles are separated (in-line with industry best practices)
 - Board members include the CEO of Sherwin-Williams, CEO and CFO of Kellogg Company, and EVP/President of Coca-Cola/Coca-Cola Investments Group

FBHS Board of Directors													
Name	11'	12'	13'	14'	15'	16'	17'	18'	19'	20'	21'	22'	Present
Board Members													
Nicholas Fink										Non-Independent (CEO)			
Susan Saltzbart Kilsby					Non-Executive Chair, Independent								
Amit Banati										Independent			
Irial Finan									Independent				
Ann Fritz Hackett					Independent								
A. D. David Mackay					Independent								
John Morikis					Independent								
Jeffery Perry										Independent			
David Thomas					Independent								
Ronald Waters III					Independent								

How are management and shareholders aligned?: Executive compensation structure

- Management is fairly compensated with a balance between equity and non-equity performance compensation
 - Equity and non-equity performance compensation are capped at 200% of targets
- Cash incentive bonus and performance share awards payouts are based on EBITDA, ROIC, RONTA and WCE (particularly relevant as the Company works through their currently high inventory levels)

2021 Annual Cash Incentive Performance Goals and Results									
Named Executive Officer	Metric	Min Performance	Target Performance	Max Performance	Actual Performance	% of Payout	Amount Paid		
Nicholas I. Fink	EPS (60%)	\$4.27	\$4.95	\$5.63	\$5.74				
	RONTA (20%)	45.4%	52.0%	58.6%	57.0%	174.8%	\$2,534,600		
	WCE (20%)	17.4%	16.0%	14.8%	15.7%				
Patrick D. Hallinan	EPS (60%)	\$4.27	\$4.95	\$5.63	\$5.74				
	RONTA (20%)	45.4%	52.0%	58.6%	57.0%	174.8%	\$950,912		
	WCE (20%)	17.4%	16.0%	14.8%	15.7%				
R. David Banyard, Jr.	OI (60%)	\$261M	\$309M	\$356M	\$292M				
	OM (20%)	10.9%	11.8%	12.6%	10.2%	77.8%	\$460,576		
	WCE (20%)	14.9%	13.7%	12.7%	13.1%				
Cheri M. Phyfer	OI (60%)	\$463M	\$522M	\$581M	\$626M				
	OM (20%)	1.1%	3.1%	5.1%	12.1%	183.3%	\$923,832		
	WCE (20%)	17.4%	16.0%	14.8%	15.6%				
Brett E. Finley	OI (60%)	\$256M	\$301M	\$347M	\$305M				
	OM (20%)	14.3%	15.5%	16.5%	15.0%	92.1%	\$442,080		
	WCE (20%)	20.6%	18.9%	17.5%	19.7%				
Robert K. Biggart	EPS (60%)	\$4.27	\$4.95	\$5.63	\$5.74				
	RONTA (20%)	45.4%	52.0%	58.6%	57.0%	174.8%	\$747,270		
	WCE (20%)	17.4%	16.0%	14.8%	15.7%				

2019-2021 PSA Target EBITDA and ROIC Goals and Results						
Metric	Threshold	Target	Maximum	Actual Performance	% of Payout	
EBITDA (75%)	\$2,700M	\$2,850M	\$3,000M	\$3,246M	200.0%	
ROIC (25%)	12.6%	13.5%	14.3%	14.6%		

Source(s): DEF14A – 03/21/22

(1) "RONTA" – Return on net tangible assets

(2) "WCE" – Working capital efficiency

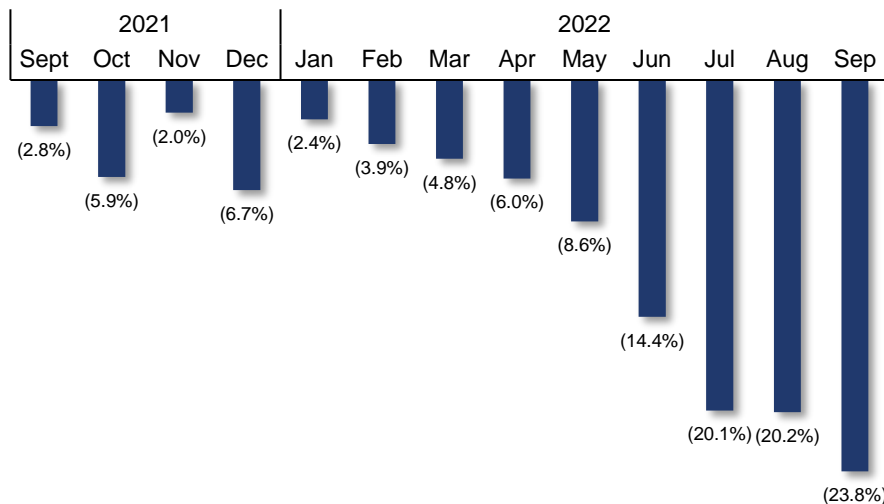
The Bear Case (What Could Go Wrong?)

Housing market slowdown and international markets threaten growth

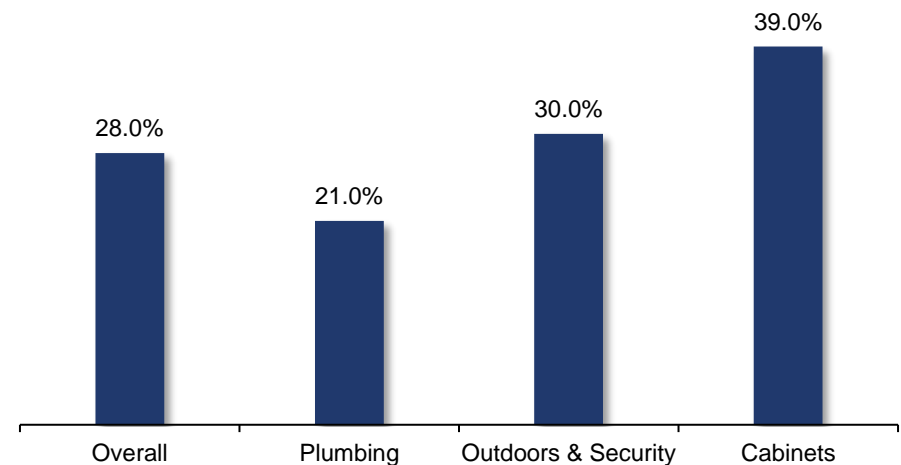
Risks And Mitigations

- **Housing Market Slowdown:** ~35% of residential revenues are tied to new constructions thus any major slowdown may decrease revenues
 - U.S. housing market is short of 3.80 million single-family homes needed to meet demand, a ~52% rise in the nation's home shortage compared to 2018
- **China Zero-COVID Policy:** ~32% of plumbing revenue is from international markets, specifically China, which with the recent Zero-COVID policy has caused international plumbing revenues to fall ~30%. Any continuation may further hurt revenue
 - Only ~6% of revenues are tied to China
- **Customer Concentration:** A large portion of FBHS' revenues come from sales to Home Depot and Lowe's, each making up ~14% of total sales in 2021. Customer concentration can have adverse effects on FBHS's topline and margins
 - FBHS' strong brands give them sufficient bargaining power with Home Depot and Lowe's
 - Competitors like Masco have even greater customer concentration with Home Depot making 36% of their total sales, and Lowe's and Ferguson being ~10% of their sales each. Furthermore, their largest product line (Behr brand) is sold almost exclusively through Home Depot

