



NEWS RELEASE

Masco Reports 25 Percent Increase in 2016 Third Quarter Earnings Per Share

2016-10-25

Key Highlights

- Sales for the third quarter increased 2 percent to \$1.9 billion; in local currencies, sales increased 3 percent
- Operating profit grew 4 percent to \$269 million; adjusted operating profit grew 7 percent to \$275 million
- Operating profit margin for the quarter increased to 14.3 percent, a 30 basis point expansion; adjusted operating profit margin increased to 14.7 percent, a 70 basis point expansion
- Earnings per share for the quarter grew 25 percent to \$0.40 per common share; adjusted earnings per share grew 21 percent to \$0.41 per common share (both figures included the negative effect of a \$21 million warranty reserve increase in our Windows and Other Specialty Products segment, which reduced earnings per share by approximately \$0.04 per common share)

TAYLOR, Mich.--(BUSINESS WIRE)-- Masco Corporation (NYSE: MAS), one of the world's leading manufacturers of branded home improvement and building products, reported strong net sales and operating profit growth in the third quarter of 2016.

"Our performance in the third quarter reflects our continued execution against our strategic initiatives," said Masco's President and CEO, Keith Allman. "We invested in our industry leading brands to drive growth, and continued to improve profitability by leveraging our operations and selectively exiting lower margin business in our Cabinetry segment. Additionally, we continued our disciplined capital allocation by returning approximately \$110 million to shareholders through dividends and share repurchases during the quarter."

2016 Third Quarter Commentary

- On a reported basis, compared to third quarter 2015:
 - Net sales from continuing operations increased 2 percent to \$1.9 billion
 - In local currency, North American sales increased 2 percent and international sales increased 6 percent

- Gross margins improved to 32.7 percent from 32.0 percent
- Operating margins improved to 14.3 percent from 14.0 percent
- Income from continuing operations was \$0.40 per common share compared to \$0.32 per common share
- Compared to third quarter 2015, results for key financial measures, as adjusted for certain items (see Exhibit A) and with a normalized tax rate of 36 percent, were as follows:
 - Gross margins improved to 32.9 percent compared to 31.9 percent
 - Operating margins improved to 14.7 percent compared to 14.0 percent
 - Income from continuing operations was \$0.41 per common share compared to \$0.34 per common share
- Liquidity at the end of the third quarter was approximately \$1.2 billion
- 2.3 million shares were repurchased in the third quarter

2016 Third Quarter Operating Segment Highlights

- Plumbing Products' net sales increased 5 percent (6 percent excluding the impact of foreign currency translation), driven by growth in North America and internationally
- Decorative Architectural Products' net sales increased 2 percent with growth from paints and other coating products partially offset by the timing and amount of promotions
- Cabinetry Products' net sales decreased 6 percent due to the exit of lower margin business in the builder channel, which was partially offset by growth in the retail and dealer channels
- Windows and Other Specialty Products' net sales decreased 1 percent. Excluding the impact of foreign currency translation, net sales increased 2 percent, led by our North American windows business

Outlook

"Consumer demand for our market-leading products remains strong, as the fundamentals for long-term demand in both repair and remodel and new home construction continue to be positive," said Allman. "By leveraging our brand portfolio, our industry-leading positions and our Masco Operating System, we will continue to successfully execute against these positive industry fundamentals to achieve our long-term growth strategies."

About Masco

Headquartered in Taylor, Michigan, Masco Corporation is a global leader in the design, manufacture and distribution of branded home improvement and building products. Our portfolio of industry-leading brands includes Behr® paint; Delta® and Hansgrohe® faucets, bath and shower fixtures; KraftMaid® and Merillat® cabinets; Milgard® windows and doors; and Hot Spring® spas. We leverage our powerful brands across product categories, sales channels and geographies to create value for our customers and shareholders. For more information about Masco Corporation, visit www.masco.com.

The 2016 third quarter supplemental material, including a presentation in PDF format, is available on the Company's website at www.masco.com.

Conference Call Details

A conference call regarding items contained in this release is scheduled for Tuesday, October 25, 2016 at 8:00 a.m. ET. Participants in the call are asked to register five to ten minutes prior to the scheduled start time by dialing (855) 226-2726 (855-22MASCO) and from outside the U.S. at (706) 679-3614. Please use the conference identification number 86755759. The conference call will be webcast simultaneously and in its entirety through the Company's website. Shareholders, media representatives and others interested in Masco may participate in the webcast by registering through the Investor Relations section on the Company's website.

