

# First Quarter 2018 Conference Call Investor Presentation

St. Paul, MN  
March 29, 2018



**H.B. Fuller**

Connecting what matters.™



# Safe Harbor & Regulation G

## Safe Harbor Statement

Certain matters discussed today may include 'forward looking statements' as that term is defined under the Private Securities Litigation Reform Act of 1995. Since such statements reflect our current expectations, actual results may differ as they are subject to the kinds of risks that are enumerated in the Company's Securities and Exchange Commission (SEC) filings.

The Company disclaims any obligation to subsequently revise any forward-looking statements to reflect actual events or circumstances after the date of such statements.

## Regulation G

The information presented during today's meeting regarding adjusted gross profit, adjusted selling, general and administrative expense, adjusted diluted earnings per share, earnings before interest, taxes, depreciation, and amortization (EBITDA) and constant currency revenue does not conform to generally accepted accounting principles (GAAP) and should not be construed as an alternative to the reported results determined in accordance with GAAP. Management has included this non-GAAP information to assist in understanding the operating performance of the Company and its operating segments as well as the comparability of results. The non-GAAP information provided may not be consistent with the methodologies used by other companies. All non-GAAP information is reconciled with reported GAAP results in the tables below with the exception of our forward looking non-GAAP measures contained in our fiscal 2018 outlook, which are unknown or have not yet occurred.

## Additional Information

Please refer to our recent press release and annual report for the year ended December 2, 2017, on Form 10-K, filed with the Securities and Exchange Commission, and available on our website at [www.hbfuller.com](http://www.hbfuller.com) in the Investor Relations section.



# Business Summary

## Q1 Items of Note

- Royal integration underway and delivering results
- Revenue growth of 42%; up 11% vs proforma 2017, led by Engineering Adhesives
- Adjusted EBITDA of \$84 million, above guidance
- Pricing continued to improve and will get stronger as the year progresses

## 2018 Focus Areas

- Realize \$50 million in pricing, as communicated, to offset raw material inflation
- Continue Royal integration and deliver \$15 million in synergies during 2018
- Generate free cash flow of ~\$200 million dollars, used to repay debt balances



# Q1 2018 Segment Summary

## EIMEA

- Organic Growth +4% YOY
- Adjusted EBITDA up over 10%

## Americas Adhesives

- Organic growth +4% YOY
- Adjusted EBITDA margin down YOY due to RM inflation

## Asia Pacific

- Net Revenue Growth +6% YOY
- Adjusted EBITDA margin down YOY due to RM inflation

## Engineering Adhesives

- Organic growth up mid-teens
- Adjusted EBITDA increased 100% and margin up 450bps

## Construction Adhesives

- Proforma net revenue down by 1%
- Adjusted EBITDA up nearly 3X, margin ~13%



# Royal Integration

## Management Continuity

- Ted Clark, Royal CEO, will remain to run the integration
- Five primary commercial leaders will remain in key commercial roles

## Procurement Synergies

- We began to see benefits in January
- Realized \$2 million in savings in the first quarter
- On track to achieve \$15 million in synergies this year

## Manufacturing/SG&A Synergies

- Announced the closure of 2 smaller H.B. Fuller flooring facilities
- Implemented redundancies in functional areas; reduced senior functional positions in HR, Finance, R&D and Supply Chain

## Offensive Synergies

- 29 opportunities have been identified
  - Leveraging Royal product lines through H.B. Fuller international network
  - Packaging opportunities through Royal's specialty equipment

Creating significant shareholder value through validation of opportunities beyond our \$600 million EBITDA target for the 2020 fiscal year



# Q1 2018 Financial Results Summary

- Net revenue grew 40% vs Q1 2017, driven by inclusion of Royal
- 11% revenue growth vs proforma 2017, including +4% from currency, with price a more positive contributor
- Adjusted gross margin declined versus prior year driven by increased raw material costs during 2017
- Adjusted SG&A up due to inclusion of Royal. Down 100bps as a percentage of revenue due to FY 2017 restructuring actions
- Adjusted EBITDA of \$84 million, up 42% YOY and inline with expectations
- Q1 2018 adjusted EPS of \$0.35, down YOY due to higher interest expense and deal related amortization



