


# MASCO CORPORATION
# Fourth Quarter and Full Year 2019 Earnings Presentation

February 11, 2020

# Safe Harbor Statement

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This presentation contains statements that reflect our views about our future performance and constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “outlook,” “believe,” “anticipate,” “appear,” “may,” “will,” “should,” “intend,” “plan,” “estimate,” “expect,” “assume,” “seek,” “forecast,” and similar references to future periods. Our views about future performance involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against relying on any of these forward-looking statements.

Our future performance may be affected by the levels of residential repair and remodel activity and new home construction, our ability to maintain our strong brands and reputation and to develop innovative products, our ability to maintain our competitive position in our industries, our reliance on key customers, the cost and availability of materials and the imposition of tariffs, our dependence on third-party suppliers, risks associated with our international operations and global strategies, our ability to achieve the anticipated benefits of our strategic initiatives, including the pending divestiture of our Cabinetry business, our ability to successfully execute our acquisition strategy and integrate businesses that we have and may acquire, our ability to attract, develop and retain talented personnel, risks associated with our reliance on information systems and technology, and our ability to achieve the anticipated benefits from our investments in new technology. These and other factors are discussed in detail in Item 1A "Risk Factors" of this Report. Any forward-looking statement made by us speaks only as of the date on which it was made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise.

# Agenda

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Summary of Results – Keith Allman

Financial / Operations Review – John Sznewajs

Q&A


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# Delivered on Commitments to Drive Shareholder Value

**Driving Shareholder Value**

- Solid top-line growth in North American plumbing and paint
- Completed the sale of Milgard Windows and Doors
- Signed agreement for sale of Masco Cabinetry business
- Repurchased 8.6 million shares for $456 million

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# Executed on Transformation of Business

**Driving Shareholder Value**

- Drove top-line growth and mitigated impact of tariffs
- Gained share and invested in new products and programs
- Grew adjusted EPS by 6%
- Returned over $1 billion to shareholders
- Completed divestitures of windows businesses and signed agreement for sale of cabinetry business
- Achieved a return on invested capital from continuing operations of 29%
- Full year 2020 adjusted EPS guidance of $2.35-$2.55 per share

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# Finished Year on Plan Achieving 6% Adjusted EPS Growth

| ($ in Millions) | Fourth Quarter 2019 | Full Year 2019 |
|---|---|---|
| Revenue<br>Y-O-Y Change | $1,639<br>- | $6,707<br>1% |
| Operating Profit*<br>Y-O-Y Change | $257<br>($24) | $1,110<br>($16) |
| Operating Margin*<br>Y-O-Y Change | 15.7%<br>(150) bps | 16.5%<br>(40) bps |
| Adjusted EPS*<br>Y-O-Y Change | $0.54<br>- | $2.25<br>6% |

**See Appendix for GAAP reconciliation.*

**Quarter Highlights**

- Total company sales increased 1% excluding the impact of FX
- In local currency, North American sales increased 1%
- In local currency, international sales decreased 1%
- FX unfavorably impacted sales by $7 million
- Operating profit impacted by mix, unfavorable price/cost and higher variable costs

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# Strong North American Plumbing Growth

| ($ in Millions) | Fourth Quarter 2019 | Full Year 2019 |
|---|---|---|
| Revenue<br>Y-O-Y Change | $1,026<br>2% | $3,984<br>- |
| Operating Profit*<br>Y-O-Y Change | $180<br>($5) | $721<br>($3) |
| Operating Margin*<br>Y-O-Y Change | 17.5%<br>(90) bps | 18.1%<br>- |

**Excludes business rationalization charges for the fourth quarter and the full year 2019 of $2 million and $13 million, respectively, and for the fourth quarter and the full year 2018 of $4 million and $9 million, respectively.*

**Quarter Highlights**

- Total segment sales increased 3% excluding the impact of FX
- In local currency, North American sales increased 5% and international sales decreased 1%
- Record sales quarters at Delta and Watkins
- FX unfavorably impacted sales by $9 million
- Operating profit impacted by higher variable costs, partially offset by incremental volume