Decreasing Existing Home Sales Change YoY%



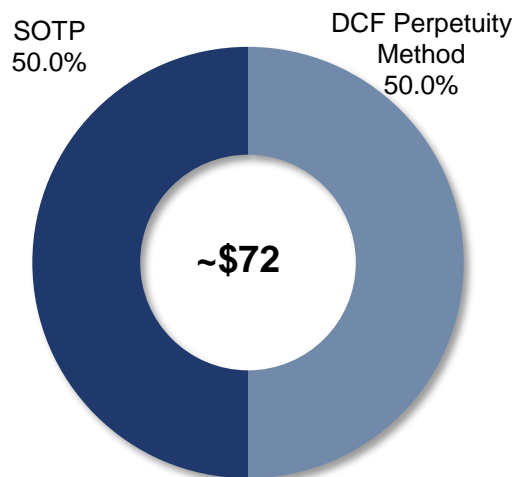
% of Revenue From HD & LOW by Segment



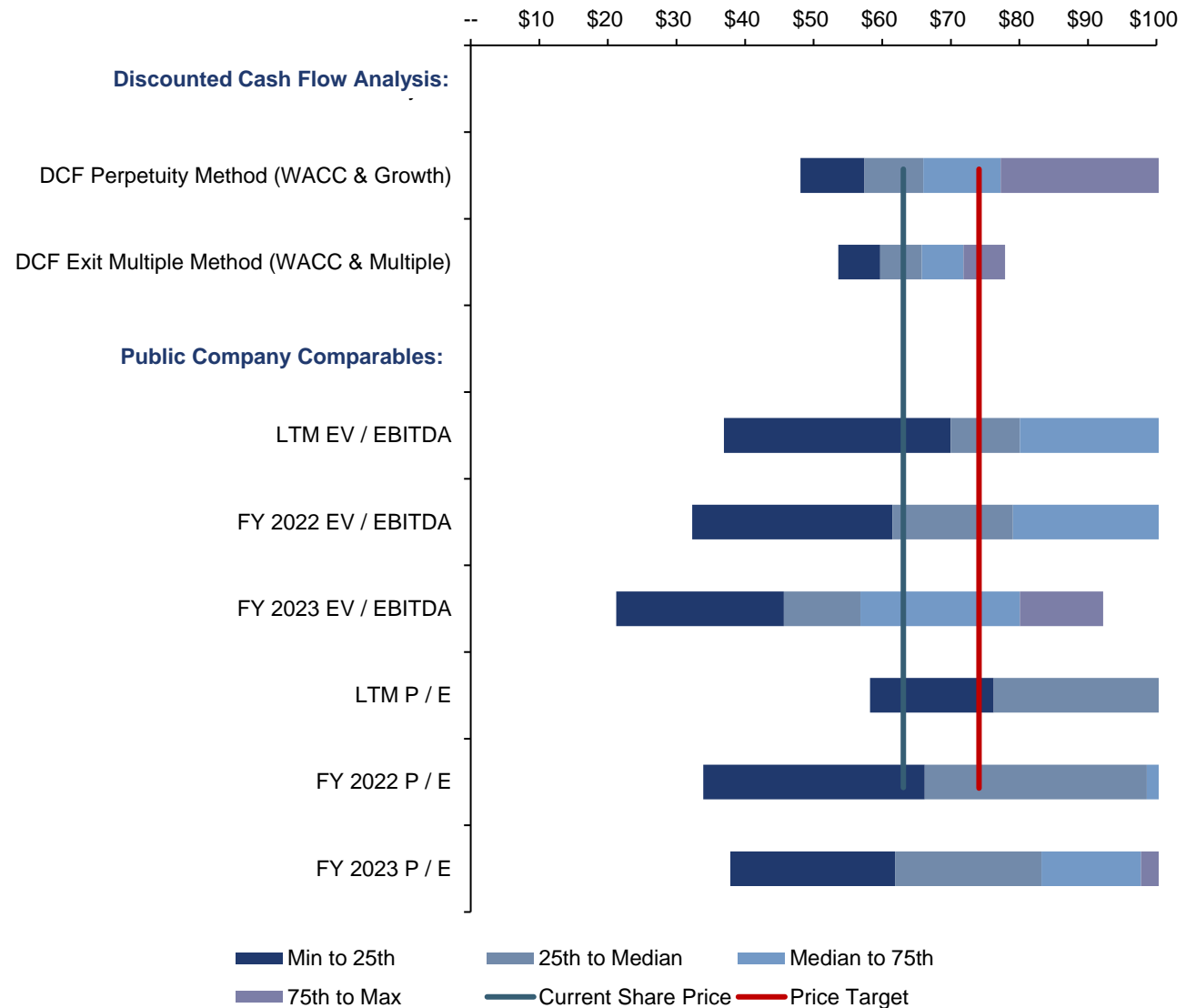
We recommend a **BUY** on FBHS with an implied upside of ~14%

Results and Weighting

- **Current Price:** \$63.08
- **Target Price:** ~\$72
- **Implied Upside:** ~14%



Football Field Valuation Summary¹



Source(s): Company Filings, S&P CapitalIQ

(1) Football field valuation chart was tweaked to avoid distortion; values after \$100 price point were excluded

