Robert Dunn

Michael Wolleben

Hidden Opportunities

Valuing possible breakups by providing sum-of-the-parts analysis.

- ✓ Griffon Corporation (NYSE: GFF) is a "diversified conglomerate" with three distinct businesses: (1) Home & Building Products (HBP), which manufactures garden tools and garage doors; (2) Telephonics, which builds radar and communications systems; and (3) Clopay Plastics Products (CPP), which produces high-performance plastic films.

- ✓ GFF's three disparate businesses each have distinct manufacturing/distribution footprints, offering limited synergies, and the current corporate structure likely results in the dearth of sell-side research coverage, both of which seemingly contribute to the shares trading at a conglomerate discount. GFF trades at 8.8x F2016E EBITDA, which represents a discount to the multiples awarded the peers of each of its three businesses. On average, peers to HBP, GFF's largest segment, trade at ~10.5x, while Telephonic and Plastics comparables trade at ~9.5x and ~9.0x, respectively. As such, a separation transaction could unlock value.

- ✓ In 2006-2007, GFF faced pressure from shareholders to pursue a wide range of actions, including a breakup, which yielded some corporate governance improvements (and a small divestiture) but failed to eliminate the conglomerate operating structure. Today, the company is not under any overt pressure to pursue strategic alternatives, but notably, its largest shareholder is Gabelli Asset Management (GAMCO), which holds a 17% stake. For its part, GFF management, which collectively owns ~12% of the outstanding shares, has anecdotally indicated that it "likes" each of its businesses as well as expressing a willingness to add to the portfolio.

- ✓ Based on peer multiples of earnings, one can ascribe value of $21 per share, $13 per share, and $12 per share to the H&B, Telephonics, and Plastics businesses, respectively. Accounting for corporate costs and net debt of ~$25 per share yields a sum-of-the-parts fair value of about $21.

Griffon Corp.

(NYSE: GFF)

Date (7/13/15)

Price $16.29/share

Market capitalization $840M

Home & Bldg.: $21 per share

Telephonics: $13 per share

Plastics: $12 per share

Corp. Costs: ($7 per share)

Net Debt: ($18 per share)

SOTP: $21 per share

NOTE: This publication does not advocate for breakups. However, authors select companies for this report based on the potential for a future transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.

Institutional Research Group

PCS Research Services
14 Wall Street, 3rd Floor
New York, NY 10005
(212) 233-0100
www.pcsresearchservices.com

HIDDEN OPPORTUNITIES

"Valuing possible breakups by providing sum-of-the-parts analysis."

The Background

Griffon Corp. (NYSE: GFF), a "diversified conglomerate" headquartered in New York, NY, was founded in 1959 as a niche electronics manufacturer called Waldorf Controls but soon changed its name to Instrument Systems Corp. The company was acquisitive in its early years, and by the time it went public in 1968, it had 18 divisions, manufacturing products ranging from trucks to data processors. From the mid-1970s into the 1980s the company sold and/or consolidated many of its unprofitable businesses. The company adopted the current moniker in 1995. Currently, GFF operates three distinct business segments: (1) Home & Building Products, which comprised 49% of revenue and 40% of EBITDA in F2014 (September-end); (2) Telephonics, which generated 21% of revenue and 30% of EBITDA; and (3) Clopay Plastics, which accounted for the remaining 30% of revenue and EBITDA (see Background #1).

Background #1 Griffon Corp.: Selected Financial Statement Items – F2012-F2016E, Adjusted

($ in millions)

	F2012	F2013	F2014	6 mos. F2014	6 mos. F2015	F2015E	F2016E
Revenue:							
Home & Building	$856.5	$855.0	$979.4	$470.0	$535.3	$1,059.6	$1,086.0
Telephonics	$441.5	$453.4	$419.0	$200.2	$189.3	$423.2	$431.7
Clopay Plastics	$563.1	$563.0	$593.4	$290.9	$277.5	$548.9	$565.3
Total	**$1,861.1**	**$1,871.3**	**$1,991.8**	**$961.1**	**$1,002.2**	**$2,031.7**	**$2,083.0**
Adjusted operating profit:							
Home & Building	$38.4	$33.9	$45.6	$20.5	$25.0	$51.9	$59.7
Telephonics	$53.0	$55.8	$49.5	$21.3	$16.6	$42.3	$51.8
Clopay Plastics	$13.7	$21.4	$28.9	$15.2	$17.9	$35.7	$36.7
Unallocated costs	($26.3)	($29.2)	($33.4)	($16.4)	($15.8)	($34.0)	($34.0)
Total	**$78.8**	**$81.9**	**$90.6**	**$40.7**	**$43.7**	**$95.9**	**$114.3**
Adjusted EBITDA:							
Home & Building	$70.5	$70.1	$77.2	$36.2	$41.8	$85.5	$94.2
Telephonics	$60.6	$63.2	$57.5	$24.9	$21.6	$51.9	$61.6
Clopay Plastics	$40.0	$48.1	$56.3	$29.0	$30.3	$60.6	$62.3
Unallocated costs	($25.9)	($28.7)	($33.0)	($16.2)	($15.6)	($33.6)	($33.5)
Total	**$145.1**	**$152.7**	**$158.0**	**$73.9**	**$78.1**	**$164.4**	**$184.5**
EBITDA margin:							
Home & Building	8.2%	8.2%	7.9%	7.7%	7.8%	8.1%	8.7%
Telephonics	13.7%	13.9%	13.7%	12.5%	11.4%	12.3%	14.3%
Clopay Plastics	7.1%	8.5%	9.5%	10.0%	10.9%	11.0%	11.0%
Capital expenditures:							
Home & Building	$24.6	$30.7	$33.8	$15.2	$21.4	$37.1	$38.0
Telephonics	$12.0	$11.1	$21.0	$8.9	$2.3	$8.5	$8.6
Clopay Plastics	$32.1	$22.5	$21.0	$10.2	$15.2	$30.2	$28.3
Corporate	$0.2	$0.1	$1.3	$0.6	$0.9	$1.0	$1.0
Total	**$68.9**	**$64.4**	**$77.1**	**$34.8**	**$39.7**	**$76.7**	**$75.9**
Assets:							
Home & Building	$940.5	$897.2	$1,030.0	$995.8	$1,091.4	$1,102.0	$1,129.4
Telephonics	$255.4	$296.9	$319.3	$299.8	$291.5	$317.4	$323.7
Clopay Plastics	$430.4	$422.7	$389.5	$426.6	$354.2	$340.3	$350.5
Corporate	$173.1	$156.5	$64.0	$55.7	$6.2	$15.0	$15.0
Total	**$1,799.4**	**$1,773.3**	**$1,802.8**	**$1,777.9**	**$1,743.4**	**$1,774.7**	**$1,818.7**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