A replay of the call will be available on Masco's website or by phone by dialing (855) 859-2056 and from outside the U.S. at (404) 537-3406. Please use the conference identification number 86755759. The telephone replay will be available approximately two hours after the end of the call and continue through November 25, 2016.

Safe Harbor Statement

This press release 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 "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 home improvement activity and new home construction, our ability to maintain our strong brands and to develop and introduce new and improved products, our ability to maintain our competitive position in our industries, our reliance on key customers, our ability to achieve the anticipated benefits of our strategic initiatives, our ability to sustain the performance of our cabinetry businesses, the cost and availability of raw materials, our dependence on third party suppliers, and risks associated with international operations and global strategies. These and other factors are discussed in detail in Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and in other filings we make with the Securities and Exchange Commission. The forward-looking statements in this press release speak only as of the date of this press release. 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.

MASCO CORPORATION Condensed Consolidated Statements of Operations - Unaudited For the Three Months and Nine Months Ended September 30, 2016 and 2015

(in millions, except per common share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	\$ 1,877	\$ 1,839	\$ 5,598	\$ 5,427
Cost of sales	1,263	1,250	3,715	3,706

Gross profit	614	589	1,883	1,721
Selling, general and administrative expenses	345	331	1,045	1,019
Operating profit	<u>269</u>	<u>258</u>	<u>838</u>	<u>702</u>
Other income (expense), net:				
Interest expense	(43)	(54)	(186)	(171)
Other, net	1	(6)	5	(2)
	<u>(42)</u>	<u>(60)</u>	<u>(181)</u>	<u>(173)</u>
Income from continuing operations before income taxes	227	198	657	529
Income tax expense	(81)	(77)	(229)	(219)
Income from continuing operations	<u>146</u>	<u>121</u>	<u>428</u>	<u>310</u>
Loss from discontinued operations, net	—	—	—	(1)
Net income	<u>146</u>	<u>121</u>	<u>428</u>	<u>309</u>
Less: Net income attributable to noncontrolling interest	12	10	35	29
Net income attributable to Masco Corporation	<u>\$ 134</u>	<u>\$ 111</u>	<u>\$ 393</u>	<u>\$ 280</u>
Income per common share attributable to Masco Corporation (diluted):				
Income from continuing operations	\$ 0.40	\$ 0.32	\$ 1.17	\$ 0.81
Loss from discontinued operations, net	—	—	—	—
Net income	<u>\$ 0.40</u>	<u>\$ 0.32</u>	<u>\$ 1.17</u>	<u>\$ 0.80</u>
Average diluted common shares outstanding	<u>329</u>	<u>338</u>	<u>332</u>	<u>344</u>
Amounts attributable to Masco Corporation:				
Income from continuing operations	\$ 134	\$ 111	\$ 393	\$ 281
Loss from discontinued operations, net	—	—	—	(1)
Net income attributable to Masco Corporation	<u>\$ 134</u>	<u>\$ 111</u>	<u>\$ 393</u>	<u>\$ 280</u>

Historical information is available on our website.

MASCO CORPORATION
Exhibit A: Reconciliations - Unaudited
For the Three Months and Nine Months Ended September 30, 2016 and 2015

(in millions, except per common share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<u>Gross Profit, Selling, General and Administrative Expenses, and Operating Profit Reconciliations</u>				
Net sales	<u>\$1,877</u>	<u>\$1,839</u>	<u>\$5,598</u>	<u>\$5,427</u>
Gross profit, as reported	\$ 614	\$ 589	\$1,883	\$1,721
Rationalization charges	4	1	10	2
(Gain) on sale of property and equipment	—	(3)	—	(3)
Gross profit, as adjusted	<u>\$ 618</u>	<u>\$ 587</u>	<u>\$1,893</u>	<u>\$1,720</u>

