

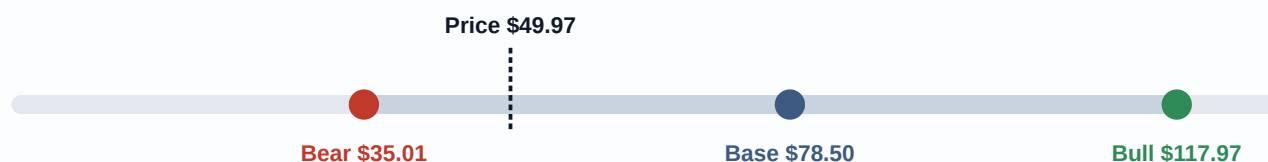
Initiated 2026-10-28 · Price \$49.97 (as of 2026-10-28 10:05 ET, market open, stockanalysis) · Mkt cap \$2.69bn (53.83mm shares; \$2.74bn on 54.91mm diluted) · Materials / specialty chemicals (adhesives) · Model: verified

Rating: Buy — Conviction: Medium

FUL trades at ~7.7x adjusted EBITDA, against 11–15x for listed adhesive and coatings peers. Margins are at a record (18.4% guided for FY2026) and price is holding while volume slips. The market is pricing a margin give-back and a leverage problem that the filings don't yet show. Even on the exit-multiple method alone, and after charging the AMS deal at FUL's own multiple, Base sits well above the price. Buy.

Conviction tests (3a-v-c): T1 pass (Base +33.9% at +1pp, +88.5% at -1pp; Buy at both) · T2 pass (Gordon \$91.75 (+83.6%), exit \$65.24 (+30.6%); Buy on either) · T3 pass (all FY0 facts and historicals from SEC filings or company IR; the one estimate, a residual debt tranche split, doesn't move value) · T4 fail (two activists: Ancora's rejected bids for Building Adhesive Solutions and threatened proxy contest, and Engine Capital's call for a market check of the whole company. A sale outcome could alone move value >25%)

MODEL VALUE RANGE VS PRICE



Business overview

H.B. Fuller makes industrial adhesives, sealants and coatings, sold to manufacturers rather than consumers. FY2025 revenue was \$3.47bn in three segments. Hygiene, Health and Consumable Adhesives (\$1.55bn; 15.7% segment adj. EBITDA margin) serves diapers, packaging and labels. Engineering Adhesives (\$1.06bn; 22.2%) serves electronics, automotive, solar and durable goods. Building Adhesive Solutions (\$0.86bn; 15.6%) serves roofing, insulation and construction. About 56% of revenue came from outside the US (2023 annual report). Three variables drive earnings: (1) price versus petrochemical raw-material cost; (2) volume in construction and durable goods; (3) interest cost on ~\$2.05bn of debt.

Competition

Henkel (Adhesive Technologies, roughly 3x FUL's revenue), 3M, Arkema (Bostik) and Sika compete for the same specified applications. The datapoint that matters is the price/volume split. In Q3 FY2026, FUL grew organically 4.4%: price +7.4%, volume -3.0% (Q3 release, August quarter). Henkel Adhesive Technologies grew 1.7% organically in Q1 2026, with volume +1.3% and price +0.4% (Henkel Q1 release, six months old). FUL is taking price much harder than the market leader and giving up volume. If competitive pressure arrives, it will show first as FUL's volume decline widening, then as price concessions. The closest listed comparable, RPM, trades at 12.1x TTM EV/EBITDA and 16.1x forward earnings.

Bull case

1. **Pricing holds and margins reach ~20%** — the margin rose from 16.5% (FY2023) to 17.9% (FY2025) and is guided to 18.4% for FY2026. Management's stated goal is >20% (FY2023 annual report). Plays out if Q4 and FY2027 pricing holds with raw materials flat. *Model: ebitda_margin*
2. **Volume recovers** — volume is down 3%, so a construction or industrial upturn adds operating leverage on top of price, lifting revenue growth to ~5%. Plays out if US housing and durable-goods activity bottoms in 2027. *Model: rev_growth, terminal_growth*
3. **The discount narrows** — at 7.7x against peers at 11–12x, deleveraging or an activist-driven market check lifts the multiple toward ~9.5x. Plays out if net leverage falls back toward 3x after the AMS deal. *Model: exit_ev_ebitda*

