

Baby boomers fuel success at Masco

By Deborah Cohen
Bloomberg News

Masco Corp. may not be a household name itself, but its Delta, Merillat and other brands are becoming increasingly familiar to baby boomers moving into bigger homes — and to investors looking for bigger returns.

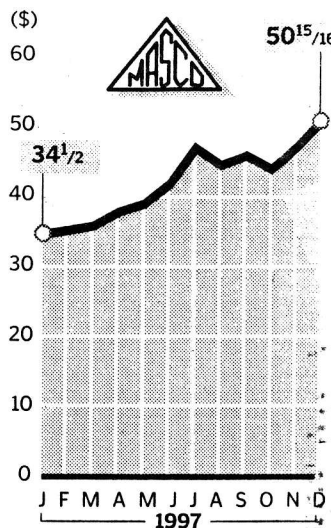
The Taylor company also is benefiting from a renewed focus on its main home products business and aggressive acquisitions in the U.S. and abroad. The company sold its high-quality but low-profit furniture business for \$1 billion last year and has reduced its holdings in auto parts and other fields outside building products.

Masco has been helped by a robust U.S. market for sales of existing homes, whose new owners often turn to the company's well-regarded Delta faucets and Merillat cabinets to spruce up the new place, analysts said.

"I regard Masco as the quality name in building products," said Christopher Winham, an analyst with Schroder & Co. who gives the shares an "outperform" rating. "You've got a

Star performer

Masco Corp. of Taylor, taking advantage of the home improvement boom, has seen a substantial increase in its stock price this year:



Source: Bloomberg News

The Detroit News

strong economy, strong existing home sales, demographic trends, entry-home buyers shrinking and trade-up (housing) growing."

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The National Association of Realtors on Monday reported that U.S. home resales for November remained close to the record pace set the previous three months, falling a smaller-than-expected 0.2 percent to a seasonally adjusted annual rate of 4.380 million. With mortgage rates low, demand for housing and home-related products should continue to be strong, economists say.

Masco shares have risen 47 percent this year — including a 26 percent gain since late July — far outpacing the Standard & Poor's Building Materials Index and shares of major competitors Black & Decker Corp. and Fortune Brands Inc.

The company is expected to earn \$2.30 a share in 1997, based

on the average estimate of 13 analysts surveyed by IBES International Inc., up from net income of \$295.2 million, or \$1.84 a share, on sales of \$3.24 billion in 1996. For the first nine months this year, its earnings rose 31 percent to \$276.9 million, or \$1.71 a share.

Company officials weren't available for comment, but executives have attributed much of Masco's recent success to acquisitions. In March, it began a string of purchases that included bath accessory maker Franklin Brass Manufacturing Co., electronic lock maker LaGard Inc. and cabinet hardware makers Liberty Hardware Manufacturing Corp. and Texwood Industries Inc.

Five of its last nine acquisitions have been in Europe, where the company is positioning itself to exploit an emerging home improvement market. In July, Masco bought Germany's SKS

Group and Spain's Alvic Group.

"Their (acquisitions) usually have a leading niche position, something that complements Masco's product line," Winham said.

But the company has steered clear of Asia and isn't vulnerable to that region's current economic problems, said Jonathan Goldfarb, a Merrill Lynch analyst who rates the shares a "near-term buy."

Masco also is attractive to investors because its business generates a lot of free cash — a projected \$2 billion in the next five years — that it can use for acquisitions as well as dividend boosts and stock buybacks, Goldfarb said.

In North America, Masco has captured 35 percent of the faucet market and 15 percent of the cabinet market. Its line of home-improvement products, which accounts for 65 percent of sales,

includes such brand names as Peerless Faucet, AquaGlass and Baldwin Hardware.

Masco is besting competitors by forging close ties with suppliers as well as retailers, analysts said. The company's longstanding relationships with leading independent manufacturers allows it to obtain popular products quickly, Winham said.

Under the leadership of founder Alex Manoogian's son, 60-year-old Richard Manoogian, Masco also is taking strides to meet the large-scale distribution needs of home improvement superstores.

About 25 percent of Masco's sales are generated through its key retailers program, which Goldfarb said offers product packages and advertising support to fast-growing customers such as Home Depot Inc. and Lowes Companies Inc.