For context, GFF has articulated consolidated F2015 financial guidance that forecasts full year segment EBITDA of ~$200 million, which includes ~$68 million of depreciation & amortization expense but excludes about ~$34 million of unallocated corporate costs, and capital expenditures of ~$80 million (see Background #1). On a consolidated basis, GFF's long-term target is for compound annual top-line growth of greater than 5% with a blended segment EBITDA margin better than 10%

Home & Building Products (HBP)

HBP segment revenue, which totals almost 50% of consolidated sales, is roughly evenly split between two separate businesses: (1) AMES, which makes non-powered lawn and garden tools; and (2) Clopay Building Products, which is the largest manufacturer of garage doors in the U.S. (see Background #2).

Background #2 HBP: Overview of Segment Product Mix, Brands, and Market Size/Share

	Products	Brands	End Markets/Users	Major Customers	Market Size	Market share (F2014)	Market Rank
AMES	Long-handle tools (i.e. shovels, rakes, hoes, fork); Snow-tools; Wheel-barrows; Planters; Striking tools (i.e. axes, picks); Hand-tools (i.e. hammers, screwdrivers, pliers, wrenches, handsaws); Pruning tools; Garden hoses	AMES, True Temper, Garant, UnionTools, Hound Dog, Westmix, Cyclone, Southern Patio, Northcote Pottery, Kelso, Dynamic Design, Razor-Back, Professional Tools, Jackson Professional Tools, Supercraft, Eagle, NeverLeak, Nylex	Residential & Non-residential construction, Industrial/ Homeowners, Landscapers	Home Depot, Lowes, Bunnings, Wal-Mart, Costco, Ace	~$8 billion	6.3%	#1
Clopay	Residential garage & entry doors; Commercial sectional doors	Cloplay, America's Favorite Garage Doors, Holmes Garage Door Company, IDEAL Door	Residential repair & remodel, New construction, Commercial/ Home & Commercial property owners	Home Depot, Menards	~$1.7 billion	28.0%	#1

Source: Company reports, industry reports, IBIS World, and Institutional Research Group estimates.

Clopay, which consisted of a door and plastics business, was founded in 1964 and acquired by GFF in 1986 for about $40 million. GFF acquired AMES, which was founded in 1774, in 2010 for $542 million. (At the time, AMES generated trailing-12-month revenue and adjusted EBITDA of $437 million and $79 million, respectively.) Not surprisingly, the economic recession/housing bust hit the HBP segment hard; in response to deteriorating revenue and profits, management undertook the arduous process of restructuring its operations and right-sizing its facility network (via a multi-year process of closures and consolidations). Its efforts have left the company well positioned to benefit from what management sees as a multi-year recovery in the HBP business, which is driven primarily by repair & remodel activity (70%) as well as by new residential construction (30%). Notably, macro data appears supportive of management's recovery expectations, as the National Association of Home Builders (NAHB) is projecting that residential remodeling activity will increase 2.3% in 2015 and an additional 2.4% in 2016, while single-family housing production is expected to grow 9% in 2015 and an additional 39% in 2016.

Amid improving fundamentals, the company has also been opportunistically acquisitive, particularly in areas complementary to the core AMES business. In October 2011, AMES purchased Southern Patio, a manufacturer of landscape accessories with revenue of $40 million, for $23 million. In December 2013, AMES acquired Northcote, an Australian brand of outdoor planters and décor with $28 million of revenue, for $22 million. In May 2014, AMES acquired Cyclone, which offers a range of garden and hand tool products and has $65 million in sales, for about $40 million.

In F2014, HBP segment revenue increased ~15% to $979.4 million, driven by a 20% increase at AMES (roughly evenly split between acquisitions and organic growth) and a 9% gain at Clopay (driven largely by volume growth of 7%). Full year adjusted segment EBITDA rose 10% to ~$77 million. In 1HF15, HBP revenue increased about 14% despite the negative impact of currency, reflecting both the Cyclone acquisition and solid organic growth, particularly in the doors business. Adjusted segment EBITDA increased 22% to $25 million (see Background #3).

In terms of full year F2015 guidance, GFF expects total HBP segment revenue to grow in the mid- to high single digits, reflecting the continuation of a gradual cyclical recovery in housing and the anniversary of the Cyclone acquisition in 3QF15, as well as the unfavorable impact of foreign currency fluctuations. (Long-term, GFF targets compound annual-top line growth at HBP of better than 5%.) On the margin front, management has not set any explicit guidance but continues to target a 10% blended EBITDA margin, which it anecdotally indicates is within "sight" given the businesses' inherent operating leverage to what is expected to be a gradual (but multi-year) recovery as well as improving internal efficiencies, including the aforementioned facility consolidation that was completed in January 2015 and is expected to yield about $10 million of annual cost savings.

Background #3 **HBP: Selected Financial Items (F2012-F2016E)**

($ in millions)

	F2012	F2013	F2014	6 mos. F2014	6 mos. F2015	F2015E	F2016E
HBP:							
AMES	$433.9	$419.5	$503.7	$257.3	$292.2	$541.0	$551.9
CBP	$422.7	$435.4	$475.8	$212.7	$243.1	$518.6	$534.1
Total revenue	**$856.5**	**$855.0**	**$979.4**	**$470.0**	**$535.3**	**$1,059.6**	**$1,086.0**
Adjusted operating profit	**$38.4**	**$33.9**	**$45.6**	**$20.5**	**$25.0**	**$51.9**	**$59.7**
Operating margin	4.5%	4.0%	4.7%	4.4%	4.7%	4.9%	5.5%
Depreciation & amortization	$32.0	$36.2	$31.6	$15.6	$16.8	$33.6	$34.4
Adjusted EBITDA	**$70.5**	**$70.1**	**$77.2**	**$36.2**	**$41.8**	**$85.5**	**$94.2**
EBITDA margin	8.2%	8.2%	7.9%	7.7%	7.8%	8.1%	8.7%
Capital expenditures	$24.6	$30.7	$33.8	$15.2	$21.4	$37.1	$38.0
Capex as a % of revenue	2.9%	3.6%	3.4%	3.2%	4.0%	3.5%	3.5%
Assets	$940.5	$897.2	$1,030.0	$995.8	$1,091.4	$1,102.0	$1,129.4

Source: Company reports and Institutional Research Group estimates.