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# Solid Paint Performance

| ($ in Millions) | Fourth Quarter 2019 | Full Year 2019 |
|---|---|---|
| Revenue<br>Y-O-Y Change | $613<br>(3%) | $2,723<br>3% |
| Operating Profit*<br>Y-O-Y Change | $100<br>($18) | $489<br>($7) |
| Operating Margin*<br>Y-O-Y Change | 16.3%<br>(240) bps | 18.0%<br>(70) bps |

**Excludes impairment charge for full year 2019 of $9 million, and Kichler inventory step up adjustment for full year 2018 of $40 million.*

**Quarter Highlights**

- PRO paint sales grew mid single digits
- DIY paint sales grew low single digits
- Growth in paint (including approximately $20 million of sales pulled forward from Q1 2020) offset by lower volumes in lighting
- Operating profit impacted by lower volume, unfavorable price/cost relationship and higher incentives

# Strong Balance Sheet

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| Balance Sheet Metrics as of 12/31/2019 | |
|---|---|
| Cash and cash investments | $697M |
| Revolver availability | $1,000M |
| Total liquidity | $1,697M |
| | |
| Net leverage | 1.7x |
| Working capital as a % of sales | 15.7% |

**Highlights**

- Working capital as a percentage of sales improved 10 bps compared to prior year
- Repurchased approximately 20.1 million shares for approximately $900 million
- Increased annual dividend 13%
- Retired approximately $200 million of debt
- Expect net proceeds of approximately $645 million from the sale of Masco Cabinetry, after tax and expenses

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Q&A


# Q&A

# Appendix

# Profit Reconciliations – Fourth Quarter

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| *($ in Millions)* | Q4 2019 | Q4 2018 |
|---|---|---|
| **Net sales** | **$ 1,639** | **$ 1,635** |
| **Gross profit, as reported** | **$ 565** | **$ 568** |
| Rationalization charges | 2 | 4 |
| **Gross profit, as adjusted** | **$ 567** | **$ 572** |
| *Gross margin, as reported* | *34.5%* | *34.7%* |
| *Gross margin, as adjusted* | *34.6%* | *35.0%* |
| **Selling, general and administrative expenses, as reported** | **$ 310** | **$ 291** |
| *Selling, general and administrative expenses as percent of net sales, as reported* | *18.9%* | *17.8%* |
| **Operating profit, as reported** | **$ 255** | **$ 277** |
| Rationalization charges | 2 | 4 |
| **Operating profit, as adjusted** | **$ 257** | **$ 281** |
| *Operating margin, as reported* | *15.6%* | *16.9%* |
| *Operating margin, as adjusted* | *15.7%* | *17.2%* |

# Profit Reconciliations – Full Year

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| ($ in Millions) | 2019 | 2018 |
|---|---|---|
| **Net sales** | $ 6,707 | $ 6,654 |
| **Gross profit, as reported** | $ 2,371 | $ 2,327 |
| Rationalization charges | 9 | 9 |
| Kichler inventory step up adjustment | - | 40 |
| **Gross profit, as adjusted** | $ 2,380 | $ 2,376 |
| *Gross margin, as reported* | *35.4%* | *35.0%* |
| *Gross margin, as adjusted* | *35.5%* | *35.7%* |
| **Selling, general and administrative expenses, as reported** | $ 1,274 | $ 1,250 |
| *Rationalization charges* | 4 | - |
| **Selling, general and administrative expenses, as adjusted** | $ 1,270 | $ 1,250 |
| *Selling, general and administrative expenses as percent of net sales, as reported* | *19.0%* | *18.8%* |
| *Selling, general and administrative expenses as percent of net sales, as adjusted* | *18.9%* | *18.8%* |
| **Operating profit, as reported** | $ 1,088 | $ 1,077 |
| Rationalization charges | 13 | 9 |
| Kichler inventory step up adjustment | - | 40 |
| Impairment charge for other intangible assets | 9 | - |
| **Operating profit, as adjusted** | $ 1,110 | $ 1,126 |
| *Operating margin, as reported* | *16.2%* | *16.2%* |
| *Operating margin, as adjusted* | *16.5%* | *16.9%* |