# Fiscal Year 2018 Guidance

- Net revenue growth of ~35%
  - 6-7% growth on a proforma 2017 basis, for the remainder of the year
  - Good growth across all segments plus incremental pricing to offset raw material inflation in 2017
  - Currency contributes 2% at current rates
- Adjusted EBITDA of ~\$465 million, 13% growth on proforma basis
  - Tax rate of 25-27% based on legislation changes
- Capex expectation of ~\$90 million
  - Free cash flow of ~\$200 million; \$170 million towards debt repayment
- EPS guidance range of \$3.10-\$3.40, approximately +30% growth versus 2017



# Wrap-Up

- 2018 is off to a great start
- Key priority is successful integration of Royal business
  - Secured a significant percentage of raw material synergy
  - Announced action plan for manufacturing synergies
  - Received first orders related to revenue synergies
- Positive volume growth in both legacy H.B. Fuller and Royal businesses
- Pricing actions to drive margin enhancement as the year progresses
- On track to deliver \$600 million of EBITDA in 2020 and create significant shareholder value







**H.B. Fuller**



# Regulation G – Q1 2018 Proforma P&L

	<b>Three Months Ended March 3, 2018</b>	<b>% of Net Revenue</b>	<b>Adjustments</b>	<b>Adjusted Three Months Ended March 3, 2018</b>	<b>% of Net Revenue</b>
Net revenue	\$ 713,079	100.0%	\$	\$ 713,079	100.0%
Cost of sales	<u>(525,374)</u>	<u>(73.7%)</u>	<u>(559)</u>	<u>(524,815)</u>	<u>(73.6%)</u>
Gross profit	187,705	26.3%	(559)	188,264 <sup>3</sup>	26.4%
Selling, general and administrative expenses	(151,020)	(21.2%)	(10,062)	(140,958) <sup>4</sup>	(19.8%)
Other income (expense), net	4,074	0.6%	1,662	2,412	0.3%
Interest expense	<u>(27,545)</u>	<u>(3.9%)</u>	<u>(77)</u>	<u>(27,468)</u>	<u>(3.8%)</u>
Income before income taxes and income from equity method investments	13,214	1.8%	(9,036)	22,250	3.1%
Income taxes	32,632	4.6%	38,365	(5,733)	(0.8%)
- Effective tax rate	(247.0%)		424.6%	25.8%	
Income from equity method investments	1,821	0.3%		1,821	0.3%
Net income including non-controlling interests	<u>47,667</u>	<u>6.7%</u>	<u>29,329</u>	<u>18,338</u>	<u>2.6%</u>
Net income attributable to non-controlling interests	<u>15</u>	<u>0.0%</u>		<u>15</u>	<u>0.0%</u>
Net income attributable to H.B. Fuller	<u>\$ 47,682</u>	<u>6.7%</u>	<u>\$ 29,329</u>	<u>\$ 18,353</u>	<u>2.6%</u>
Basic income per common share attributable to H.B. Fuller	<u>\$ 0.94</u>		<u>\$ 0.58</u>	<u>\$ 0.36</u>	
Diluted income per common share attributable to H.B. Fuller	<u>\$ 0.92</u>		<u>\$ 0.57</u>	<u>\$ 0.35</u> <sup>1</sup>	
Weighted-average common shares outstanding:					
Basic	50,471		50,471	50,471	
Diluted	51,898		51,898	51,898	



