Robert Dunn

Michael Wolleben

HIDDEN OPPORTUNITIES

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

Withdraw recommendation of GFF with shares trading roughly in-line with our fair value

- ✓ GFF shares have returned 33.5% since our initial recommendation in July 2015 (versus ~4% increases in both the S&P 500 and the Russell 2000).
- ✓ That said, with the shares trading roughly in-line with our fair value fair value estimate and at ~9.5x 2017E EBITDA we prefer to maintain a disciplined approach and withdraw our recommendation, as of today's close.
- ✓ Nevertheless, we will continue to monitor GFF for an opportunity to re-recommend the shares if valuation shifts or if we discern any softening in management's decidedly resistant stance on an elimination of its conglomerate operating structure.
- ✓ This week, GFF issued initial 2017E segment EBITDA guidance, which excludes about $40 million of corporate costs, of $225 million or better (compared with 2016 segment EBITDA of $218 million).
- ✓ Our current $21 fair value reflects a blended multiple of about 9.5x on 2017E EBITDA $192 million less projected net debt of $875 million (and a diluted share count of 43.6 million).

UPDATE

Griffon Corp.

(NYSE: GFF)

Price (11/18/2016) $21.50/share

Market capitalization: $1.1B

Home & Bldg.: $28 per share

Telephonics: $12 per share

Plastics: $10 per share

Corp. Costs: ($9 per share)

Net Debt: ($20 per share)

SOTP: $21/share

(See the 7/13/2015 report for more info.)

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking 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.

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