Discounted Cash Flow Analysis

Operating Income Projections (In \$ Millions)	Actuals				Projections					
	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Cabinets	2,418.6	2,388.5	2,469.0	2,855.0	3,269.0	3,138.2	3,106.8	3,200.0	3,280.0	3,345.6
% Growth	(2.0%)	(1.2%)	3.4%	15.6%	14.5%	(4.0%)	(1.0%)	3.0%	2.5%	2.0%
Plumbing	1,883.3	2,027.2	2,202.1	2,761.2	2,609.3	2,531.1	2,569.0	2,671.8	2,765.3	2,848.3
% Growth	9.4%	7.6%	8.6%	25.4%	(5.5%)	(3.0%)	1.5%	4.0%	3.5%	3.0%
Outdoors and Security	1,183.2	1,348.9	1,419.2	2,039.9	2,162.3	2,173.1	2,260.0	2,339.1	2,409.3	2,469.5
% Growth	8.0%	14.0%	5.2%	43.7%	6.0%	0.5%	4.0%	3.5%	3.0%	2.5%
Total Revenues	5,485.1	5,764.6	6,090.3	7,656.1	8,040.6	7,842.4	7,935.9	8,211.0	8,454.6	8,663.4
% Growth	3.8%	5.1%	5.7%	25.7%	5.0%	(2.5%)	1.2%	3.5%	3.0%	2.5%
Operating Income										
Cabinets	143.5	178.3	235.7	279.3	392.3	235.4	248.5	256.0	262.4	267.7
Operating Margin	5.9%	7.5%	9.5%	9.8%	12.0%	7.5%	8.0%	8.0%	8.0%	8.0%
Plumbing	375.3	427.6	467.9	629.7	626.2	531.5	539.5	574.4	594.5	612.4
Operating Margin	19.9%	21.1%	21.2%	22.8%	24.0%	21.0%	21.0%	21.5%	21.5%	21.5%
Outdoors & Security	155.6	172.3	201.3	291.9	313.5	260.8	282.5	304.1	313.2	321.0
Operating Margin	13.2%	12.8%	14.2%	14.3%	14.5%	12.0%	12.5%	13.0%	13.0%	13.0%
Corporate	(79.2)	(79.7)	(103.5)	(110.5)	(116.0)	(113.2)	(114.5)	(118.5)	(122.0)	(125.0)
% of Revenue	(1.4%)	(1.4%)	(1.7%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)
Total Operating Expenses	(4,889.9)	(5,066.1)	(5,288.9)	(6,565.7)	(6,824.6)	(6,927.9)	(6,979.9)	(7,194.9)	(7,406.5)	(7,587.4)
Operating Income	595.2	698.5	801.4	1,090.4	1,216.0	914.5	956.0	1,016.0	1,048.1	1,076.0
<i>EBIT Margin</i>	10.9%	12.1%	13.2%	14.2%	15.1%	11.7%	12.0%	12.4%	12.4%	12.4%
Tax Rate	27.4%	25.0%	23.3%	23.2%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
NOPAT	432.3	523.7	614.3	838.0	899.8	676.7	707.4	751.9	775.6	796.3
Depreciation	113.5	111.3	121.5	125.0	152.7	148.9	158.7	172.4	186.0	190.6
% of Revenue	2.1%	1.9%	2.0%	1.6%	1.9%	1.9%	2.0%	2.1%	2.2%	2.2%
Operating Assets:										
Accounts receivable	571.7	624.8	734.9	885.7	936.1	880.9	869.7	888.6	909.6	932.1
Inventories	678.9	718.6	867.2	1,193.8	1,502.3	1,099.9	902.3	933.6	961.3	985.0
Other current assets	172.6	166.9	187.3	193.5	223.9	248.0	250.9	259.6	267.4	274.0
Total Operating Assets	1,423.2	1,510.3	1,789.4	2,273.0	2,662.3	2,228.8	2,023.0	2,081.8	2,138.3	2,191.1
					0.73	0.26				
Operating Liabilities:										
Accounts payable	459.0	460.0	620.5	764.9	778.3	686.6	660.1	647.0	666.2	682.7
Other current liabilities	508.1	549.6	724.6	806.2	804.1	745.0	753.9	780.0	803.2	823.0
Total Operating Liabilities	967.1	1,009.6	1,345.1	1,571.1	1,582.4	1,431.7	1,414.0	1,427.1	1,469.4	1,505.7
Net Working Capital	456.1	500.7	444.3	701.9	1,079.9	797.2	609.0	654.8	668.9	685.4
Change in Net Working Capital	(84.2)	(44.6)	56.4	(257.6)	(378.0)	282.7	188.2	(45.8)	(14.1)	(16.5)
% of Revenue	(1.5%)	(0.8%)	0.9%	(3.4%)	(4.7%)	3.6%	2.4%	(0.6%)	(0.2%)	(0.2%)
CapEx	(144.0)	(127.6)	(148.9)	(212.3)	(281.4)	(251.0)	(238.1)	(229.9)	(219.8)	(207.9)
% of Revenue	(2.6%)	(2.2%)	(2.4%)	(2.8%)	(3.5%)	(3.2%)	(3.0%)	(2.8%)	(2.6%)	(2.4%)
Unlevered Free Cash Flow	317.6	462.8	643.3	493.1	393.1	857.4	816.3	648.6	727.7	762.4
Growth	(26.4%)	45.7%	39.0%	(23.4%)	(20.3%)	118.1%	(4.8%)	(20.5%)	12.2%	4.8%
Discount Period					1.0	2.0	3.0	4.0	5.0	6.0
Discount Rate					8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount Factor					0.93	0.86	0.79	0.74	0.68	0.63
PV of Unlevered Free Cash Flow					364.0	735.1	648.0	476.7	495.3	480.5

Fluctuating UFCF projections in FY23 and FY24 is due to the unwind of excess inventory—days sales of inventory has increased from 68 days in 2019 to 95 days in 2022; we model this to normalize by 2025 with margin contraction along the way

Discounted Cash Flow Analysis

Revenue model, margin projections, NWC projections

Revenue Projections (In \$ Millions)	Actuals				Projections					
	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Cabinets	2,418.6	2,388.5	2,469.0	2,855.0	3,269.0	3,138.2	3,106.8	3,200.0	3,280.0	3,345.6
% Growth	(2.0%)	(1.2%)	3.4%	15.6%	14.5%	(4.0%)	(1.0%)	3.0%	2.5%	2.0%
Plumbing	1,883.3	2,027.2	2,202.1	2,761.2	2,609.3	2,531.1	2,569.0	2,671.8	2,765.3	2,848.3
% Growth	9.4%	7.6%	8.6%	25.4%	(5.5%)	(3.0%)	1.5%	4.0%	3.5%	3.0%
Outdoors and Security	1,183.2	1,348.9	1,419.2	2,039.9	2,162.3	2,173.1	2,260.0	2,339.1	2,409.3	2,469.5
% Growth	8.0%	14.0%	5.2%	43.7%	6.0%	0.5%	4.0%	3.5%	3.0%	2.5%
Total Revenues	5,485.1	5,764.6	6,090.3	7,656.1	8,040.6	7,842.4	7,935.9	8,211.0	8,454.6	8,663.4
% Growth	3.8%	5.1%	5.7%	25.7%	5.0%	(2.5%)	1.2%	3.5%	3.0%	2.5%

Operating Income Projections (In \$ Millions)	Actuals				Projections					
	2013A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Operating Income										
Cabinets	97.1	178.3	235.7	279.3	392.3	235.4	248.5	256.0	262.4	267.7
Operating Margin	5.9%	7.5%	9.5%	9.8%	12.0%	7.5%	8.0%	8.0%	8.0%	8.0%
Plumbing	228.3	427.6	467.9	629.7	626.2	531.5	539.5	574.4	594.5	612.4
Operating Margin	17.7%	21.1%	21.2%	22.8%	24.0%	21.0%	21.0%	21.5%	21.5%	21.5%
Outdoors & Security	70.7	172.3	201.3	291.9	313.5	260.8	282.5	304.1	313.2	321.0
Operating Margin	9.1%	12.8%	14.2%	14.3%	14.5%	12.0%	12.5%	13.0%	13.0%	13.0%
Corporate	(73.1)	(79.7)	(103.5)	(110.5)	(116.0)	(113.2)	(114.5)	(118.5)	(122.0)	(125.0)
% of Revenue	(2.0%)	(1.4%)	(1.7%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)
Total Operating Expenses	(3,380.6)	(5,066.1)	(5,288.9)	(6,565.7)	(6,824.6)	(6,927.9)	(6,979.9)	(7,194.9)	(7,406.5)	(7,587.4)
Operating Income	323.0	698.5	801.4	1,090.4	1,216.0	914.5	956.0	1,016.0	1,048.1	1,076.0