# EPS Reconciliation – Fourth Quarter

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| *(in Millions, Except per Common Share Data)* | Q4 2019 | Q4 2018 |
|---|---|---|
| **Income from continuing operations before income taxes, as reported** | **$ 217** | **$ 236** |
| Rationalization charges | 2 | 4 |
| (Gains) from private equity funds, net | - | (1) |
| (Earnings) from equity investments, net | - | (1) |
| **Income from continuing operations before income taxes, as adjusted** | **$ 219** | **$ 238** |
| Tax at 26% rate | (57) | (62) |
| Less: Net income attributable to noncontrolling interest | 10 | 14 |
| **Income from continuing operations, as adjusted** | **$ 152** | **$ 162** |
| **Income from continuing operations per common share,as adjusted** | **$ 0.54** | **$ 0.54** |
| Average diluted common shares outstanding | 282 | 299 |

# EPS Reconciliation – Full Year

MASCO

| *(in Millions, Except per Common Share Data)* | 2019 | 2018 |
|---|---|---|
| **Income from continuing operations before income taxes, as reported** | **$ 914** | **$ 907** |
| Rationalization charges | 13 | 9 |
| Kichler inventory step up adjustment | - | 40 |
| Impairment charge for other intangible assets | 9 | - |
| (Gains) from private equity funds, net | - | (1) |
| (Earnings) from equity investments, net | (1) | (3) |
| **Income from continuing operations before income taxes, as adjusted** | **$ 935** | **$ 952** |
| Tax at 26% rate | (243) | (248) |
| Less: Net income attributable to noncontrolling interest | 45 | 50 |
| **Income from continuing operations, as adjusted** | **$ 647** | **$ 654** |
| **Income from continuing operations per common share, as adjusted** | **$ 2.25** | **$ 2.13** |
| Average diluted common shares outstanding | 288 | 307 |

# Working Capital as a % of Sales and EPS Outlook Reconciliation

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| *(in Millions)* | As of December 31, 2019 | |
|---|---|---|
| Receivables | $ | 997 |
| Inventories | | 754 |
| Less: Accounts payable | | (697) |
| Working Capital | $ | 1,054 |
| Working capital as a % of sales (last 12 months) | | 15.7% |

| | 2020 | | | |
|---|---|---|---|---|
| | Low End | | High End | |
| **Income from continuing operations per common share** | **$** | **2.25** | **$** | **2.45** |
| Rationalization charges | | 0.02 | | 0.02 |
| Pension costs associated with expected terminated plans (1) | | 0.06 | | 0.06 |
| Allocation to participating securities per share (2) | | 0.02 | | 0.02 |
| **Income from continuing operations per common share, as adjusted** | **$** | **2.35** | **$** | **2.55** |

(1) Represents costs associated with our qualified defined-benefit domestic pension plans that are expected to be terminated in 2021.

(2) Represents the impact of distributed dividends and undistributed earnings to unvested restricted stock awards in accordance with the two-class method of calculating earnings per share.

# Net Leverage Reconciliation

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| *($ in Millions)* | | December 31,2019 |
|---|---|---|
| **Debt** | **$** | **2,773** |
| Less: Cash and cash investments | | (697) |
| **Net Debt** | **$** | **2,076** |

| *($ in Millions)* | | Year End December 31, 2019 |
|---|---|---|
| **Operating profit, as reported** | **$** | **1,088** |
| Rationalization charges | | 13 |
| Impairment charge for other intangible assets | | 9 |
| **Operating profit, as adjusted** | **$** | **1,110** |
| Depreciation and amortization | | **130** |
| **EBITDA, as adjusted** | **$** | **1,240** |
| **Net Debt to EBITDA** | | 1.7X |

# Return on Invested Capital & Free Cash Flow Reconciliation

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| Return on Invested Capital Reconciliation<br>*($ Millions)* | December 31, 2019 | | | |
|---|---|---|---|---|
| **Income from continuing operations, as adjusted** | | | **$** | **647** |
| **Average invested capital:** | | | | |
| Average shareholders' equity | $ | 7 | | |
| Average debt | | 2,876 | | |
| Less: Average cash and cash investments | | (625) | | |
| | | | **$** | **2,258** |
| **Return on invested capital** | | | | **29%** |

| Free Cash Flow Reconciliation<br>*($ Millions)* | December 31, 2019 | |
|---|---|---|
| Net cash from operating activities | $ | 833 |
| Capital expenditures | | (162) |
| Displays | | (11) |
| **Free cash flow** | **$** | **660** |