Bear case

1. **Volume recession and price give-back** — revenue falls ~5% in FY2027 and part of the 2026 pricing reverses. Plays out if construction and durable goods weaken further. *Model: rev_growth, ebitda_margin, terminal_growth*
2. **Raw-material squeeze** — with Brent ~\$114, oil-derived resins and polymers cost more, and the margin returns to the 16.5% of FY2023–24. Plays out if the Middle East supply disruption persists (the Q3 release cites it for the inventory build). *Model: ebitda_margin*
3. **Leverage** — net leverage is 3.0x on the company's basis, ~4.0x pro forma for AMS (est.). The new notes carry 7.625%. A levered specialty-chemicals name can stay at a trough multiple with a higher discount rate. Plays out if deleveraging stalls. *Model: wacc, exit_ev_ebitda*
4. **AMS overpayment** — FUL pays ~12.9x pre-synergy EBITDA for AMS while its own stock trades at ~7.7x. *Model: not in the value range — standalone model; deal sized below*

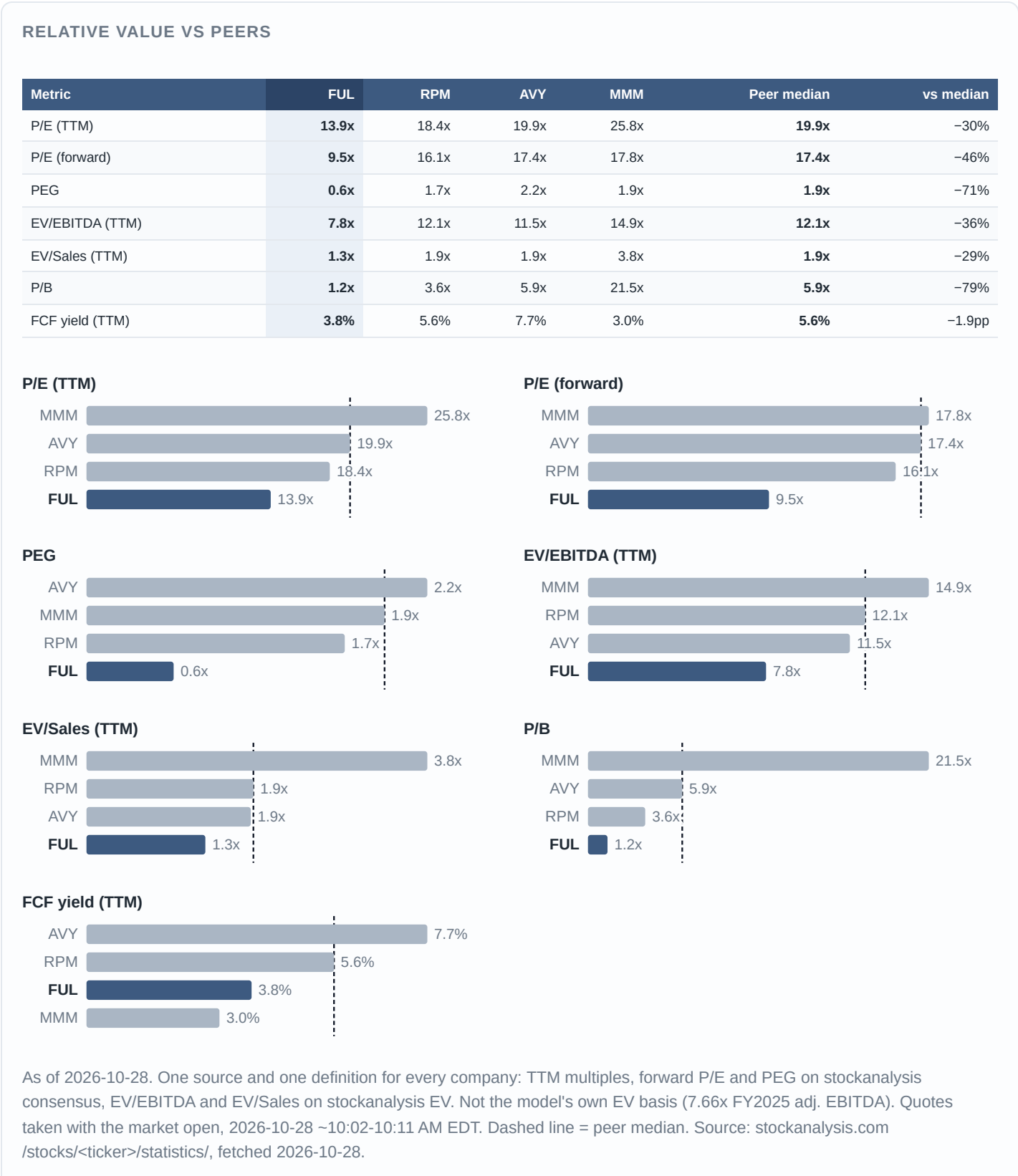
Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (diluted mkt cap – cash + debt + pension; company adj. EBITDA, no leases)	7.66x FY2025 \$620.7mm (7.24x LTM \$656.6mm)	n/a (unverified)	not computed on this basis	Q3 10-Q 2026-08-29; price 2026-10-28
EV/EBITDA TTM (stockanalysis)	7.79x	n/a (unverified)	RPM 12.13x · AVY 11.46x · MMM 14.91x	stockanalysis, 2026-10-28 intraday
P/E forward (stockanalysis consensus)	9.47x (adj. EPS guide \$4.70–4.85 → 10.3–10.6x)	52-week change –19.4%	RPM 16.10x · AVY 17.42x · MMM 17.83x	stockanalysis; Q3 release
FCF yield TTM (stockanalysis)	3.75% (FY2026 CFO guide \$300–325mm less ~\$160mm capex ≈ 5–6% of mkt cap)	CFO less capex \$121mm FY2025	RPM 5.62% · AVY 7.74% · MMM 3.02%	stockanalysis; Q3 and FY2025 releases