Considering GFF's consolidated guidance, segment commentary, industry forecasts, and current consensus, it can be reasonably projected that HBP could generate F2016E revenue and adjusted EBITDA of $1.9 billion and $94 million, respectively (see Background #3).

Telephonics

Telephonics Corp. was founded in 1933 and acquired by GFF in 1961. The segment, which accounted for 21% of consolidated sales in F2014, specializes in producing a wide array of radar and advanced communications systems for the U.S. government, which comprised 72% of segment sales in F2014, as well as international allies (19%) and U.S. commercial customers (9%).

Background #4 **Telephonics: Overview of Segment Product Mix, Market Size/Share**

	Products	End Markets/Users	Major Customers	Market Size	Market share (F2014)	Market Rank
Telephonics	Aircraft communication systems; Radar; Air traffic management; Identification equipment; Border/perimeter security; Intelligence, surveillance & reconnaissance (ISR); Unmanned aerial vehicles (UAV)	U.S. Defense, Aerospace, Civil, Commercial, Industrial & International	U.S. DoD, Lockheed Martin, Sikorsky, Northrop Grumman, Boeing	~$6 billion	7.0%	#1

Source: Company reports, Government reports and Institutional Research Group estimates.

Recent results at the Telephonics segment have been negatively affected by defense spending cuts resulting from sequestration (as well as wider budgetary uncertainty). In F2014, segment revenue fell 8% to $419 million, while adjusted EBITDA, which excludes restructuring/severance charges related to the closure of a Swedish facility and work-force optimization efforts, fell 9% to $57.5 million. (Note: F2013 included ~$30 million of one-time contract work on an "electronic warfare program," which implies a flatter year-over-year comparison.) In 1HF15, segment revenue and adjusted EBITDA declined roughly 5% and 14%, respectively. Nevertheless, at quarter-end, funded backlog stood at $482 million, of which management expects to book over 70% in the next 12 months, and management has guided to low-single-digit top-line growth for full year F2015. From a cyclical perspective, GFF thinks defense spending is close to a bottom and that increasing global security concerns augur well for defense spending over the longer term; notably, recent White House budget proposals, which have suggested a 7% increase in 2016 defense spending (with more hawkish legislators favoring a ~10% increase), seemingly support management's viewpoint. Longer term, the company plans to continue to invest in next-generation products, particularly in its core intelligence, surveillance & reconnaissance (ISR) offerings (e.g., the Fire Scout program), as well as in the unmanned aerial vehicles arena, while also deepening its penetration with international customers. As an incumbent, well-respected, and cost-effective supplier with a well-positioned product mix, GFF expects that the Telephonic business can continue to "grow and improve margins over time."

Considering GFF's consolidated guidance, segment commentary, and current consensus forecasts, it can be reasonably projected that Telephonics could generate 2016 revenue and adjusted EBITDA of $431 million and $62 million, respectively (see Background #5).

Background #5 **Telephonics: Selected Financial Items (F2012-F2016E)**
($ in millions)

	F2012	F2013	F2014	6 mos. F2014	6 mos. F2015	F2015E	F2016E
Telephonics:							
Total revenue	**$441.5**	**$453.4**	**$419.0**	**$200.2**	**$189.3**	**$423.2**	**$431.7**
Adjusted operating profit	**$53.0**	**$55.8**	**$49.5**	**$21.3**	**$16.6**	**$42.3**	**$51.8**
Operating margin	12.0%	12.3%	11.8%	10.7%	8.8%	10.0%	12.0%
Depreciation & amortization	$7.5	$7.4	$8.0	$3.6	$5.0	$9.6	$9.8
Adjusted EBITDA	**$60.6**	**$63.2**	**$57.5**	**$24.9**	**$21.6**	**$51.9**	**$61.6**
EBITDA margin	13.7%	13.9%	13.7%	12.5%	11.4%	12.3%	14.3%
Capital expenditures	$12.0	$11.1	$21.0	$8.9	$2.3	$8.5	$8.6
Capex as a % of revenue	2.7%	2.5%	5.0%	4.4%	1.2%	2.0%	2.0%
Assets	$255.4	$296.9	$319.3	$299.8	$291.5	$317.4	$323.7

Source: Company reports and Institutional Research Group estimates.

Clopay Plastics Products (CPP)

The Plastics business was acquired (along with the doors business) in the 1986 purchase of Clopay (for about $40 million). CPP is a global supplier of high-performance plastic films and laminates, which primarily serve as moisture barriers in a wide range of products, including diapers, feminine products, surgical gowns, and equipment covers (see Background #6). Procter & Gamble (NYSE: PG) is the largest customer, comprising ~50% of revenue, and the segment experiences a notable degree of quarterly volatility due to fluctuations in prices for plastic resin, which is the primary raw material, and currency fluctuations (as about 50% of business generated in Europe and Latin America).

Background #6 **Clopay Plastics: Overview of Segment Product Mix and Market Size/Share**

	Products	End Markets/Users	Major Customers	Market Size	Market share (F2014)	Market Rank
Plastics	Plastic films & Laminates (used for barriers in infant/adult diapers, feminine products, surgical products)	Healthcare, Consumer hygiene, Industrial	Procter & Gamble, Kimberly Clark, 3M	~$9 billion	6.6%	#1

Source: Company reports, industry reports, and Institutional Research Group estimates.