Gross margin, as reported	32.7%	32.0%	33.6%	31.7%
Gross margin, as adjusted	32.9%	31.9%	33.8%	31.7%
Selling, general and administrative expenses, as reported	\$ 345	\$ 331	\$ 1,045	\$ 1,019
Rationalization charges	2	1	6	7
Selling, general and administrative expenses, as adjusted	\$ 343	\$ 330	\$ 1,039	\$ 1,012
Selling, general and administrative expenses as percent of net sales, as reported	18.4%	18.0%	18.7%	18.8%
Selling, general and administrative expenses as percent of net sales, as adjusted	18.3%	17.9%	18.6%	18.6%
Operating profit, as reported	\$ 269	\$ 258	\$ 838	\$ 702
Rationalization charges	6	2	16	9
(Gain) on sale of property and equipment	—	(3)	—	(3)
Operating profit, as adjusted	\$ 275	\$ 257	\$ 854	\$ 708
Operating margin, as reported	14.3%	14.0%	15.0%	12.9%
Operating margin, as adjusted	14.7%	14.0%	15.3%	13.0%
<u>Earnings Per Common Share Reconciliation</u>				
Income from continuing operations before income taxes, as reported	\$ 227	\$ 198	\$ 657	\$ 529
Rationalization charges	6	2	16	9
(Gain) on sale of property and equipment	—	(3)	—	(3)
(Gain) from auction rate securities	—	—	(1)	—
(Gains) from private equity funds, net	(1)	(1)	(2)	(5)
(Earnings) from equity investments, net	—	—	(1)	(2)
Income from continuing operations before income taxes, as adjusted	232	196	669	528
Tax at 36% rate	(84)	(71)	(241)	(190)
Less: Net income attributable to noncontrolling interest	12	10	35	29
Income from continuing operations, as adjusted	\$ 136	\$ 115	\$ 393	\$ 309
Income per common share, as adjusted	\$ 0.41	\$ 0.34	\$ 1.18	\$ 0.90
Average diluted common shares outstanding	329	338	332	344

Historical information is available on our website.

MASCO CORPORATION
Condensed Consolidated Balance Sheets and
Other Financial Data - Unaudited

(dollars in millions)

	September 30, 2016	December 31, 2015
Balance Sheet		
Assets		
Current Assets:		
Cash and cash investments	\$ 1,041	\$ 1,468
Short-term bank deposits	182	248
Receivables	1,054	853

Inventories	758	687
Prepaid expenses and other	87	72
Total Current Assets	3,122	3,328
Property and equipment, net	1,049	1,027
Goodwill	841	839
Other intangible assets, net	155	160
Other assets	206	310
Total Assets	\$ 5,373	\$ 5,664
Liabilities		
Current Liabilities:		
Accounts payable	\$ 866	\$ 749
Notes payable	3	1,004
Accrued liabilities	642	650
Total Current Liabilities	1,511	2,403
Long-term debt	2,993	2,403
Other liabilities	766	800
Total Liabilities	5,270	5,606
Equity	103	58
Total Liabilities and Equity	\$ 5,373	\$ 5,664

	As of	
	September 30, 2016	September 30, 2015
Other Financial Data		
Working Capital Days		
Receivable days	50	49
Inventory days	56	56
Payable days	72	71
Working capital	\$ 946	\$ 928
Working capital as a % of sales (LTM)	12.9%	13.1%

Historical information is available on our website.

MASCO CORPORATION
Condensed Consolidated Statements of Cash Flows
and Other Financial Data - Unaudited

(dollars in millions)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From (For) Operating Activities:		
Cash provided by operating activities	\$ 569	\$ 581
Working capital changes	(187)	(159)
Net cash from operating activities	382	422
Cash Flows From (For) Financing Activities:		
Retirement of notes	(1,300)	(500)

Purchase of Company common stock	(242)	(407)
Cash dividends paid	(95)	(94)
Dividend paid to noncontrolling interest	(31)	(36)
Cash distributed to TopBuild Corp.	—	(63)
Issuance of TopBuild Corp. debt	—	200
Issuance of notes, net of issuance costs	889	497
Issuance of Company common stock	1	2
Excess tax benefit from stock-based compensation	21	32
Credit Agreement and other financing costs	—	(3)
Decrease in debt, net	(2)	(1)
Net cash for financing activities	<u>(759)</u>	<u>(373)</u>
Cash Flows From (For) Investing Activities:		
Capital expenditures	(117)	(112)
Other, net	77	(32)
Net cash for investing activities	<u>(40)</u>	<u>(144)</u>
Effect of exchange rate changes on cash and cash investments	(10)	(9)
Cash and Cash Investments:		
Decrease for the period	(427)	(104)
At January 1	1,468	1,383
At September 30	<u>\$ 1,041</u>	<u>\$ 1,279</u>