# Operating Profit Reconciliation by Quarter – 2019 & 2018

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| *($ in Millions)* | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|---|---|---|---|---|
| **Net sales, as reported** | **$ 1,639** | **$ 1,716** | **$ 1,839** | **$ 1,513** |
| **Operating profit, as reported** | **$ 255** | **$ 289** | **$ 347** | **$ 197** |
| Rationalization charges | 2 | 9 | 2 | - |
| Impairment charge for other intangible assets | - | - | - | 9 |
| **Operating profit, as adjusted** | **$ 257** | **$ 298** | **$ 349** | **$ 206** |
| *Operating margin, as reported* | *15.6%* | *16.8%* | *18.9%* | *13.0%* |
| *Operating margin, as adjusted* | *15.7%* | *17.4%* | *19.0%* | *13.6%* |

| *($ in Millions)* | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|
| **Net sales, as reported** | **$ 1,635** | **$ 1,665** | **$ 1,838** | **$ 1,516** |
| **Operating profit, as reported** | **$ 277** | **$ 260** | **$ 312** | **$ 228** |
| Rationalization charges | 4 | 2 | 2 | 1 |
| Kichler inventory step up adjustment | - | 15 | 20 | 5 |
| **Operating profit, as adjusted** | **$ 281** | **$ 277** | **$ 334** | **$ 234** |
| *Operating margin, as reported* | *16.9%* | *15.6%* | *17.0%* | *15.0%* |
| *Operating margin, as adjusted* | *17.2%* | *16.6%* | *18.2%* | *15.4%* |

# EPS Reconciliation by Quarter – 2019 & 2018

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| *(in Millions, Except per Common Share Data)* | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|---|---|---|---|---|
| **Income from continuing operations before income taxes, as reported** | **$ 217** | **$ 241** | **$ 303** | **$ 153** |
| Rationalization charges | 2 | 9 | 2 | - |
| Impairment charge for other intangible assets | - | - | - | 9 |
| (Earnings) from equity investments, net | - | (1) | - | - |
| **Income from continuing operations before income taxes, as adjusted** | **$ 219** | **$ 249** | **$ 305** | **$ 162** |
| Tax at 26% rate | (57) | (65) | (79) | (42) |
| Less: Net income attributable to noncontrolling interest | 10 | 12 | 12 | 11 |
| **Income from continuing operations, as adjusted** | **$ 152** | **$ 172** | **$ 214** | **$ 109** |
| **Income from continuing operations per common share, as adjusted** | **$ 0.54** | **$ 0.60** | **$ 0.74** | **$ 0.37** |
| Average diluted common shares outstanding | 282 | 287 | 290 | 294 |

| *(in Millions, Except per Common Share Data)* | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|
| **Income from continuing operations before income taxes, as reported** | **$ 236** | **$ 222** | **$ 266** | **$ 183** |
| Rationalization charges | 4 | 2 | 2 | 1 |
| Kichler inventory step up adjustment | - | 15 | 20 | 5 |
| (Gains) from private equity funds, net | (1) | - | - | - |
| (Earnings) from equity investments, net | (1) | - | (2) | - |
| **Income from continuing operations before income taxes, as adjusted** | **$ 238** | **$ 239** | **$ 286** | **$ 189** |
| Tax at 26% rate | (62) | (62) | (75) | (49) |
| Less: Net income attributable to noncontrolling interest | 14 | 11 | 13 | 12 |
| **Income from continuing operations, as adjusted** | **$ 162** | **$ 166** | **$ 198** | **$ 128** |
| **Income from continuing operations per common share, as adjusted** | **$ 0.54** | **$ 0.54** | **$ 0.64** | **$ 0.41** |
| Average diluted common shares outstanding | 299 | 306 | 309 | 313 |

