

Fortune Brands Home & Security, Inc.
Form 10-Q
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-35166

FORTUNE BRANDS HOME & SECURITY, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

incorporation or organization)

520 Lake Cook Road, Deerfield, Illinois
(Address of principal executive offices)

Registrant's telephone number, including area code: (847) 484-4400

62-1411546
(I.R.S. Employer

Identification No.)

60015-5611
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, at October 19, 2018 was 141,404,857.

PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS.**FORTUNE BRANDS HOME & SECURITY, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Nine and Three Months Ended September 30, 2018 and 2017**

(In millions, except per share amounts)

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 4,064.4	\$ 3,900.8	\$ 1,380.8	\$ 1,348.6
Cost of products sold	2,606.8	2,468.1	886.9	843.3
Selling, general and administrative expenses	932.8	880.3	305.1	297.9
Amortization of intangible assets	25.3	23.6	8.9	7.5
Loss on sale of product line (see Note 4)		2.4		
Asset impairment charges	27.1	3.2	27.1	
Restructuring charges	17.3	3.5	5.7	0.4
Operating income	455.1	519.7	147.1	199.5
Interest expense	51.1	36.5	19.0	12.3
Other income, net	(15.8)	(9.2)	(9.6)	(2.2)
Income before income taxes	419.8	492.4	137.7	189.4
Income taxes	115.1	145.1	37.8	59.8
Income from continuing operations, net of tax	304.7	347.3	99.9	129.6
Loss from discontinued operations, net of tax	(0.2)	(2.6)		
Net income	304.5	344.7	99.9	129.6
Less: Noncontrolling interests	0.1	0.1	0.1	0.1
Net income attributable to Fortune Brands	\$ 304.4	\$ 344.6	\$ 99.8	\$ 129.5
Basic earnings per common share				
Continuing operations	\$ 2.09	\$ 2.26	\$ 0.70	\$ 0.84
Discontinued operations		(0.02)		
Net income attributable to Fortune Brands common shareholders	\$ 2.09	\$ 2.24	\$ 0.70	\$ 0.84
Diluted earnings per common share				
Continuing operations	\$ 2.06	\$ 2.22	\$ 0.69	\$ 0.83

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Discontinued operations (0.02)

Net income attributable to Fortune Brands common shareholders	\$ 2.06	\$ 2.20	\$ 0.69	\$ 0.83
Comprehensive income	\$ 298.0	\$ 391.1	\$ 107.4	\$ 158.7

See notes to condensed consolidated financial statements.

FORTUNE BRANDS HOME & SECURITY, INC.**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 389.9	\$ 323.0
Accounts receivable, net	635.4	555.3
Inventories	684.3	580.8
Other current assets	180.6	142.6
Total current assets	1,890.2	1,601.7
Property, plant and equipment, net of accumulated depreciation	776.3	740.0
Goodwill	2,063.3	1,912.0
Other intangible assets, net of accumulated amortization	1,333.8	1,162.4
Other assets	106.1	95.3
Total assets	\$ 6,169.7	\$ 5,511.4
Liabilities and equity		
Current liabilities		
Short-term debt	\$ 525.0	\$
Accounts payable	437.7	428.8
Other current liabilities	488.9	478.0
Total current liabilities	1,451.6	906.8
Long-term debt	1,988.4	1,507.6
Deferred income taxes	149.2	166.8
Accrued defined benefit plans	162.1	175.9
Other non-current liabilities	184.8	153.2
Total liabilities	3,936.1	2,910.3
Commitments and contingencies (see Note 18)		
Equity		
Fortune Brands stockholders' equity		
Common stock ^(a)	1.8	1.7
Paid-in capital	2,760.8	2,724.9
Accumulated other comprehensive loss	(45.7)	(39.2)
Retained earnings	1,393.4	1,174.2
Treasury stock	(1,878.4)	(1,262.1)

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Total Fortune Brands stockholders' equity	2,231.9	2,599.5
Noncontrolling interests	1.7	1.6
Total equity	2,233.6	2,601.1
Total liabilities and equity	\$ 6,169.7	\$ 5,511.4

^(a) *Common stock, par value \$0.01 per share: 180.6 million shares and 179.8 million shares issued at September 30, 2018 and December 31, 2017, respectively.*

See notes to condensed consolidated financial statements.