In F2014, segment sales rose 5% to $593.4 million, reflecting a 1% increase in volume, a 2% increase due to favorable mix, and the pass-through to customers of a 2% increase in resin costs, while adjusted EBITDA increased 17% to $56 million. In 1HF15, segment revenue fell almost 5% to $277.5 million, primarily due to foreign currency (i.e., the weak euro and Brazilian *real*), while adjusted EBITDA increased 4% to about $30 million on the cost pass-throughs and improved operating efficiencies. For full year F2015, GFF expects Plastics segment revenue to decline in the high single digits, largely due to currency (as well as the deflationary impact of falling resin prices on selling prices). That said, management thinks it is well positioned to grow with its biggest customers, particularly Kimberly-Clark (NYSE: KMB), as well as expand margins as volume grows (assuming a degree of stability in exchange rates). (Long-term, GFF targets compound annual-top line growth of better than 5% with EBTIDA margins north of 10% at Plastics.)

Background #7 **Clopay Plastics: Selected Financial Items (F2012-F2016E)**
($ in millions)

	F2012	F2013	F2014	6 mos. F2014	6 mos. F2015	F2015E	F2016E
Plastics:							
Total revenue	**$563.1**	**$563.0**	**$593.4**	**$290.9**	**$277.5**	**$548.9**	**$565.3**
Adjusted operating profit	**$13.7**	**$21.4**	**$28.9**	**$15.2**	**$17.9**	**$35.7**	**$36.7**
Operating margin	2.4%	3.8%	4.9%	5.2%	6.4%	6.5%	6.5%
Depreciation & amortization	$26.3	$26.7	$27.4	$13.8	$12.4	$24.9	$25.5
Adjusted EBITDA	**$40.0**	**$48.1**	**$56.3**	**$29.0**	**$30.3**	**$60.6**	**$62.3**
EBITDA margin	7.1%	8.5%	9.5%	10.0%	10.9%	11.0%	11.0%
Capital expenditures	$32.1	$22.5	$21.0	$10.2	$15.2	$30.2	$28.3
Capex as a % of revenue	5.7%	4.0%	3.5%	3.5%	5.5%	5.5%	5.0%
Assets	$430.4	$422.7	$389.5	$426.6	$354.2	$340.3	$350.5

Source: Company reports and Institutional Research Group estimates.

Considering GFF's consolidated guidance, segment commentary, and current consensus forecasts, it can be reasonably projected that Plastics could generate F2016 revenue and adjusted EBITDA of $565 million and $62 million, respectively (see Background #7).

Balance Sheet and Cash Flow

At the end of 2QF15, GFF had net debt of $846 million, including $43 million of cash and $888 million of debt (see Background #8); the net debt to capitalization and leverage ratios were 64% and 5.1x, respectively.

Background #8 **Griffon Corp.: Balance Sheet Snapshot**

($ in millions)

	F2014	2Q15
Cash	**$92.4**	**$42.6**
Senior note due 2022	$600.0	$600.0
Revolver due 2020	$25.0	$95.0
Convert. debt due 2017	$100.0	$100.0
Real estate mortgages	$16.4	$16.0
ESOP loans	$38.9	$37.8
Capital lease-real estate	$8.6	$8.0
Non U.S. lines of credit	$3.3	$4.5
Non U.S. term loans	$28.5	$25.2
Other long-term debt	$1.9	$1.6
Total debt	**$822.6**	**$888.2**
Net debt	**$730.2**	**$845.6**

Source: Company reports and Institutional Research Group estimates.

At quarter-end, the company had $134 million of availability under its credit facilities, which management suggests could be tapped opportunistically for acquisitions. Management forecasts F2015 capital expenditures of ~$80 million and indicates that excess free cash flow is likely to be deployed toward share repurchases and dividends. To that end, in November 2014 management boosted its quarterly dividend by 33% to $0.04 per share (from $0.03) and in 1HF15 repurchased 2.6 million shares for about $36.5 million (or about $14 per share). At the end of 2QF15, the diluted share count was 47.7 million, and management was authorized to repurchase an additional $52.4 million of common stock. (Note: It is both historically and seasonally normal for GFF's free cash flow generation to be wholly back-half weighted. See Background #9 for Sources and Uses of Cash Flow.)

Background #9 **Griffon Corp.: Sources and Uses of Cash Flow (F2012-F2016E)**
($ in millions)

	F2012	F2013	F2014	*6 mos.* F2015	F2015E	F2016E
Net income	$17.0	$3.8	($0.2)	$12.6	$31.1	$43.1
Depreciation & amortization	$66.3	$70.7	$67.4	$34.5	$68.5	$70.3
Cash flow from operations	**$90.1**	**$85.7**	**$93.3**	**($43.1)**	**$99.7**	**$113.3**
Purchase of property, plant & equipment	($68.9)	($64.4)	($77.1)	($39.7)	($76.7)	($75.9)
Proceeds from sale of PP&E	$0.3	$1.6	$0.6	$0.2	$1.0	$1.0
Free cash flow	**$21.6**	**$22.8**	**$16.8**	**($82.6)**	**$23.9**	**$38.4**
Acquisitions	($22.4)	-	($62.3)	-	-	-
Share repurchases	($10.4)	($32.5)	($79.6)	($37.6)	($39.0)	($8.0)
Dividends	($4.7)	($5.8)	($6.3)	($3.9)	($7.5)	($7.4)
Diluted share count	57.3	56.6	49.4	47.7	47.0	46.5
Dividend per share	$0.08	$0.10	$0.12	$0.16	$0.16	$0.16

Note: Net income figures assume $48 million of net interest expense and tax rate of 36%.
Source: Company reports and Institutional Research Group estimates.

The Breakup

With distinct manufacturing/distribution footprints (see Breakup #1), GFF's portfolio of disparate businesses offers limited synergies, contributes to the dearth of sell-side research coverage, and results in the shares trading at a conglomerate discount. To that end, a separation transaction could potentially emerge as a rational avenue to unlocking further value for GFF shareholders. (As described earlier, at 8.8x F2016E EBITDA, GFF shares trade at a discount compared to the comparable peer groups of each of its three businesses, which trade at ~9.0x-10.5x).