NWC Assumptions	Actuals				Projections						
	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E	
Balance Sheet Drivers:											
Days Sales Outstanding:	# Days	38.0	39.6	44.0	42.2	42.0	41.0	40.0	39.5	39.3	39.3
Days Sales of Inventory:	# Days	65.4	68.8	73.9	76.7	95.3	85.0	80.0	75.0	70.0	70.0
Other Current Assets % Revenue	%	3.1%	2.9%	3.1%	2.5%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Days Payable Outstanding:	# Days	47.7	45.3	57.8	56.9	55.0	50.0	47.5	45.0	45.0	45.0
Other Current Liabilities % Revenue:	%	9.3%	9.5%	11.9%	10.5%	10.0%	9.5%	9.5%	9.5%	9.5%	9.5%

Discounted Cash Flow

DCF Output and Sensitivity Analysis

Perpetuity Growth Method	
Cumulative PV of FCF	3,199.5
% of Enterprise Value	28.1%
Terminal Value	
Final Year UFCF	762.4
Perpetuity Growth Rate	2.0%
Terminal Value	12,961.0
PV of Terminal Value	8,167.7
% of Enterprise Value	71.9%
Total Enterprise Value	11,367.1
Cash	345.3
Cash from dilutives	121.8
Debt	(3,387.2)
Non-controlling interests	--
Investments in affiliates	--
Total Equity Value	8,447.0
Diluted Shares Outstanding	131.7
Implied Share Price	\$64.14
Current Share Price	\$63.08
Implied Margin of Safety	1.7%

Exit Multiple Method	
Cumulative PV of FCF	3,199.5
% of Enterprise Value	27.6%
Terminal Value	
Final Year EBITDA	1,266.6
Exit EBITDA Multiple	10.5x
Terminal Value	13,299.5
PV of Terminal Value	8,381.0
% of Enterprise Value	72.4%
Total Enterprise Value	11,580.4
Cash	345.3
Cash from dilutives	121.8
Debt	(3,387.2)
Non-controlling interests	--
Investments in affiliates	--
Total Equity Value	8,660.3
Diluted Shares Outstanding	131.7
Implied Share Price	\$65.76
Current Share Price	\$63.08
Implied Margin of Safety	4.3%

		Perpetuity Growth Rate				
		1.5%	2.0%	2.0%	2.5%	3.0%
WACC	7.0%	\$74.11	\$81.62	\$81.62	\$90.79	\$102.25
	7.5%	\$65.97	\$72.08	\$72.08	\$79.42	\$88.38
	8.0%	\$59.09	\$64.14	\$64.14	\$70.11	\$77.28
	8.5%	\$53.19	\$57.42	\$57.42	\$62.36	\$68.19
	9.0%	\$48.08	\$51.66	\$51.66	\$55.80	\$60.62

		Exit EBITDA Multiple				
		8.5x	9.5x	10.5x	11.5x	12.5x
WACC	7.0%	\$53.67	\$59.73	\$65.79	\$71.85	\$77.91
	7.5%	\$53.65	\$59.71	\$65.78	\$71.84	\$77.90
	8.0%	\$53.64	\$59.70	\$65.76	\$71.82	\$77.89
	8.5%	\$53.63	\$59.69	\$65.75	\$71.81	\$77.87
	9.0%	\$53.62	\$59.68	\$65.74	\$71.80	\$77.86

		Perpetuity Growth Rate				
		1.5%	2.0%	2.0%	2.5%	3.0%
WACC	7.0%	17.5%	29.4%	29.4%	43.9%	62.1%
	7.5%	4.6%	14.3%	14.3%	25.9%	40.1%
	8.0%	(6.3%)	1.7%	1.7%	11.1%	22.5%
	8.5%	(15.7%)	(9.0%)	(9.0%)	(1.1%)	8.1%
	9.0%	(23.8%)	(18.1%)	(18.1%)	(11.5%)	(3.9%)

		Exit EBITDA Multiple				
		8.5x	9.5x	10.5x	11.5x	12.5x
WACC	7.0%	(9.0%)	1.1%	11.3%	21.5%	31.6%
	7.5%	(12.0%)	(2.2%)	7.7%	17.6%	27.5%
	8.0%	(15.0%)	(5.4%)	4.3%	13.9%	23.5%
	8.5%	(17.8%)	(8.5%)	0.9%	10.2%	19.6%
	9.0%	(20.6%)	(11.5%)	(2.4%)	6.7%	15.8%

Rationale

■ Revenue

- ❑ Projections are based on the supporting revenue model. FY2022 and FY2023 projections are in-line with guidance and consensus estimates
- ❑ Conservative growth assumptions with terminal growth sitting at 2.8%, modest decline in revenue in FY2023

■ Cost Structure, NWC, and CapEx Projections

- ❑ Assume margins contract in FY23 and FY24 as FBHS works through excess inventory
- ❑ Margins in the terminal year assumed to be in line with 2019 levels and historical levels; could prove to be conservative given the historical margin improvement trend at FBHS, and management's expectations that margins will continue to expand following the spin-off
- ❑ Modelled inventory based on how days sales of inventory has trended historically (we assume inventory levels normalize by 2025)
- ❑ D&A and CapEx for FY 2022 were projected in-line with historicals; assume CapEx returns to historical levels going forward (no guidance given)

