

Fortune Brands Home & Security, Inc.
Form 10-Q
July 29, 2015

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 June 30, 2015

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)

62-1411546
(I.R.S. Employer
Identification No.)

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

60015-5611
(Zip Code)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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 July 24, 2015 was 159,937,810.

PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS.**FORTUNE BRANDS HOME & SECURITY, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Six and Three Months Ended June 30, 2015 and 2014**

(In millions, except per share amounts)

(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2015	2014	2015	2014
Net sales	\$ 2,115.9	\$ 1,916.3	\$ 1,165.1	\$ 1,027.2
Cost of products sold	1,388.6	1,259.2	754.7	665.4
Selling, general and administrative expenses	512.4	455.3	271.0	232.6
Amortization of intangible assets	8.6	6.1	5.1	3.0
Restructuring charges	10.8	0.9	6.1	0.7
Operating income	195.5	194.8	128.2	125.5
Interest expense	9.4	4.0	6.0	2.1
Other expense, net	3.2	0.5	1.5	1.0
Income from continuing operations before income taxes	182.9	190.3	120.7	122.4
Income taxes	64.0	57.7	42.7	36.1
Income from continuing operations, net of tax	118.9	132.6	78.0	86.3
Income from discontinued operations, net of tax	0.8	2.2	1.4	7.3
Net income	119.7	134.8	79.4	93.6
Less: Noncontrolling interests		0.7	(0.3)	0.3
Net income attributable to Fortune Brands	\$ 119.7	\$ 134.1	\$ 79.7	\$ 93.3
Basic earnings per common share				
Continuing operations	\$ 0.75	\$ 0.80	\$ 0.49	\$ 0.52
Discontinued operations		0.01	0.01	0.05
Net income attributable to Fortune Brands common shareholders	\$ 0.75	\$ 0.81	\$ 0.50	\$ 0.57
Diluted earnings per common share				

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Continuing operations	\$ 0.73	\$ 0.78	\$ 0.48	\$ 0.51
Discontinued operations	0.01	0.01	0.01	0.04
Net income attributable to Fortune Brands common shareholders	\$ 0.74	\$ 0.79	\$ 0.49	\$ 0.55
Comprehensive income	\$ 101.9	\$ 126.9	\$ 81.0	\$ 93.5

See notes to condensed consolidated financial statements.

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

(In millions)

(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 223.5	\$ 191.9
Accounts receivable, net	573.5	458.9
Inventories	546.4	462.2
Other current assets	153.9	122.8
Current assets of discontinued operations	32.6	63.3
Total current assets	1,529.9	1,299.1
Property, plant and equipment, net of accumulated depreciation	582.0	539.8
Goodwill	1,904.7	1,467.8
Other intangible assets, net of accumulated amortization	858.8	656.5
Other assets	72.1	72.4
Non-current assets of discontinued operations	19.0	17.3
Total assets	\$ 4,966.5	\$ 4,052.9
Liabilities and equity		
Current liabilities		
Current portion of long-term debt	\$	\$ 26.3
Accounts payable	352.6	333.8
Other current liabilities	320.2	322.0
Current liabilities of discontinued operations	9.5	17.5
Total current liabilities	682.3	699.6
Long-term debt	1,389.8	643.7
Deferred income taxes	230.2	150.6
Other non-current liabilities	291.8	292.5
Non-current liabilities of discontinued operations	2.6	3.4
Total liabilities	2,596.7	1,789.8
Commitments and contingencies (see Note 17)		
Equity		
Fortune Brands stockholders' equity		
Common stock ^(a)	1.7	1.7

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Paid-in capital	2,559.9	2,517.3
Accumulated other comprehensive loss	(24.5)	(6.7)
Retained earnings	376.7	279.5
Treasury stock	(546.4)	(532.3)
Total Fortune Brands stockholders' equity	2,367.4	2,259.5
Noncontrolling interests	2.4	3.6
Total equity	2,369.8	2,263.1
Total liabilities and equity	\$ 4,966.5	\$ 4,052.9

^(a) Common stock, par value \$0.01 per share; 173.8 million shares and 172.0 million shares issued at June 30, 2015 and December 31, 2014, respectively.