The company came under pressure from shareholders almost a decade ago, which resulted in some improvements in corporate governance (and a small divestiture) but left the conglomerate operating structure intact. In December 2006, via a 13D filing, the Clinton Group disclosed a 5.2% stake in GFF and delivered a letter to the company stating that the shares were undervalued, at ~$24 (or about $16.30, in terms of the current share count). The investor recommended that the company explore a range of strategic alternatives, including a tax-free spin-off or sale of one or more of its operating subsidiaries, or a go-private transaction for the entire company. The Clinton Group indicated that their analysis suggested the fair value of GFF stock was $31-$35 per share (or ~$21-$24 per share based on the current share count). In March 2007, Barington Companies Equity Partners, a 5.24% holder at the time, sent a letter to GFF's then-Chairman and CEO, Harvey Blau, indicating that, at ~$24 (or $16.30 based on the current share count), the company's stock price did not reflect intrinsic value. Barington recommended, among other things, that the company unlock the value of the Telephonics business, which it indicated should be valued at 9x-12x EBITDA (or $400-$550 million), via a spin-off, IPO, or sale, as well as divesting the low-margin Installation Services business. The investor also urged the company to reduce costs, increase share repurchases, and improve corporate governance by declassifying the Board and splitting the chairman and CEO roles. Subsequently, in May 2007, against a background of deteriorating financial performance, the Clinton Group, then an 8.5% holder, proposed a levered recapitalization of GFF at $25 per share, a proposal that was rejected by the Board.

In April 2008, GFF named Ronald Kramer, a long-time Board member and former President of Wynn Resorts, as CEO; subsequently, in May 2008, the company announced it would divest the Installation Services business. (Note: Mr. Blau, who remains Chairman, is Mr. Kramer's father-in-law.) In September 2008, amid a further deterioration in financial performance, the company raised ~$250 million in equity via a rights offering and an investment from Goldman Sachs affiliate GS Direct, which resulted in almost 30 million shares being issued at $8.50. In 2013, the company repurchased 4.4 million shares, or less than half of GS's stake, at $11.25 per share. (Per an agreement, GFF has the right of first refusal to repurchase the remainder of GS's 5.8 million share position if it decides to sell at some point.)

Notably, GFF's largest shareholder is currently Gabelli Asset Management (GAMCO), which holds 8.7 million shares, or almost 17% of total shares outstanding. Although GAMCO's stake is filed under a 13D, it has not overtly engaged GFF in an "activist" campaign. That said, GAMCO's initial filing indicated that engaging management is part of its investment philosophy, and Mario Gabelli, GAMCO's CIO, has anecdotally highlighted the possibility of a breakup of GFF as an avenue to unlocking value. For its part, in response to a question on potential divestitures during the 4QF14 conference call, GFF management, which owns ~12% of the outstanding stock, indicated that it is "very happy with our portfolio of companies" and indicated a willingness "to add to it over time," which suggests further activist involvement may be needed to effect change in the current corporate structure.

(As illustrated in Breakup #1, GFF's three businesses have distinct manufacturing and distribution networks, which limit synergies and presents less complication in the event of a separation.)

Breakup #1 Griffon Corp.: Manufacturing/Distribution Network

Location	Segment	Primary Use
New York, NY	Corporate	Headquarters
Jericho, NY	Corporate	Office
Troy, OH	HBP	Manufacturing
Russia, OH	HBP	Manufacturing
Carlisle, PA	HBP	Manufacturing, Distribution
Reno, NV	HBP	Manufacturing, Distribution
Camp Hill, PA	HBP	Office, Distribution
Harrisburg, PA	HBP	Manufacturing
St. Francis, Quebec	HBP	Manufacturing, Distribution
Falls City, NE	HBP	Manufacturing
Cork, Ireland	HBP	Manufacturing, Distribution
Victoria, Australia	HBP	Manufacturing, Distribution
Victoria, Australia	HBP	Manufacturing
Victoria, Australia	HBP	Distribution
New South Wales, Australia	HBP	Distribution
New South Wales, Australia	HBP	Manufacturing
Mason, OH	HBP/CPP	Office/R&D
Aschersleben, Germany	CPP	Manufacturing
Dombuhl, Germany	CPP	Manufacturing
Augusta, KY	CPP	Manufacturing
Nashville, TN	CPP	Manufacturing
Nashville, TN	CPP	Manufacturing
Jundiai, Brazil	CPP	Manufacturing
Hangzhou, China	CPP	Manufacturing
Istanbul, Turkey	CPP	Manufacturing
Farmingdale, NY	Telephonics	Manufacturing/R&D
Huntington, NY	Telephonics	Manufacturing
Huntington, NY	Telephonics	Manufacturing
Columbia, MD	Telephonics	Engineering
Elizabeth City, NC	Telephonics	Repair and Service

Source: Company reports.

The Breakdown

Given the disparate nature of GFF's conglomeration of businesses and the existence of clear peer comparisons, a sum-of-the-parts valuation is the most relevant methodology.

Consolidated F2015 financial guidance calls for segment EBITDA of ~$200 million, which includes ~$68 million of D&A expense but excludes ~$34 million of unallocated corporate expense, of which $11-$12 million is stock-based compensation expense. Based on the segment results detailed in the Background section of this report, which are informed by management guidance/commentary, industry trends, and consensus forecasts, it can be projected that GFF could generate F2015 and F2016 EBITDA of $164 million and $184.5 million, respectively (see Breakdown #1). (For context, the current F2016 revenue and EBITDA consensus forecasts for GFF are $2.1 billion and $185 million, respectively.)

Breakdown #1 Griffon Corp. : F2012-F2014 Results, Adjusted, and F2015-F2016E Forecasts

($ in millions)