# Additional Items by Quarter – 2019 & 2018

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| *(in Millions)* | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|---|---|---|---|---|
| **Additional Items:** | | | | |
| Receivables | $ 997 | $ 1,095 | $ 1,226 | $ 1,122 |
| Inventories | 754 | 819 | 829 | 862 |
| Accounts Payable | 697 | 768 | 819 | 765 |
| General Corporate Expense | (23) | (24) | (24) | (29) |

| *(in Millions)* | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|
| **Additional Items:** | | | | |
| Receivables | $ 990 | $ 1,100 | $ 1,231 | $ 1,160 |
| Inventories | 798 | 855 | 869 | 899 |
| Accounts Payable | 736 | 827 | 868 | 802 |
| General Corporate Expense | (22) | (21) | (27) | (24) |

# 2019 Segment Mix*

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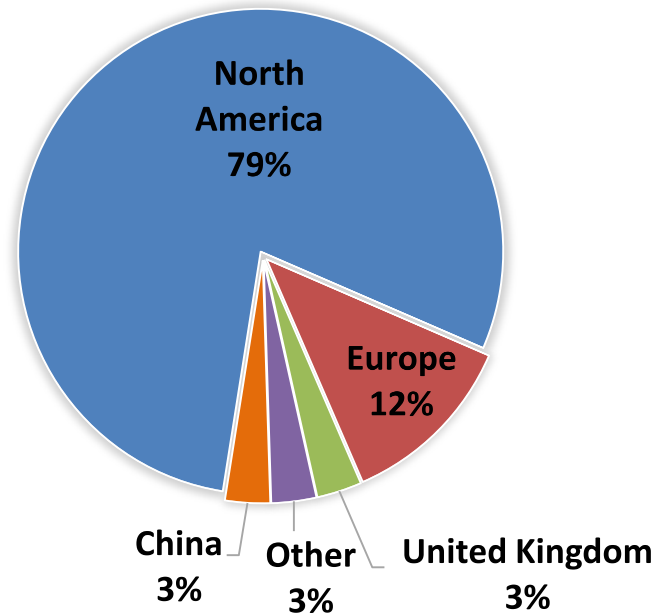
| Business Segment | 2019 Revenue | R&R% vs. NC | NA% vs. Int'l |
|---|---|---|---|
| Plumbing Products | $4.0B | 84% | 65% |
| Decorative Architectural Products | $2.7B | 96% | 100% |
| Total Company | $ 6.7B | 89% | 79% |

R&R = % of sales to repair and remodel channels
NA = % of sales within North America
NC = % of sales to new construction channels
Int'l = % of sales outside North America

**Total Geographic Revenue Split**




37% of Total Net Sales were to our largest customer, The Home Depot



* Based on Company estimates

# 2020 Estimates

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| Item | Assumption |
|---|---|
| Rationalization charges | ~$5m |
| Tax rate | 26% |
| General corporate expense | ~$95m |
| Interest Expense | ~$140m |
| Capital expenditures<br>(includes maintenance capex of ~$75m) | ~$150m |
| Depreciation and amortization | ~$140m |
| Share Repurchases<br>*(includes use of divestiture proceeds)* | ~1.2b |
| Average diluted share count for 2020 | 265 - 270 |
| Working capital as a % of net sales | ~16.0% |
| Free cash flow conversion | ~100% |

# 2020 Outlook

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| Business Segment | 2020 Sales Growth | 2020 Adjusted Operating Profit Margin | Additional 2020 Guidance |
|---|---|---|---|
| Plumbing Products | 2 – 4% *(ex currency)* | Similar to 2019 margin of 18.1% | • First half 2020 operating margin down ~100 bps<br>• No material impact from FX at current rates<br>• 2020 D&A ~$85m |
| Decorative Architectural Products | 0 – 2% | 17.0% - 17.5% | • Unfavorable sales impact of ~$15m in Q1 and Q2 2020 and ~$5m in Q3 2020<br>• Q1 2020 operating margin down ~300 bps<br>• 2020 D&A ~$45m |
| **Total Masco** | **2 – 3%** ***(ex currency)*** | **~16.0%** | |

**2020 Adjusted EPS $2.35 - $2.55**