	As of September 30,	
	2016	2015
Liquidity		
Cash and cash investments	\$ 1,041	\$ 1,279
Short-term bank deposits	182	255
Total Liquidity	<u>\$ 1,223</u>	<u>\$ 1,534</u>

Historical information is available on our website.

MASCO CORPORATION
Segment Data - Unaudited
For the Three Months and Nine Months Ended September 30, 2016 and 2015

(dollars in millions)

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
	2016	2015		2016	2015	
Plumbing Products						
Net sales	\$ 899	\$ 853	5%	\$ 2,635	\$ 2,495	6%
Operating profit, as reported	\$ 174	\$ 137		\$ 491	\$ 386	
<i>Operating margin, as reported</i>	19.4%	16.1%		18.6%	15.5%	
Rationalization charges	5	1		11	2	
Operating profit, as adjusted	179	138		502	388	
<i>Operating margin, as adjusted</i>	19.9%	16.2%		19.1%	15.6%	

Depreciation and amortization	<u>14</u>	<u>14</u>		<u>42</u>	<u>42</u>	
EBITDA, as adjusted	<u>\$ 193</u>	<u>\$ 152</u>		<u>\$ 544</u>	<u>\$ 430</u>	
Decorative Architectural Products						
Net sales	<u>\$ 536</u>	<u>\$ 527</u>	2%	<u>\$ 1,649</u>	<u>\$ 1,600</u>	3%
Operating profit, as reported	\$ 111	\$ 102		\$ 355	\$ 318	
<i>Operating margin, as reported</i>	20.7%	19.4%		21.5%	19.9%	
Depreciation and amortization	<u>4</u>	<u>4</u>		<u>12</u>	<u>12</u>	
EBITDA	<u>\$ 115</u>	<u>\$ 106</u>		<u>\$ 367</u>	<u>\$ 330</u>	
Cabinetry Products						
Net sales	<u>\$ 239</u>	<u>\$ 253</u>	(6)%	<u>\$ 736</u>	<u>\$ 771</u>	(5)%
Operating profit, as reported	\$ 19	\$ 21		\$ 77	\$ 32	
<i>Operating margin, as reported</i>	7.9%	8.3%		10.5%	4.2%	
Rationalization charges (Gain) on sale of property and equipment	1	1		5	3	
	<u>—</u>	<u>(3)</u>		<u>—</u>	<u>(3)</u>	
Operating profit, as adjusted	20	19		82	32	
<i>Operating margin, as adjusted</i>	8.4%	7.5%		11.1%	4.2%	
Depreciation and amortization	<u>5</u>	<u>5</u>		<u>15</u>	<u>18</u>	
EBITDA, as adjusted	<u>\$ 25</u>	<u>\$ 24</u>		<u>\$ 97</u>	<u>\$ 50</u>	

Historical information is available on our website.

MASCO CORPORATION
Segment Data - Unaudited
For the Three Months and Nine Months Ended September 30, 2016 and 2015

(dollars in millions)

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
	2016	2015		2016	2015	
Windows and Other Specialty Products						
Net sales	<u>\$ 203</u>	<u>\$ 206</u>	(1)%	<u>\$ 578</u>	<u>\$ 561</u>	3%
Operating (loss) profit, as reported	\$ (10)	\$ 23		\$ (9)	\$ 50	
<i>Operating margin, as reported</i>	(4.9)%	11.2%		(1.6)%	8.9%	
Depreciation and amortization	<u>6</u>	<u>5</u>		<u>16</u>	<u>13</u>	
EBITDA	<u>\$ (4)</u>	<u>\$ 28</u>		<u>\$ 7</u>	<u>\$ 63</u>	
Total						
Net sales	<u>\$ 1,877</u>	<u>\$ 1,839</u>	2%	<u>\$ 5,598</u>	<u>\$ 5,427</u>	3%