See notes to condensed consolidated financial statements.

FORTUNE BRANDS HOME & SECURITY, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Six Months Ended June 30, 2015 and 2014**

(In millions)

(Unaudited)

	2015	2014
Operating activities		
Net income	\$ 119.7	\$ 134.8
Non-cash pre-tax expense:		
Depreciation	41.6	39.6
Amortization	8.6	8.0
Stock-based compensation	13.6	15.8
Recognition of actuarial losses		0.6
Deferred income taxes	1.2	6.6
Restructuring charges	1.0	0.4
Amortization of deferred financing costs	0.1	
Changes in assets and liabilities:		
Increase in accounts receivable	(68.0)	(58.2)
Increase in inventories	(52.0)	(50.0)
Decrease in accounts payable	(1.4)	(6.0)
Increase in other assets	(13.8)	(11.8)
Decrease in accrued expenses and other liabilities	(29.9)	(131.2)
Increase in accrued taxes	21.1	20.7
Net cash provided by (used in) operating activities	41.8	(30.7)
Investing activities		
Capital expenditures	(54.6)	(47.6)
Proceeds from the disposition of assets	0.4	0.1
Cost of acquisitions, net of cash acquired	(652.5)	
Net cash used in investing activities	(706.7)	(47.5)
Financing activities		
Increase in short-term debt, net		3.9
Issuance of long-term debt	1,748.9	480.0
Repayment of long-term debt	(1,031.3)	(235.0)
Proceeds from the exercise of stock options	13.1	11.0
Treasury stock purchases	(0.4)	(255.0)
Excess tax benefit from the exercise of stock-based compensation	16.4	18.6
Dividends to stockholders	(44.6)	(39.5)
Other financing, net	(1.2)	(1.1)

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Net cash provided by (used in) financing activities	700.9	(17.1)
Effect of foreign exchange rate changes on cash	(4.4)	(1.1)
Net increase (decrease) in cash and cash equivalents	\$ 31.6	\$ (96.4)
Cash and cash equivalents at beginning of period	\$ 191.9	\$ 241.4
Cash and cash equivalents at end of period	\$ 223.5	\$ 145.0

See notes to condensed consolidated financial statements.

FORTUNE BRANDS HOME & SECURITY, INC.**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY****For the Six Months Ended June 30, 2015 and 2014**

(In millions)

(Unaudited)

	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2013	\$ 1.7	\$ 2,431.3	\$ 95.4	\$ 200.8	\$ (79.8)	\$ 3.7	\$ 2,653.1
Comprehensive income:							
Net income				134.1		0.7	134.8
Other comprehensive income			(7.6)			(0.3)	(7.9)
Stock options exercised		11.0					11.0
Stock-based compensation		15.4			(8.0)		7.4
Tax benefit on exercise of stock options		18.4					18.4
Treasury stock purchase					(264.8)		(264.8)
Dividends (\$0.12 per common share)				(19.3)			(19.3)
Dividends paid to noncontrolling interests						(1.1)	(1.1)
Balance at June 30, 2014	\$ 1.7	\$ 2,476.1	\$ 87.8	\$ 315.6	\$ (352.6)	\$ 3.0	\$ 2,531.6
Balance at December 31, 2014	\$ 1.7	\$ 2,517.3	\$ (6.7)	\$ 279.5	\$ (532.3)	\$ 3.6	\$ 2,263.1
Comprehensive income:							
Net income				119.7			119.7
Other comprehensive income			(17.8)				(17.8)
Stock options exercised		13.1					13.1
Stock-based compensation		13.6			(13.7)		(0.1)
Tax benefit on exercise of stock options		15.9					15.9
Treasury stock purchase					(0.4)		(0.4)
Dividends (\$0.14 per common share)				(22.5)			(22.5)