■ Terminal Value Assumptions

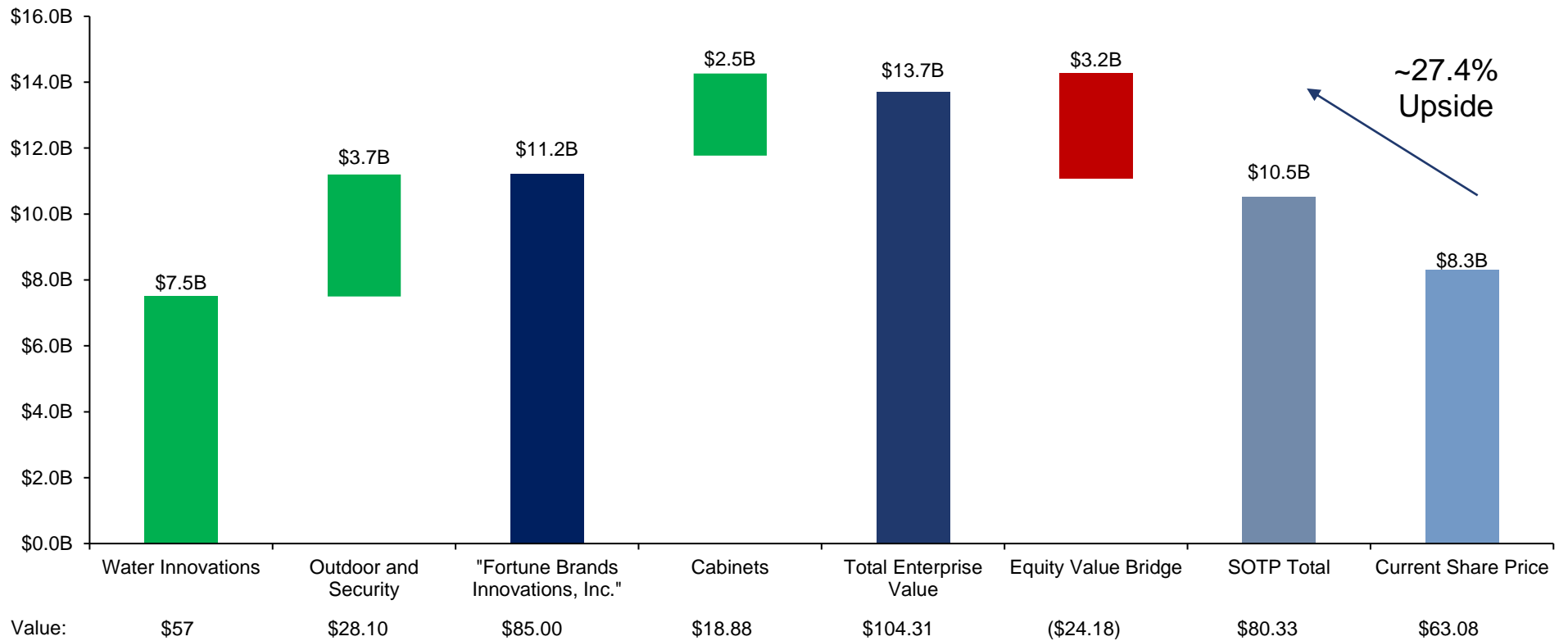
- ❑ 8% WACC represents YUSIF's hurdle rate
- ❑ 2% perpetuity growth rate is used; assumed that growth into perpetuity would be in line with GDP; FCF growth rate in the terminal year sits at 4.8% while revenue growth rate sits at 2.5%
- ❑ 10.9x terminal multiple on EBITA is used; in line with public comparables alongside the average 10-year NTM EV/EBITDA multiple in which FBHS has traded at

SOTP Valuation	
Cabinet EBITDA (2022E)	392.3
Applicable Multiple	6.3x
EV	2,486.2
Water Innovations EBITDA (2022E)	626.2
Applicable Multiple	12.0x
EV	7,514.9
Outdoor & Security EBITDA (2022E)	313.5
Applicable Multiple	12.0x
EV	3,762.4
SOTP	13,763.4
Plus: Cash	345.3
Plus: Marketable Securities	--
Less: Total Debt	(3,529.6)
Less: Preferred Stock	--
Less: Minority Interest	--
Implied Equity Value	10,579.1
Diluted Shares Outstanding	131.7
Implied Share Price	\$80.33
Current Share Price	\$63.08
Implied Upside	27.4%

- Multiples chosen based on 2022 respective peer group multiples
 - In line with how these segments have historically traded
- Water innovations and security segment have historically fetched a higher multiple than cabinets given them being superior businesses

SOTP Analysis

Spin-off acts as catalyst to realize SOTP value



Public Company Comparables

	Equity Value (\$M)	Enterprise Value (\$M)	EV / Revenue			EV / EBITDA			P / E			Leverage	Return Metrics (LTM)		
			LTM	2022E	2023E	LTM	2022E	2023E	LTM	2022E	2023E	Debt/EBITDA	ROIC	ROA	ROE
Home Building Products															
Masco Corporation	\$10,290	\$13,631	1.6x	1.6x	1.6x	9.0x	9.0x	9.5x	12.0x	11.8x	12.4x	2.3x	26.6%	15.5%	na
The AZEK Company Inc.	\$2,532	\$3,051	2.2x	2.3x	2.3x	10.5x	10.5x	10.1x	21.3x	18.4x	16.8x	2.7x	4.0%	3.6%	5.2%
American Woodmark Corporation	\$774	\$1,343	0.7x	0.6x	0.7x	9.2x	6.3x	6.8x	nmf	7.2x	7.8x	2.9x	4.3%	3.7%	1.8%
Masonite International Corporation	\$1,609	\$2,386	0.8x	0.8x	0.8x	5.8x	5.2x	5.4x	10.2x	7.1x	8.0x	2.2x	11.5%	9.0%	22.5%
JELD-WEN Holding, Inc.	\$799	\$2,593	0.5x	0.5x	0.6x	7.7x	6.3x	7.0x	14.7x	5.4x	6.9x	4.8x	4.8%	3.5%	7.4%
Median	\$1,609	\$2,593	0.8x	0.8x	0.8x	9.0x	6.3x	7.0x	13.3x	7.2x	8.0x	2.7x	4.8%	3.7%	6.3%
Average	\$3,201	\$4,601	1.2x	1.2x	1.2x	8.4x	7.5x	7.8x	14.6x	10.0x	10.4x	3.0x	10.2%	7.1%	9.3%
Plumbing/Drainage/Faucet Companies															
Masco Corporation	\$10,290	\$13,631	1.6x	1.6x	1.6x	9.0x	9.0x	9.5x	12.0x	11.8x	12.4x	2.3x	26.6%	15.5%	na
Comfort Systems USA, Inc.	\$4,281	\$4,726	1.2x	1.2x	1.1x	15.7x	14.6x	12.7x	18.8x	23.1x	19.1x	1.5x	10.3%	7.6%	24.6%
Advanced Drainage Systems, Inc.	\$7,052	\$7,923	2.5x	2.5x	2.6x	9.6x	8.6x	8.9x	15.4x	13.3x	13.6x	1.5x	10.6%	6.2%	26.5%
Spectrum Brands Holdings, Inc.	\$1,916	\$4,956	1.6x	1.5x	1.5x	21.5x	16.8x	14.0x	17.9x	41.9x	19.3x	15.9x	20.5%	15.4%	46.5%
Median	\$5,667	\$6,440	1.6x	1.5x	1.6x	12.6x	11.8x	11.1x	16.6x	18.2x	16.4x	1.9x	15.5%	11.5%	26.5%
Average	\$5,885	\$7,809	1.7x	1.7x	1.7x	13.9x	12.3x	11.3x	16.0x	22.5x	16.1x	5.3x	17.0%	11.2%	32.5%
Security Companies															
Allegion plc	\$9,394	\$11,443	3.7x	3.5x	3.3x	17.3x	15.8x	14.2x	21.6x	19.5x	17.7x	3.3x	na	na	na
ASSA ABLOY AB (publ)	\$23,432	\$26,037	2.5x	2.4x	2.2x	14.2x	12.7x	11.7x	20.6x	19.0x	17.5x	1.4x	13.2%	10.3%	52.4%
Johnson Controls International plc	\$44,849	\$52,912	2.1x	2.1x	1.9x	16.4x	14.0x	12.7x	29.3x	20.6x	18.1x	2.8x	10.3%	7.8%	16.4%
Median	\$23,432	\$26,037	2.5x	2.4x	2.2x	16.4x	14.0x	12.7x	21.6x	19.5x	17.7x	2.8x	11.8%	9.1%	34.4%
Average	\$25,891	\$30,131	2.8x	2.6x	2.5x	16.0x	14.2x	12.9x	23.8x	19.7x	17.8x	2.5x	11.8%	9.1%	34.4%
Overall Peer Group															
Median	\$5,667	\$6,440	1.6x	1.6x	1.6x	10.0x	9.7x	9.8x	17.9x	15.8x	15.2x	2.5x	10.6%	7.8%	22.5%
Average	\$9,768	\$12,053	1.7x	1.7x	1.7x	12.2x	10.7x	10.2x	17.6x	16.6x	14.1x	3.6x	13.0%	8.9%	22.6%
Fortune Brands Home & Security, Inc.	\$7,454	\$10,638	1.3x	1.3x	1.4x	7.9x	7.6x	8.2x	9.9x	9.9x	9.9x	2.5x	11.6%	8.9%	24.7%