	F2012	F2013	F2014	F2015E	F2016E
Revenue:					
Home & Building	$856.5	$855.0	$979.4	$1,059.6	$1,086.0
Telephonics	$441.5	$453.4	$419.0	$423.2	$431.7
Clopay Plastics	$563.1	$563.0	$593.4	$548.9	$565.3
Total	**$1,861.1**	**$1,871.3**	**$1,991.8**	**$2,031.7**	**$2,083.0**
Adjusted operating profit:					
Home & Building	$38.4	$33.9	$45.6	$51.9	$59.7
Telephonics	$53.0	$55.8	$49.5	$42.3	$51.8
Clopay Plastics	$13.7	$21.4	$28.9	$35.7	$36.7
Unallocated costs	($26.3)	($29.2)	($33.4)	($34.0)	($34.0)
Total	**$78.8**	**$81.9**	**$90.6**	**$95.9**	**$114.3**
Depreciation & amortization:					
Home & Building	$32.0	$36.2	$31.6	$33.6	$34.4
Telephonics	$7.518	$7.4	$8.0	$9.6	$9.8
Clopay Plastics	$26.312	$26.7	$27.4	$24.9	$25.5
Unallocated costs	$0.4	$0.4	$0.4	$0.4	$0.5
Total	**$66.3**	**$70.7**	**$67.4**	**$68.5**	**$70.3**
Adjusted EBITDA:					
Home & Building	$70.5	$70.1	$77.2	$85.5	$94.2
Telephonics	$60.6	$63.2	$57.5	$51.9	$61.6
Clopay Plastics	$40.0	$48.1	$56.3	$60.6	$62.3
Unallocated costs	($25.9)	($28.7)	($33.0)	($33.6)	($33.5)
Total	**$145.1**	**$152.7**	**$158.0**	**$164.4**	**$184.5**
EBITDA margin:					
Home & Building	8.2%	8.2%	7.9%	8.1%	8.7%
Telephonics	13.7%	13.9%	13.7%	12.3%	14.3%
Clopay Plastics	7.1%	8.5%	9.5%	11.0%	11.0%

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Home & Building Products (HBP) Segment

GFF's Home & Building Products segment, which consists of both its outdoor tools and its doors business, can be compared to Friskars Ojy ABP (FIS1V FH), Stanley Black & Decker (NYSE: SWK), Snap-on Inc. (NYSE: SNA), Masonite International (NYSE: DOOR), Fortune Brands (NYSE: FBHS), Ply-Gem Holdings (NYSE: PGM), Masco Corp. (NYSE: MAS) and PGT Inc. (NASDAQ: PGTI), which currently trade at a blended multiple of 10.4x 2016E EBITDA (see Breakdown #2).

Breakdown #2 Griffon Corp.: Public Comparables for Home & Building Products Segment

($ in millions, except per share amounts; shares in millions)

	Home & Building Products (HBP)								
	Griffon Corp. (NYSE: GFF)	Friskars Ojy Abp (FIS1V FH)	Stanley Black & Decker (NYSE: SWK)	Snap-on Inc. (NYSE: SNA)	Masonite Intl. Corp (NYSE: DOOR)	Fortune Brands (NYSE: FBHS)	Ply Gem Holdings (NYSE: PGEM)	Masco Corp. (NYSE: MAS)	PGT Inc. (NASDAQ: PGTI)
(stock prices as of 7/10/15)									
Share Price	**$16.29**	**$22.15**	**$106.66**	**$160.87**	**$69.91**	**$45.04**	**$12.73**	**$23.48**	**$15.02**
FD Shares Out. (mn.)	48	82	154	58	30	159	68	349	48
Market Capitalization	777	1,814	16,396	9,345	2,110	7,180	865	8,185	717
Net Debt	846	230	4,026	829	385	581	1,032	2,149	145
Enterprise Value	**1,622**	**2,045**	**20,505**	**10,192**	**2,522**	**7,765**	**1,897**	**10,524**	**862**
F2015E Sales	2,032	1,315	11,239	3,436	1,926	4,583	1,967	8,163	393
F2016E Sales	2,083	1,508	11,686	3,671	2,115	5,109	2,156	8,237	432
F2016E Net Income	43	83	1,017	529	83	415	77	468	40
2016E EBITDA Margin	8.9%	11.0%	16.5%	23.1%	11.6%	14.7%	10.6%	14.0%	19.7%
Shareholders' Equity	465	1,272	5,697	2,188	673	2,263	NM	1,128	82
Price/book	1.7x	1.4x	2.9x	4.3x	3.1x	3.2x	-	7.3x	8.8x
Assets	1,747	1,802	15,944	4,262	1,515	4,053	1,255	7,167	327
EV/assets	0.9x	1.1x	1.3x	2.4x	1.7x	1.9x	1.5x	1.5x	2.6x
Average, ex. GFF	***1.8x***								
F2016E Free cash flow	38.4	108.1	1,123.1	450.5	114.8	401.5	88.2	570.8	36.1
Free cash flow yield	2.4%	5.3%	5.5%	4.4%	4.6%	5.2%	4.6%	5.4%	4.2%
F2015E EPS	$0.66	$1.19	$5.83	$8.00	$1.19	$2.06	$0.45	$1.15	$0.63
Price F2015E EPS	24.6x	18.6x	18.3x	20.1x	58.7x	21.9x	28.3x	20.4x	23.8x
F2016E EPS	$0.93	$1.02	$6.58	$9.02	$2.73	$2.54	$1.18	$1.44	$0.80
Price F2016E EPS	17.6x	21.7x	16.2x	17.8x	25.6x	17.7x	10.8x	16.3x	18.8x
Average, ex. GFF	***18.1x***								
F2015E EBITDA	164.4	119.7	1,786.4	766.6	185.0	621.7	171.3	1,037.1	72.0
EV/EBITDA	9.9x	17.1x	11.5x	13.3x	13.6x	12.5x	11.1x	10.1x	12.0x
F2016E EBITDA	184.5	166.4	1,932.8	846.6	244.9	753.5	228.1	1,153.5	85.1
EV/EBITDA	8.8x	12.3x	10.6x	12.0x	10.3x	10.3x	8.3x	9.1x	10.1x
Average, ex. GFF	***10.4x***								

Source: Bloomberg and Institutional Research Group estimates.

Applying the 10.4x peer multiple to F2016E HBP segment EBITDA of $94.2 million implies an enterprise value of $978 million, or about $21 per share (Breakdown #3).

Breakdown #3 Griffon Corp.: Estimated Fair Value of HBP Segment Based on F2016E EBITDA
($ in millions, except per share amounts; shares in millions)

	HBP
F2015E Revenue	$1,059.6
Revenue Growth Est.	2.5%
F2016E Revenue	$1,086.0
Operating margin	5.5%
Operating Income	$59.7
D&A	$34.4
F2016E EBITDA	**$94.2**
EBITDA Margin	8.7%
Multiple	10.4x
EV	$978.2
Shares Outstanding	46.5
Per Share Basis	**$21.05**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Telephonics Segment

GFF's Telephonics business can be compared to Rockwell Collins (NYSE: COL), Esterline Technologies (NYSE: ESL), Harris Corp. (NYSE: HRS), L-3 Communications (NYSE: LLL), Raytheon Company (NYSE: RTN), and Trimble Navigation (NASDAQ: TRMB), which, on average, currently trade at 9.7x 2016E EBITDA (see Breakdown #4).