# Regulation G – Q1 2017 Proforma P&L

	<b>Three Months Ended March 4, 2017</b>	<b>% of Net Revenue</b>	<b>Adjustments</b>	<b>Adjusted Three Months Ended March 4, 2017</b>	<b>% of Net Revenue</b>
Net revenue	\$ 503,323	100.0%	\$ -	\$ 503,323	100.0%
Cost of sales	<u>(364,327)</u>	<u>(72.4%)</u>	<u>(5,156)</u>	<u>(359,171)</u>	<u>(71.4%)</u>
Gross profit	138,996	27.6%	(5,156)	144,152 <sup>3</sup>	28.6%
Selling, general and administrative expenses	(112,915)	(22.4%)	(8,837)	(104,078) <sup>4</sup>	(20.6%)
Other income (expense), net	621	0.1%	-	621	0.1%
Interest expense	<u>(8,380)</u>	<u>(1.7%)</u>	<u>(70)</u>	<u>(8,310)</u>	<u>(1.7%)</u>
Income before income taxes and income from equity method investments	18,322	3.6%	(14,063)	32,385	6.4%
Income taxes	(5,765)	(1.1%)	3,968	(9,733)	(1.9%)
- Effective tax rate	31.5%		28.2%	30.1%	
Income from equity method investments	<u>2,274</u>	<u>0.4%</u>	<u>-</u>	<u>2,274</u>	<u>0.4%</u>
Net income including non-controlling interests	14,831	2.9%	(10,095)	24,926	4.9%
Net income attributable to non-controlling interests	<u>(36)</u>	<u>(0.0%)</u>	<u>-</u>	<u>(36)</u>	<u>(0.0%)</u>
Net income attributable to H.B. Fuller	<u>\$ 14,795</u>	<u>2.9%</u>	<u>\$ (10,095)</u>	<u>\$ 24,890</u>	<u>4.9%</u>
Basic income (loss) per common share attributable to H.B. Fuller <sup>a</sup>	<u>\$ 0.29</u>		<u>\$ (0.20)</u>	<u>\$ 0.50</u>	
Diluted income (loss) per common share attributable to H.B. Fuller <sup>a</sup>	<u>\$ 0.29</u>		<u>\$ (0.20)</u>	<u>\$ 0.48 <sup>1</sup></u>	
Weighted-average common shares outstanding:					
Basic	50,243		50,243	50,243	
Diluted	51,460		51,460	51,460	



# Regulation G –EPS Adjustments

	Three Months ended March 3, 2018			Three Months ended March 4, 2017		
	Income before Income Tax	Income Taxes	Diluted EPS	Income before Income Tax	Income Taxes	Diluted EPS
GAAP Earnings	\$ 15,050	\$ (32,632)	\$ 0.92	\$ 20,560	\$ 5,765	\$ 0.29
Acquisition project costs <sup>b</sup>	559	184	0.01	989	345	0.01
Tax Reform						
Tonsan call option agreement <sup>c</sup>	125	-	-	107	-	-
Organizational Realignment <sup>d</sup>	345	(361)	0.01	11,578	3,137	0.16
Royal Restructuring and Integration <sup>e</sup>	7,519	2,549	0.10	-	-	-
Tax Reform <sup>f</sup>	-	35,555	(0.69)	-	-	-
Other <sup>g</sup>	488	438	-	1,389	486	0.02
Adjusted Earnings	<u>\$ 24,086*</u>	<u>\$ 5,733</u>	<u>\$ 0.35</u>	<u>\$ 34,623</u>	<u>\$ 9,733</u>	<u>\$ 0.48</u>

b Costs related to integrating and accounting for acquisitions

c Non-cash costs related to accretion and revaluation of the Tonsan call option agreement

d Costs related to Organizational Realignment to Support 2020 Strategic Plan, Construction Adhesives facility combination, EIMEA restructuring announced November 2015, business integration and Special Charges

e Costs related to integrating and accounting for the Royal acquisition

f Tax benefit related to Tax Reform

g Costs related to Project ONE development costs, discrete tax items and gains on sales of assets

\* First quarter 2018 adjusted earnings included an incremental \$19 million of interest expense and an incremental \$17 million of depreciation & amortization expense versus the first quarter of 2017 related to financing and accounting for the Royal acquisition