Discounted Cash Flow

Illustrative Valuation of Fortune Brands Innovations, Inc. ("New FBHS")

Discounted Cash Flow Analysis		Actuals				Projections					
(In \$ Millions)	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E	
Plumbing	1,883.3	2,027.2	2,202.1	2,761.2	2,609.3	2,531.1	2,569.0	2,671.8	2,765.3	2,848.3	
% Growth	9.4%	7.6%	8.6%	25.4%	(5.5%)	(3.0%)	1.5%	4.0%	3.5%	3.0%	
Outdoors and Security	1,183.2	1,348.9	1,419.2	2,039.9	2,162.3	2,173.1	2,260.0	2,339.1	2,409.3	2,469.5	
% Growth	8.0%	14.0%	5.2%	43.7%	6.0%	0.5%	4.0%	3.5%	3.0%	2.5%	
Total Revenues	3,066.5	3,376.1	3,621.3	4,801.1	4,771.6	4,704.2	4,829.0	5,010.9	5,174.6	5,317.8	
% Growth	8.9%	10.1%	7.3%	32.6%	(0.6%)	(1.4%)	2.7%	3.8%	3.3%	2.8%	
Operating Income											
Plumbing	375.3	427.6	467.9	629.7	626.2	531.5	539.5	574.4	594.5	612.4	
Operating Margin	19.9%	21.1%	21.2%	22.8%	24.0%	21.0%	21.0%	21.5%	21.5%	21.5%	
Outdoors & Security	155.6	172.3	201.3	291.9	313.5	260.8	282.5	304.1	313.2	321.0	
Operating Margin	13.2%	12.8%	14.2%	14.3%	14.5%	12.0%	12.5%	13.0%	13.0%	13.0%	
Corporate	(79.2)	(79.7)	(103.5)	(110.5)	(109.8)	(67.9)	(69.7)	(72.3)	(74.7)	(76.8)	
% of Revenue	(2.6%)	(2.4%)	(2.9%)	(2.3%)	(2.3%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	
Total Operating Expenses	(2,614.8)	(2,855.9)	(3,055.6)	(3,990.0)	(3,941.7)	(3,979.8)	(4,076.7)	(4,204.7)	(4,341.5)	(4,461.1)	
Operating Income	451.7	520.2	565.7	811.1	830.0	724.4	752.3	806.2	833.1	856.7	
EBIT Margin	14.7%	15.4%	15.6%	16.9%	17.4%	15.4%	15.6%	16.1%	16.1%	16.1%	
Tax Rate	27.4%	25.0%	23.3%	23.2%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	
NOPAT	328.1	390.0	433.7	623.3	614.2	536.1	556.7	596.6	616.5	633.9	
Depreciation	59.3	64.3	70.9	77.8	90.6	94.1	101.4	110.2	113.8	117.0	
% of Revenue	1.9%	1.9%	2.0%	1.6%	1.9%	2.0%	2.1%	2.2%	2.2%	2.2%	
CapEx	(75.7)	(99.3)	(106.9)	(162.3)	(167.0)	(141.1)	(144.9)	(150.3)	(155.2)	(159.5)	
% of Revenue	(2.5%)	(2.9%)	(3.0%)	(3.4%)	(3.5%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)	(3.0%)	
Unlevered Free Cash Flow	311.7	355.0	397.7	538.8	537.8	489.0	513.2	556.5	575.1	591.4	
Growth	8.5%	13.9%	12.0%	35.5%	(0.2%)	(9.1%)	5.0%	8.4%	3.3%	2.8%	
Discount Period					1.0	2.0	3.0	4.0	5.0	6.0	
Discount Rate					8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Discount Factor					0.93	0.86	0.79	0.74	0.68	0.63	
PV of Unlevered Free Cash Flow					497.9	419.3	407.4	409.0	391.4	372.7	

Footnote(s): (1) Did not factor in NWC into UFCF projections given limited information

Discounted Cash Flow

Illustrative Valuation of Fortune Brands Innovations, Inc. ("New FBHS") - Output

Perpetuity Growth Method	
Cumulative PV of FCF	2,497.7
% of Enterprise Value	28.3%
Terminal Value	
Final Year UFCF	591.4
Perpetuity Growth Rate	2.0%
Terminal Value	10,053.6
PV of Terminal Value	6,335.5
% of Enterprise Value	71.7%
Total Enterprise Value	8,833.2
Cash	345.3
Debt	(2,443.2)
Total Equity Value	6,735.3
Diluted Shares Outstanding	131.7
New FBHS Implied Share Price	\$51.14
Current FBHS Share Price	\$63.08
Implied Margin of Safety	(18.9%)

Exit Multiple Method	
Cumulative PV of FCF	2,497.7
% of Enterprise Value	25.3%
Terminal Value	
Final Year EBITDA	973.7
Exit EBITDA Multiple	12.0x
Terminal Value	11,683.8
PV of Terminal Value	7,362.8
% of Enterprise Value	74.7%
Total Enterprise Value	9,860.5
Cash	345.3
Debt	(2,443.2)
Total Equity Value	7,762.6
Diluted Shares Outstanding	131.7
New FBHS Implied Share Price	\$58.95
Current FBHS Share Price	\$63.08
Implied Margin of Safety	(6.6%)

		Perpetuity Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.0%	\$54.01	\$58.86	\$64.68	\$71.80	\$80.69
	7.5%	\$48.55	\$52.56	\$57.30	\$62.99	\$69.94
	8.0%	\$43.87	\$47.23	\$51.14	\$55.78	\$61.33
	8.5%	\$39.81	\$42.66	\$45.94	\$49.77	\$54.29
	9.0%	\$36.27	\$38.70	\$41.48	\$44.69	\$48.43

		Exit EBITDA Multiple				
		10.0x	11.0x	12.0x	13.0x	14.0x
WACC	7.0%	\$49.66	\$54.32	\$58.98	\$63.64	\$68.30
	7.5%	\$49.65	\$54.30	\$58.96	\$63.62	\$68.28
	8.0%	\$49.63	\$54.29	\$58.95	\$63.61	\$68.26
	8.5%	\$49.61	\$54.27	\$58.93	\$63.59	\$68.25
	9.0%	\$49.59	\$54.25	\$58.91	\$63.57	\$68.23