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$35.01 · Base \$78.50 · Bull \$117.97 per share, i.e. implied returns of –29.9% / +57.1% / +136.1% vs \$49.97. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits much closer to Bear than Base: the market prices roughly the bear case's margin reset plus a trough multiple. The exit method uses 7.5x, a ~2% de-rating from today's 7.66x, and gives \$65.24. The Gordon method gives \$91.75. Its terminal value implies ~10x terminal EBITDA, a large re-rating, so the 41% gap between the methods is that re-rating, not noise. The rating rests on the exit method. AMS, sized separately (est.): ~\$942mm EV at 12.9x implies ~\$73mm of EBITDA, worth ~\$559mm at FUL's 7.66x. That is a ~\$7.0/sh value transfer before synergies. The \$55mm of run-rate synergies targeted by 2031, at the same multiple, would roughly offset it. Charging the full \$7.0 against the exit method still leaves ~\$58 (+17%).

Balance sheet: net leverage 3.15x FY2025 EBITDA on the model basis (3.0x LTM, company definition), ~4.0x pro forma for AMS (est.). EBITDA/interest coverage 4.6x. Liquidity: \$97mm cash plus an \$800mm revolver (drawn amount n/a). The term loan A (\$420mm) and revolver were extended to 2031 in July 2026. The October 2026 \$850mm 7.625% 2034 notes replaced the unsecured AMS bridge. Nearest material maturity n/a (tranche split not retrieved). Ratings n/a (unverified).

Model note: Built and verified (LibreOffice matched all 3,207 formula cells). Unverified input: the residual debt tranche (\$1,634.5mm = total debt less term loan A), which doesn't change value. Assumptions without basis: none. No consistency CHECKS. The model is standalone: AMS and the \$850mm notes are excluded (net-debt neutral until close; deal sized above). Cash and debt are at 2026-08-29, so Y1 FCF partly double-counts 9M FY2026 model-basis FCF already in that cash (~\$187mm pre-tax, ~\$2.5/sh after tax, est.). Base WACC 7.8% is the CAPM/market-weight arithmetic (β 0.99, rf 4.99%, 43% debt at 6.5% pre-tax), with no adjustment. Bear adds a stated ~1pp leverage premium. Base Y1 EPS \$4.82 is within the \$4.70–4.85 guide.



Notes. PEGs are the source's own, resting on its analyst growth estimates. 3M's 21.48x P/B is the source figure and reflects a small book-equity base; not a comparable premium.