Operating profit, as reported - segment	\$ 294	\$ 283	\$ 914	\$ 786
General corporate expense, net (GCE)	(25)	(25)	(76)	(84)
Operating profit, as reported	269	258	838	702
<i>Operating margin, as reported</i>	14.3%	14.0%	15.0%	12.9%
Rationalization charges - segment	6	2	16	5
Rationalization charges - GCE	—	—	—	4
(Gain) on sale of property and equipment	—	(3)	—	(3)
Operating profit, as adjusted	275	257	854	708
<i>Operating margin, as adjusted</i>	14.7%	14.0%	15.3%	13.0%
Depreciation and amortization - segment	29	28	85	85
Depreciation and amortization - non-operating	5	4	15	9
EBITDA, as adjusted	<u>\$ 309</u>	<u>\$ 289</u>	<u>\$ 954</u>	<u>\$ 802</u>

Historical information is available on our website.

MASCO CORPORATION
North American and International Data - Unaudited
For the Three Months and Nine Months Ended September 30, 2016 and 2015

(dollars in millions)

	Three Months Ended			Nine Months Ended		
	September 30, 2016	September 30, 2015	Change	September 30, 2016	September 30, 2015	Change
North American						
Net sales	<u>\$ 1,497</u>	<u>\$ 1,462</u>	2%	<u>\$ 4,445</u>	<u>\$ 4,298</u>	3%
Operating profit, as reported	\$ 235	\$ 234		\$ 749	\$ 645	
<i>Operating margin, as reported</i>	15.7%	16.0%		16.9%	15.0%	
Rationalization charges	5	2		12	4	
(Gain) on sale of property and equipment	—	(3)		—	(3)	
Operating profit, as adjusted	240	233		761	646	
<i>Operating margin, as adjusted</i>	16.0%	15.9%		17.1%	15.0%	
Depreciation and amortization	20	19		58	58	
EBITDA, as adjusted	<u>\$ 260</u>	<u>\$ 252</u>		<u>\$ 819</u>	<u>\$ 704</u>	
International						
Net sales	<u>\$ 380</u>	<u>\$ 377</u>	1%	<u>\$ 1,153</u>	<u>\$ 1,129</u>	2%
Operating profit, as reported	\$ 59	\$ 49		\$ 165	\$ 141	
<i>Operating margin, as reported</i>	15.5%	13.0%		14.3%	12.5%	
Rationalization charges	1	—		4	1	
Operating profit, as adjusted	60	49		169	142	
<i>Operating margin, as adjusted</i>	15.8%	13.0%		14.7%	12.6%	
Depreciation and amortization	9	9		27	27	

EBITDA, as adjusted	<u>\$ 69</u>	<u>\$ 58</u>		<u>\$ 196</u>	<u>\$ 169</u>	
Total						
Net sales	<u>\$ 1,877</u>	<u>\$ 1,839</u>	2%	<u>\$ 5,598</u>	<u>\$ 5,427</u>	3%
Operating profit, as reported - segment	\$ 294	\$ 283		\$ 914	\$ 786	
General corporate expense, net (GCE)	<u>(25)</u>	<u>(25)</u>		<u>(76)</u>	<u>(84)</u>	
Operating profit, as reported	269	258		838	702	
<i>Operating margin, as reported</i>	<i>14.3%</i>	<i>14.0%</i>		<i>15.0%</i>	<i>12.9%</i>	
Rationalization charges - segment	6	2		16	5	
Rationalization charges - GCE	—	—		—	4	
(Gain) on sale of property and equipment	—	<u>(3)</u>		—	<u>(3)</u>	
Operating profit, as adjusted	<u>275</u>	<u>257</u>		<u>854</u>	<u>708</u>	
<i>Operating margin, as adjusted</i>	<i>14.7%</i>	<i>14.0%</i>		<i>15.3%</i>	<i>13.0%</i>	
Depreciation and amortization - segment	29	28		85	85	
Depreciation and amortization - non-operating	<u>5</u>	<u>4</u>		<u>15</u>	<u>9</u>	
EBITDA, as adjusted	<u>\$ 309</u>	<u>\$ 289</u>		<u>\$ 954</u>	<u>\$ 802</u>	

Historical information is available on our website.

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Masco Corporation

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