		Perpetuity Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.0%	(14.4%)	(6.7%)	2.5%	13.8%	27.9%
	7.5%	(23.0%)	(16.7%)	(9.2%)	(0.1%)	10.9%
	8.0%	(30.5%)	(25.1%)	(18.9%)	(11.6%)	(2.8%)
	8.5%	(36.9%)	(32.4%)	(27.2%)	(21.1%)	(13.9%)
	9.0%	(42.5%)	(38.7%)	(34.2%)	(29.2%)	(23.2%)

		Exit EBITDA Multiple				
		10.0x	11.0x	12.0x	13.0x	14.0x
WACC	7.0%	(16.1%)	(8.3%)	(0.5%)	7.3%	15.1%
	7.5%	(18.8%)	(11.2%)	(3.6%)	4.0%	11.6%
	8.0%	(21.3%)	(13.9%)	(6.6%)	0.8%	8.2%
	8.5%	(23.8%)	(16.6%)	(9.4%)	(2.3%)	4.9%
	9.0%	(26.2%)	(19.2%)	(12.2%)	(5.2%)	1.7%

Appendix

Management Profiles

Reputable and experienced corporate officers

Chief Executive Officer

Nicholas Fink



- Mr. Fink has served as the Chief Executive Officer of Fortune Brands since January 2020 and joined Fortune Brands in June 2015 as senior vice president – global growth and development
- Prior to joining Fortune Brands, Mr. Fink worked at Beam Suntory, where he held several management positions, including president of Asia Pacific and South America, where he led eight operating units in 45 markets

Senior Vice President & Group President

Cheri Phyfer



- Ms. Phyfer joined Fortune Brands in 2018 and is responsible for the Company's brand, innovation, and channel organizations to further build and accelerate growth
- Ms. Phyfer spent over 20 years at The Sherwin-Williams Company as the President of the Consumer Brands Group

Senior Vice President & Chief Financial Officer

Patrick Hallinan



- Mr. Hallinan has served as senior vice president and chief financial officer (CFO) for Fortune Brands since 2017. Prior to this, Mr. Hallinan was senior vice president – finance at Fortune Brands
- Prior to joining the Company, Mr. Hallinan served as vice president of finance at Beam, Inc. He also spent over seven years with Booz Allen Hamilton, a global management consulting firm

Senior Vice President & Chief Supply Chain Officer

Ron Wilson



- Mr. Wilson joined in November 2019 and is responsible for driving operations including strategic sourcing, manufacturing efficiency and capacity, distribution, planning, and logistics
- Prior to joining Fortune Brands, Mr. Wilson spent over 30 years at General Electric across a variety of roles including VP of Operations for the Industrial Solutions business, VP of Operations for the GE Lighting business, and Chief Procurement Officer for GE corporate

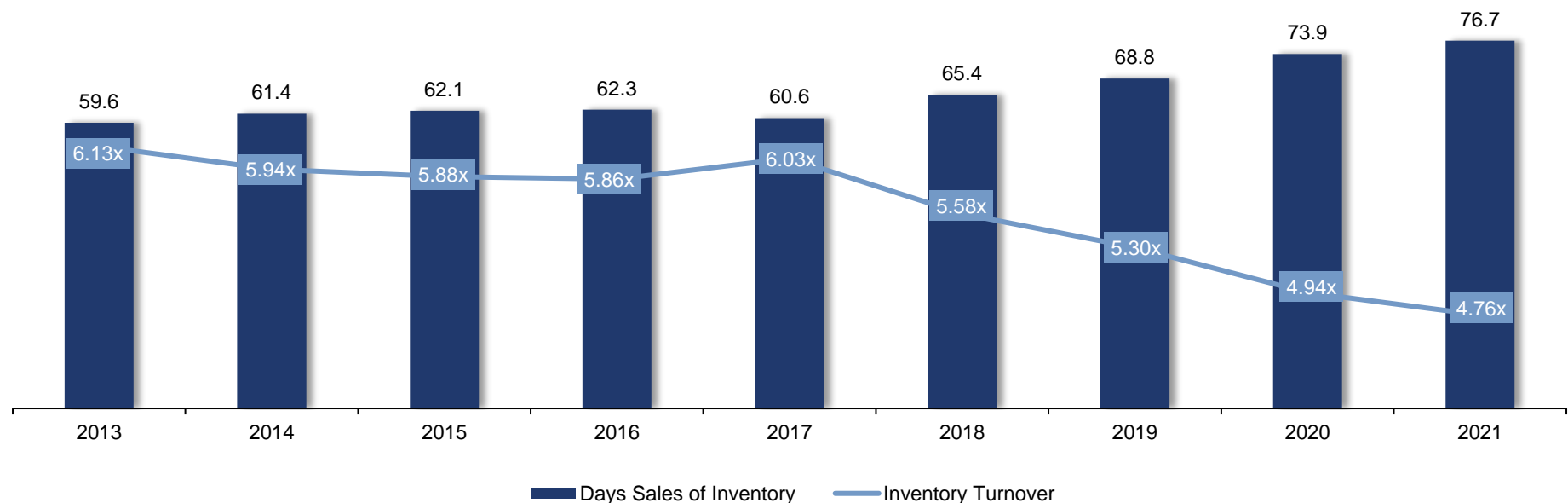
Ownership Structure

Name of Beneficial Owner	Shares Owned	% Owned
<u>Executive Officers & Directors</u>		
Amit Banati	3,307	0.00%
R. David Banyard, Jr.	45,261	0.03%
Robert K. Biggart	192,869	0.15%
Irial Finan	8,637	0.01%
Nicholas I. Fink	315,700	0.24%
Brett E. Finley	113,718	0.09%
Ann F. Hackett	37,176	0.03%
Patrick D. Hallinan	163,538	0.12%
Susan S. Kilsby	15,590	0.01%
A. D. David Mackay	6,000	0.00%
John G. Morikis	46,369	0.04%
Jeffery S. Perry	3,307	0.00%
Cheri M. Phyfer	46,774	0.04%
David M. Thomas	38,042	0.03%
Ronald V. Waters, III	14,370	0.01%
Ron Wilson	2,870	0.00%
Luburic Danny	9,671	0.01%
Total	1,063,199	0.81%
<u>>5% Beneficial Owners</u>		
The Vanguard Group	14,577,112	11.07%
FMR, LLC	6,842,985	5.20%
BlackRock, Inc.	11,010,606	8.36%
JP Morgan Chase & Co.	5,235,984	3.98%
Total	37,666,687	28.60%
Total Management Shares	38,729,886	29.41%
Total Shares Outstanding	131,690,246	
Management Shares	38,729,886	
Calculated Float	92,960,360	
% of SO	70.6%	