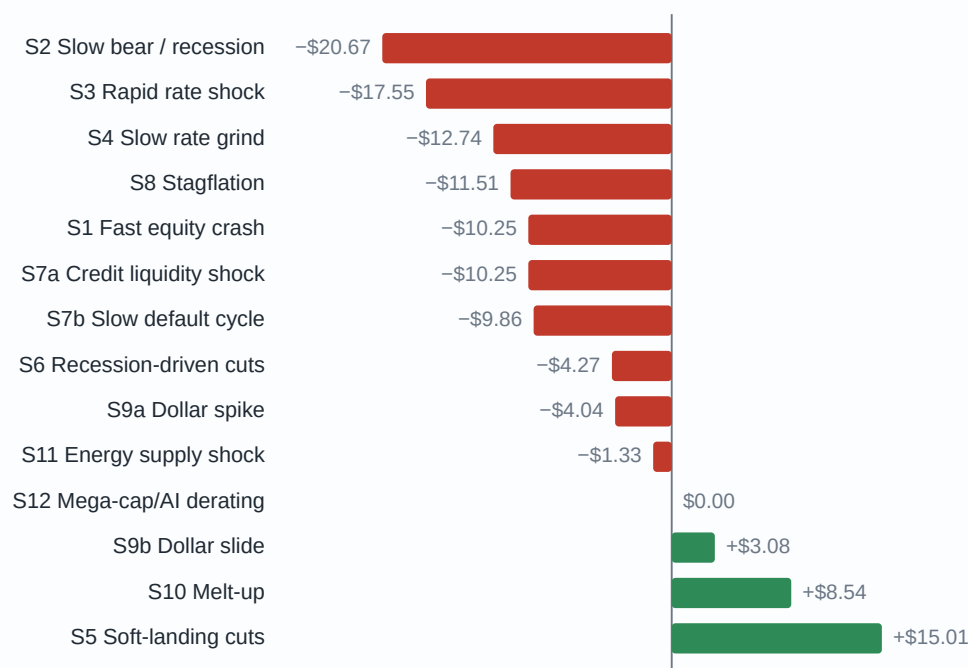
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	De-rating of a levered equity; no operating channel	Med	–\$10.25
S2 Slow bear / recession	–	Construction and durable-goods volume falls, margin –1.5pp, trough multiple. About half of Base – Bear (\$43.48) on purpose: a two-year dip, not a permanent margin reset; hygiene and packaging cushion it	High	–\$20.67
S3 Rapid rate shock	–	Higher discount rate on a 43%-debt structure; floating term loans reprice; construction softens	High	–\$17.55
S4 Slow rate grind	–	Same channels, slower	Med	–\$12.74
S5 Soft-landing cuts	+	Cheaper money and steadier volumes re-rate a levered cyclical	High	+\$15.01
S6 Recession-driven cuts	–	Volume loss outweighs the lower discount rate	Low	–\$4.27
S7a Credit liquidity shock	–	Spread gap hits a ~4.0x pro forma name that just issued 7.625% notes	Med	–\$10.25
S7b Slow default cycle	–	Refinancing cost rises; customer stress trims volume	Med	–\$9.86
S8 Stagflation	–	Raw-material inflation outruns pricing; nominal revenue up, margin down	Med	–\$11.51
S9a Dollar spike	–	~56% non-US revenue translated lower	Low	–\$4.04
S9b Dollar slide	+	Translation tailwind	Low	+\$3.08
S10 Melt-up	+	Low-multiple levered cyclical re-rates in a risk-on market	Med	+\$8.54
S11 Energy supply shock	–	Oil-derived inputs and freight jump before price catches up; FUL repriced 7% in 2026, so the lag is short	Low	–\$1.33
S12 Mega-cap/AI derating	0	No material effect, not modeled	—	\$0.00

Currently active/on watch per the playbook: S3 partially active (10Y 4.99% on 10-27, just under the 5% price leg; pace legs short); S8, S10, S11 on watch (Brent ~\$114).

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: the FY2027 guide (Q4 release, ~2027-01-13) implies an adj. EBITDA margin of at least 19% with volume flat or better, or AMS closes with a credible path back to $\leq 3x$ net leverage by FY2028. **Downgrades if:** Q4 or Q1 FY2027 volume falls more than 5% while price growth fades below 3%, or the FY2027 guide implies a margin below 17.5%, or pro forma leverage exceeds 4.25x at close.

Watch items

- **W1:** FY2026 adj. EBITDA within \$655–670mm, and FY2027 guide margin $\geq 18.5\%$ — Q4 release — 2027-01-13 (secondary source) — *Model: ebitda_margin*
- **W2:** Organic volume back to $\geq 0\%$ year on year (Q3: -3.0%) — Q4 FY2026 / Q1 FY2027 releases — January / March 2027 — *Model: rev_growth*
- **W3:** AMS closes by calendar year-end 2026, with net leverage $\leq 4.0x$ at close and falling — 8-K / Q4 release — December 2026 – January 2027 — *Model: wacc*
- **W4:** Activist outcome: proxy contest filed for the 2027 annual meeting, a raised Ancora bid, or a strategic review announced — 8-K / DEFA14A — early 2027 — *Model: none (T4)*

Sources

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.