# Regulation G – Q1 Segment Information

	Three Months Ended March 3, 2018	Three Months Ended March 4, 2017
<b>Net Revenue:</b>		
Americas Adhesives	\$ 261,331	\$ 193,162
EIMEA	178,583	124,039
Asia Pacific	66,674	62,645
Construction Adhesives	97,245	57,046
Engineering Adhesives	109,246	66,431
Total H.B. Fuller	<u>\$ 713,079</u>	<u>\$ 503,323</u>
<b>Segment Operating Income:<sup>6</sup></b>		
Americas Adhesives	\$ 17,511	\$ 21,033
EIMEA	7,838	1,797
Asia Pacific	2,322	1,879
Construction Adhesives	1,265	(683)
Engineering Adhesives	7,749	2,055
Total H.B. Fuller	<u>\$ 36,685</u>	<u>\$ 26,081</u>
<b>Depreciation Expense:</b>		
Americas Adhesives	\$ 4,469	\$ 3,562
EIMEA	5,718	3,643
Asia Pacific	1,680	1,879
Construction Adhesives	3,020	1,333
Engineering Adhesives	2,535	1,528
Total H.B. Fuller	<u>\$ 17,422</u>	<u>\$ 11,945</u>
<b>Amortization Expense:</b>		
Americas Adhesives	\$ 5,456	\$ 1,285
EIMEA	2,653	1,063
Asia Pacific	484	452
Construction Adhesives	6,375	2,318
Engineering Adhesives	4,275	2,237
Total H.B. Fuller	<u>\$ 19,243</u>	<u>\$ 7,355</u>
<b>EBITDA:<sup>2</sup></b>		
Americas Adhesives	\$ 27,436	\$ 25,880
EIMEA	16,209	6,503
Asia Pacific	4,486	4,210
Construction Adhesives	10,660	2,968
Engineering Adhesives	14,559	5,820
Total H.B. Fuller	<u>\$ 73,350</u>	<u>\$ 45,381</u>
<b>Segment Operating Margin:<sup>6</sup></b>		
Americas Adhesives	6.7%	10.9%
EIMEA	4.4%	1.4%
Asia Pacific	3.5%	3.0%
Construction Adhesives	1.3%	(1.2%)
Engineering Adhesives	7.1%	3.1%
Total H.B. Fuller	<u>5.1%</u>	<u>5.2%</u>
<b>EBITDA Margin:<sup>2</sup></b>		
Americas Adhesives	10.5%	13.4%
EIMEA	9.1%	5.2%
Asia Pacific	6.7%	6.7%
Construction Adhesives	11.0%	5.2%
Engineering Adhesives	13.3%	8.8%
Total H.B. Fuller	<u>10.3%</u>	<u>9.0%</u>
<b>Adjusted EBITDA<sup>2</sup></b>		
Americas Adhesives	\$ 31,747	\$ 28,867
EIMEA	18,401	13,077
Asia Pacific	5,292	5,745
Construction Adhesives	12,502	4,490
Engineering Adhesives	16,029	6,768
Total H.B. Fuller	<u>\$ 83,971</u>	<u>\$ 58,947</u>
<b>Adjusted EBITDA Margin<sup>2</sup></b>		
Americas Adhesives	12.1%	14.9%
EIMEA	10.3%	10.5%
Asia Pacific	7.9%	9.2%
Construction Adhesives	12.9%	7.9%
Engineering Adhesives	14.7%	10.2%
Total H.B. Fuller	<u>11.8%</u>	<u>11.7%</u>



# Revenue Growth Components

## Three Months Ended March 3, 2018

	<u>Americas Adhesives</u>	<u>EIMEA</u>	<u>Asia Pacific</u>	<u>Construction Adhesives</u>	<u>Engineering Adhesives</u>	<u>Total HBF</u>
Price	1.0%	3.2%	0.8%	(0.3%)	4.5%	1.8%
Volume	1.8%	0.5%	(1.5%)	(4.0%)	5.8%	0.9%
Mix	0.5%	0.1%	0.0%	(0.7%)	2.2%	0.4%
Acquisition	<u>31.7%</u>	<u>29.4%</u>	<u>1.9%</u>	<u>74.5%</u>	<u>47.1%</u>	<u>34.4%</u>
Constant Currency Growth <sup>5</sup>	35.0%	33.2%	1.2%	69.5%	59.6%	37.5%
F/X	0.3%	10.8%	5.2%	1.0%	4.9%	4.2%
	<u>35.3%</u>	<u>44.0%</u>	<u>6.4%</u>	<u>70.5%</u>	<u>64.5%</u>	<u>41.7%</u>



# Regulation G – Q1 EBITDA Reconciliation

	<b>Three Months Ended March 3, 2018</b>	<b>Three Months Ended March 4, 2017</b>
Net income including non-controlling interests	\$ 47,667	\$ 14,831
Income from equity method investments	(1,821)	(2,274)
Income taxes	(32,632)	5,765
Interest expense	27,545	8,380
Other income (expense), net	(4,074)	(621)
Segment operating income <sup>6</sup>	<u>36,685</u>	<u>26,081</u>
Depreciation expense	17,422	11,945
Amortization expense	19,243	7,355
EBITDA <sup>2</sup>	<u>\$ 73,350</u>	<u>\$ 45,381</u>
EBITDA margin <sup>2</sup>	10.3%	9.0%
Restructuring, Acquisition and other costs	10,621	13,566
Adjusted EBITDA <sup>2</sup>	<u>\$ 83,971</u>	<u>\$ 58,947</u>
Adjusted EBITDA margin <sup>2</sup>	11.8%	11.7%