FORTUNE BRANDS HOME & SECURITY, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Months Ended September 30, 2018 and 2017**

(In millions)

(Unaudited)

	2018	2017
Operating activities		
Net income	\$ 304.5	\$ 344.7
Non-cash items affecting net income:		
Depreciation	83.6	72.7
Amortization	25.3	23.6
Stock-based compensation	31.9	32.7
Recognition of actuarial losses (gains)	0.3	(1.3)
Deferred income taxes	(11.4)	8.2
Loss on sale of product line		2.4
Asset impairment charges	27.1	3.2
Amortization of deferred financing fees	1.5	1.5
Loss on sale of property, plant and equipment	1.9	0.3
Changes in assets and liabilities:		
Increase in accounts receivable	(52.0)	(34.5)
Increase in inventories	(50.8)	(60.7)
Increase (decrease) in accounts payable	6.4	(3.5)
Increase in other assets	(19.6)	(28.0)
Decrease in accrued expenses and other liabilities	(7.3)	(23.9)
Increase in accrued taxes	2.3	15.2
Net cash provided by operating activities	343.7	352.6
Investing activities		
Capital expenditures ^(a)	(106.5)	(95.5)
Proceeds from disposition of assets	1.3	0.2
Proceeds from sale of product line		1.5
Cost of acquisitions, net of cash acquired	(466.0)	(19.4)
Other investing activities, net	2.8	
Net cash used in investing activities	(568.4)	(113.2)
Financing activities		
Increase in short-term debt	525.0	
Issuance of long-term debt	2,091.2	375.0
Repayment of long-term debt	(1,610.0)	(345.0)
Proceeds from the exercise of stock options	4.1	25.8

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Treasury stock purchases	(602.7)	(173.7)
Employee withholding taxes paid related to stock-based compensation	(13.6)	(10.2)
Deferred acquisition payment		(12.4)
Dividends to stockholders	(87.1)	(82.7)
Other financing, net	0.5	(0.3)
Net cash provided by (used in) financing activities	307.4	(223.5)
Effect of foreign exchange rate changes on cash	(7.8)	9.7
Net increase in cash and cash equivalents	\$ 74.9	\$ 25.6
Cash, cash equivalents and restricted cash ^(b) at beginning of period	\$ 323.0	\$ 251.5
Cash, cash equivalents and restricted cash ^(b) at end of period	\$ 397.9	\$ 277.1

(a) Capital expenditures of \$9.1 million and \$11.3 million that have not been paid as of September 30, 2018 and 2017, respectively, were excluded from the Statements of Cash Flows.

(b) Restricted cash of \$0.9 and \$7.1 million is included in Other current assets and Other assets, respectively, as of September 30, 2018 within our Condensed Consolidated Balance Sheet. There was no restricted cash as of December 31, 2017.

See notes to condensed consolidated financial statements.

FORTUNE BRANDS HOME & SECURITY, INC.**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY****For the Nine Months Ended September 30, 2018 and 2017**

(In millions)

(Unaudited)

	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2016	\$ 1.7	\$ 2,653.8	\$ (71.9)	\$ 814.6	\$(1,036.7)	\$ 1.5	\$ 2,363.0
Comprehensive income:							
Net income				344.6		0.1	344.7
Other comprehensive income			46.4				46.4
Stock options exercised		25.7					25.7
Stock-based compensation		32.7			(10.2)		22.5
Treasury stock purchase					(173.7)		(173.7)
Dividends (\$0.54 per common share)				(82.7)			(82.7)
Balance at September 30, 2017	\$ 1.7	\$ 2,712.2	\$ (25.5)	\$ 1,076.5	\$(1,220.6)	\$ 1.6	\$ 2,545.9
Balance at December 31, 2017	\$ 1.7	\$ 2,724.9	\$ (39.2)	\$ 1,174.2	\$(1,262.1)	\$ 1.6	\$ 2,601.1
Comprehensive income:						&n	