Breakdown #4 Griffon Corp.: Public Comparables for Telephonics Segment
($ in millions, except per share amounts; shares in millions)

	Telephonics						
	Griffon Corp. (NYSE: GFF)	**Rockwell Collins Inc. (NYSE: COL)**	**Esterline Tech Corp. (NYSE: ESL)**	**Harris Corp. (NYSE: HRS)**	**L-3 Comm. (NYSE: LLL)**	**Raytheon Co. (NYSE: RTN)**	**Trimble Navigation (NASDAQ: TRMB)**
(stock prices as of 7/10/15)							
Share Price	**$16.29**	**$92.55**	**$93.79**	**$79.35**	**$120.22**	**$98.71**	**$23.06**
FD Shares Out. (mn.)	48	132	31	124	82	305	259
Market Capitalization	777	12,241	2,890	9,807	9,902	30,121	5,983
Net Debt	846	2,179	671	1,115	3,622	1,191	518
Enterprise Value	**1,622**	**14,426**	**3,571**	**10,922**	**13,598**	**31,511**	**6,502**
F2015E Sales	2,032	5,312	1,882	4,859	11,600	22,685	2,390
F2016E Sales	2,083	5,572	2,195	6,716	11,669	23,002	2,596
F2016E Net Income	43	741	197	601	647	2,098	397
2016E EBITDA Margin	8.9%	23.9%	18.0%	20.4%	11.8%	15.8%	21.4%
Shareholders' Equity	465	1,955	1,681	5,302	5,302	9,906	2,431
Price/book	1.7x	6.3x	1.7x	1.8x	1.9x	3.0x	2.5x
Assets	1,747	7,172	3,176	13,782	13,782	27,798	3,798
EV/assets	0.9x	2.0x	1.1x	0.8x	1.0x	1.1x	1.7x
Average, ex. GFF	***1.3x***						
F2016E Free cash flow	38.4	682.4	210.1	546.6	933.6	2,428.3	337.0
Free cash flow yield	2.4%	4.7%	5.9%	5.0%	6.9%	7.7%	5.2%
F2015E EPS	$0.66	$5.23	$4.69	$5.06	$7.50	$6.66	$1.23
Price F2015E EPS	24.6x	17.7x	20.0x	15.7x	16.0x	14.8x	18.7x
F2016E EPS	$0.93	$5.68	$6.35	$5.15	$8.40	$6.97	$1.51
Price F2016E EPS	17.6x	16.3x	14.8x	15.4x	14.3x	14.2x	15.3x
Average, ex. GFF	***15.0x***						
F2015E EBITDA	164.4	1,274.2	316.8	1,109.5	1,313.3	3,436.0	492.0
EV/EBITDA	9.9x	11.3x	11.3x	9.8x	10.4x	9.2x	13.2x
F2016E EBITDA	184.5	1,329.2	395.1	1,373.3	1,375.5	3,645.4	556.6
EV/EBITDA	8.8x	10.9x	9.0x	8.0x	9.9x	8.6x	11.7x
Average, ex. GFF	***9.7x***						

Source: Bloomberg and Institutional Research Group estimates.

Applying the 9.7x peer multiple to F2016E segment EBITDA of $61.6 million implies an enterprise value of $596 million, or about $13 per share (Breakdown #5).

Breakdown #5 Griffon Corp.: Estimated Fair Value of Telephonics Segment Based on F2016E EBITDA

($ in millions, except per share amounts; shares in millions)

	Telephonics		
F2015E Revenue	$423.2		
Revenue Growth Est.	2.0%		
F2016E Revenue	$431.7		
Operating margin	12.0%		
Operating Income	$51.8		
D&A	$9.8		
F2016E EBITDA	**$61.6**		
EBITDA Margin	14.3%		
Multiple	9.7x	10.0x	12.0x
EV	$596.4	$616.4	$739.6
Shares Outstanding	46.5	46.5	46.5
Per Share Basis	**$12.83**	$13.26	$15.92

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

The uptick in M&A activity over the last few years within the aerospace & defense industry (see Breakdown #6) makes its relevant to suggest that small-to-mid-tier suppliers, such as Telephonics, could attract attention from strategic suitors either by acquisition as a standalone company or via a more tax-efficient transaction (i.e., a Reverse Morris Trust). To that end, recent deal activity includes high-profile transactions, such as Harris Corp.'s purchase of Exelis (NYSE: XLS), which was spun off from ITT Corp. (NYSE: ITT), and the Morris Trust merger of Alliant Techsystem's A&D business with Orbital Sciences (NYSE: OA). If the Telephonics segment were to garner a premium take-out multiple it could add optionality of $1-$3 per share (see Breakdown #5)

Breakdown #6 Telephonics: Aerospace & Defense Sector Transaction Multiples

Date	Acquirer	Target	Revenue multiple	EBITDA multiple
May-15	Harris Corp.	Exelis	1.4x	8.9x
Apr-15	RBC Bearings	Sargent	2.6x	-
Mar-15	SAIC	Scitor	1.3x	10.6x
Mar-15	TransDigm	Telair	2.4x	12.1x
Mar-15	Google	Titan	-	-
Jan-15	Raytheon	Sensintel	-	-
Jul-14	Dongsung	Doha	0.8x	11.1x
May-14	Cobham	Aeroflux	2.3x	11.9x
Apr-14	Ametek	Zygo	1.7x	10.7x
Mar-14	Babcock	Avincis	3.3x	14.4x
Feb-14	Heroux-Devtek	APPH	1.6x	9.9x
Jan-14	Safran	Eaton	2.6x	19.3x
Oct-13	Hong Kong Aircraft	TIMCO	1.1x	13.4x
Oct-13	CACI	Six3 Systems	2.3x	17.0x

Source: Bloomberg, Pricewaterhouse Coopers reports, and Institutional Research Group estimates.

Plastics Segment

Public comparables to GFF's Plastics business, Clopay, could include AEP Industries (NYSE AEPI), Bemis Company (NYSE: BMS), Myers Industries (NYSE: MYE), Sealed Air Corp. (NYSE: SEE), Silgan Holdings (NASDAQ: SLGN), and Tredegar Corp. (NYSE: TG), which, on average, trade at 8.9x 2016E EBITDA (see Breakdown #7).