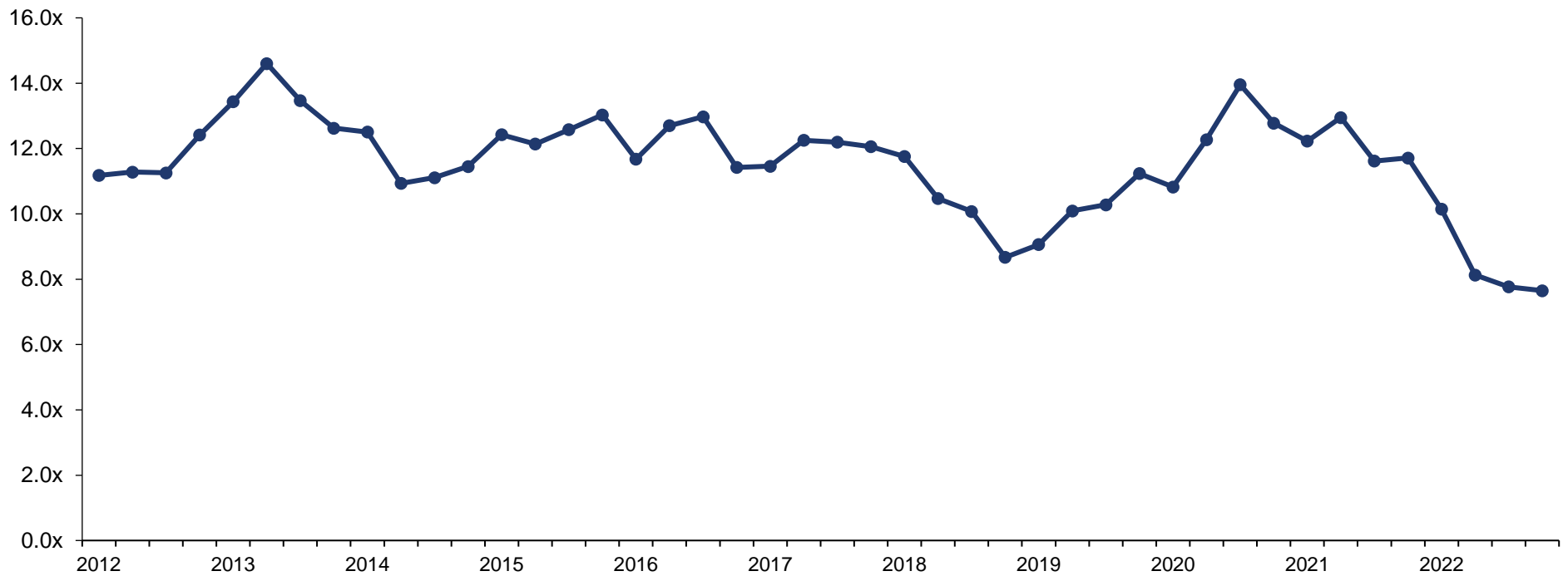
Executive Compensation

Name and Principal Position	Year	Salary	Bonus	Stock & Option Awards	Cash Incentive Compensation	All Other Compensation	Total
Nicholas I. Fink - CEO	2021	\$ 1,148,462	\$ -	\$ 6,150,003	\$ 2,534,600	\$ 337,316	\$ 10,170,381
	2020	\$ 1,097,138	\$ -	\$ 6,524,966	\$ 1,765,088	\$ 228,782	\$ 9,615,974
	2019	\$ 804,569	\$ -	\$ 2,999,985	\$ 717,440	\$ 143,684	\$ 4,665,678
Patrick D. Hallinan - CFO	2021	\$ 671,346	\$ -	\$ 1,899,966	\$ 950,912	\$ 128,554	\$ 3,650,778
	2020	\$ 630,897	\$ -	\$ 2,200,021	\$ 655,828	\$ 134,932	\$ 3,621,678
	2019	\$ 605,000	\$ -	\$ 1,600,012	\$ 427,763	\$ 105,060	\$ 2,737,835
R. David Banyard, Jr. - President, Cabinets	2021	\$ 736,154	\$ -	\$ 2,149,963	\$ 460,576	\$ 19,700	\$ 3,366,393
	2020	\$ 720,000	\$ -	\$ 2,449,979	\$ 471,744	\$ 17,142	\$ 3,658,865
	2019	\$ 69,231	\$ 725,000	\$ 2,749,989	\$ -	\$ 124	\$ 3,544,344
Cheri M. Phyfer - President, Plumbing	2021	\$ 623,077	\$ -	\$ 1,575,017	\$ 923,832	\$ 69,466	\$ 3,191,392
	2020	\$ 575,229	\$ -	\$ 2,049,950	\$ 673,485	\$ 53,862	\$ 3,352,526
Brett E. Finley - President, Outdoors & Security	2021	\$ 597,750	\$ -	\$ 1,374,998	\$ 442,080	\$ 148,002	\$ 2,562,830
	2020	\$ 555,856	\$ -	\$ 1,600,012	\$ 561,759	\$ 68,663	\$ 2,786,290
	2019	\$ 566,154	\$ -	\$ 1,699,961	\$ 338,153	\$ 29,740	\$ 2,634,008
Robert K. Biggart - General Counsel	2021	\$ 566,539	\$ -	\$ 1,200,001	\$ 747,270	\$ 107,362	\$ 2,621,172

- Pent-up demand over Covid resulted in FBHS building up excess inventory levels which management is focusing on destocking into FY23 and beyond
 - Patrick D. Hallinan – Senior VP & CFO (FBHS Q3'22 Earnings Call):
 - “We put, since the pandemic broke, somewhere on the order of \$500 million to \$600 million of working capital investment onto our balance sheet, which is pretty considerable, considering we started with a base that was around \$900 million to \$1 billion in total.”
 - “So all you're picking up there is we have a meaningful amount of inventory to work off the balance sheet next year, probably in the \$200 million to \$400 million range.”
- We model out inventory returning to normalized levels by 2025 based on historical days sales of inventory figures



NTM EV/EBITDA Multiple Trend



Capital Structure and Dilutive Securities

Capital Structure (USD\$M)

Stock Price (USD\$)	\$63.08
Basic Shares O/S	128.2
Dilutives	3.4
FD Shares	131.7
Market Capitalization	\$8,307.0
Cash	(\$345.3)
Cash from dilutives	(\$121.8)
Debt	\$3387.2
Non-controlling interests	\$0.0
Investments in affiliates	\$0.0
Enterprise Value	\$11,227.1

Dilutive Securities

Share Price		\$63.08			
Common Shares		128.2			
Opt / War as of		30-Jun-22			
				in/out of the	
Options	Tranch	Options (millions)	WAEP	money (1/0)	Cash
Options - Dec 31, 2021 Balance	1	1.947	\$62.56	1.0	\$121.8
Options - Exercised in 2022	1	(0.100)	\$62.56	1.0	(\$6.3)
	1			-	-
RSUs - Dec 31, 2021 Balance		1.601	\$0.00	1.0	
DSUs				-	
Total =		3.4	Total		\$121.8
Tot. in-the-money =		3.4			
Tot. Common + In-the-money =		131.7			
Vested Options =		3.4			
			Shares repurchased =		1.9
			Net Shares created from option exercise =		1.5
			FD shares out (TSM) =		129.8
			FD shares out (common + options) =		131.7
			All-In WAEP =		\$33.51