Breakdown #7 Griffon Corp.: Public Comparables for Clopay Plastics Segment

($ in millions, except per share amounts; shares in millions)

	Plastics						
	Griffon Corp. (NYSE: GFF)	**AEP Industries (NYSE: AEPI)**	**Bemis Co. (NYSE: BMS)**	**Myers Industries (NYSE: MYE)**	**Sealed Air (NYSE: SEE)**	**Silgan Holdings (NSADAQ: SLGN)**	**Tredegar Corp. (NYSE: TG)**
(stock prices as of 7/10/15)							
Share Price	**$16.29**	**$57.55**	**$46.52**	**$17.96**	**$51.77**	**$53.10**	**$22.43**
FD Shares Out. (mn.)	48	5	97	31	210	61	33
Market Capitalization	777	294	4,533	556	10,880	3,213	733
Net Debt	846	225	1,326	201	3,812	1,782	86
Enterprise Value	**1,622**	**519**	**5,859**	**757**	**14,692**	**4,995**	**818**
F2015E Sales	2,032	1,193	4,185	657	7,144	3,783	933
F2016E Sales	2,083	1,187	4,270	676	7,298	3,836	988
F2016E Net Income	43	9	271	28	517	209	53
2016E EBITDA Margin	8.9%	5.6%	14.7%	13.0%	16.8%	14.1%	12.7%
Shareholders' Equity	465	73	1,328	120	1,150	543	349
Price/book	1.7x	4.0x	3.4x	4.7x	9.5x	5.9x	2.1x
Assets	4,053	428	3,571	466	7,854	3,353	770
EV/assets	0.4x	1.2x	1.6x	1.6x	1.9x	1.5x	1.1x
Average, ex. GFF	***1.5x***						
F2016E Free cash flow	38.4	54.6	276.1	35.0	595.6	230.1	-
Free cash flow yield	2.4%	10.5%	4.7%	4.6%	4.1%	4.6%	NM
F2015E EPS	$0.66	($1.26)	$2.59	$0.80	$2.17	$3.19	$1.45
Price F2015E EPS	24.6x	NM	18.0x	22.5x	23.9x	16.6x	15.5x
F2016E EPS	$0.93	$2.21	$2.80	$0.96	$2.49	$3.46	$1.63
Price F2016E EPS	17.6x	26.0x	16.6x	18.7x	20.8x	15.3x	13.8x
Average, ex. GFF	***18.5x***						
F2015E EBITDA	164.4	39.5	602.7	84.7	1,154.4	517.6	115.0
EV/EBITDA	9.9x	13.1x	9.7x	8.9x	12.7x	9.7x	7.1x
F2016E EBITDA	184.5	66.5	629.3	87.7	1,229.7	540.1	125.0
EV/EBITDA	8.8x	7.8x	9.3x	8.6x	11.9x	9.2x	6.5x
Average, ex. GFF	***8.9x***						

Source: Bloomberg and Insitutional Research Group estimates.

Applying the 8.9x peer multiple to F2016E segment EBITDA of $62.3 million yields an enterprise value of $555 million, or about $12 per share (see Breakdown #8).

Breakdown #8 Griffon Corp.: Estimated Fair Value of Plastics Segment Based on F2016E EBITDA

($ in millions, except per share amounts; shares in millions)

	Plastics
F2015E Revenue	$548.9
Revenue Growth Est.	3.0%
F2016E Revenue	$565.3
Operating margin	6.5%
Operating Income	$36.7
D&A	$25.5
F2016E EBITDA	**$62.3**
EBITDA Margin	11.0%
Multiple	8.9x
EV	$555.2
Shares Outstanding	46.5
Per Share Basis	**$11.95**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Accounting for unallocated corporate costs capitalized at 9.8x, or the average weighted multiple applied to segment earnings, yields a sum-of-the-parts fair value of $957 million, or about $21 per share (see Breakdown #9).

Breakdown #9 Griffon Corp.: Sum-of-the-Parts Fair Value Estimate

($ in millions, except per share amounts; shares in millions)

	HBP	Telephonics	Plastics	Corporate Costs	Enterprise Value	Net Debt	Market Cap
F2015E Revenue	$1,059.6	$423.2	$548.9				
Revenue Growth Est.	2.5%	2.0%	3.0%				
F2016E Revenue	**$1,086.0**	**$431.7**	**$565.3**				
Operating Income	$59.7	$51.8	$36.7				
D&A	$34.4	$9.8	$25.5				
F2016E EBITDA	**$94.2**	**$61.6**	**$62.3**	**($33.5)**		**($845.6)**	
Multiple	10.4x	9.7x	8.9x	9.8x		1.0x	
EV	$978.2	$596.4	$555.2	($327.6)	1,802.18	($845.6)	956.62
Shares Outstanding	46.5	46.5	46.5	46.5		46.5	46.5
Per Share Basis	**$21.05**	**$12.83**	**$11.95**	**($7.05)**		**($18.20)**	**$20.59**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

The Wrap-Up

Griffon Corp. could consider separating its conglomeration of disparate businesses, which offer limited synergies and seemingly result in the shares trading at a conglomerate discount. To that end, GFF trades at about 8.8x F2016E EBITDA, which is a discount to the ~10.5x multiple awarded peers of GFF's largest segment, Home & Building Products (HBP), as well as the ~9.5x and ~9.0x multiples garnered by Telephonic and Plastics comparables. As well, as standalone entities GFF's businesses, particularly Telephonics, could attract interest from strategic buyers and might fetch a premium multiple based on expected synergies.

Based on peer multiples of earnings, respective value of about $21 per share, $13 per share, and $12 per share can be derived for GFF's HBP, Telephonics, and Plastics businesses. Accounting for unallocated corporate costs and net debt of about $25 per share yields a sum-of-the-parts fair value of about $21 per share.

Potential future catalysts include a separation of the company's businesses, improving profitability at the HBP segment, which has significant leverage to the housing cycle, increased defense spending, and/or acquisitions. Potential risks include management execution, the liquidation of a large shareholder's stake, currency fluctuations, margin deterioration, and/or a recession.