

GRIFFON CORPORATION (NYSE: GFF)

Industrials: Building Products & Equipment

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Initiating Coverage of GFF at Outperform and \$98.60 Target Price

BOTTOM LINE

We initiate coverage on Griffon Corp. (GFF), a leading manufacturer of garage doors and building tools, with an Outperform rating and a target price of \$98.60. This rating reflects the potential for improved efficiency in the Consumer & Professional Products (CPP) segment through the expansion of the Global Sourcing Strategy (GSS), as well as the continued growth of the Home & Building Products (HBP) segment, where Griffon holds the top market position in U.S. garage doors. Taking a conservative approach, we project a 5% decline in revenue for FY24, followed by a recovery in FY25 with relatively stable price/mix trends and approximately low single-digit (LSD) organic sales growth through FY29. Given the valuation at the higher end of its historical range and a favorable macroeconomic outlook, we rate GFF as Outperform.

KEY POINTS

Evolution and Strategic Transformation – Griffon Corp, with a rich history tracing back to the 1960s, began as an early innovator in the avionics industry. Today, it has evolved into a focused portfolio of robust brands across two key segments poised to deliver substantial shareholder value in the coming years. This transformation began with the acquisition of AMES True Temper and was further advanced through strategic acquisitions, divestitures, and decisive moves to streamline its business model, positioning the company for adaptability in a dynamic market. Griffon now aims to leverage the stable, high-margin growth of its residential and commercial garage door operations, while setting a solid foundation to rejuvenate growth in its global consumer and professional products segments.

Growth Potential in Key Markets – Considering our outlook on new construction, the anticipated recovery in existing home sales, and the stable, nondiscretionary nature of its repair and remodel (R&R) segment, we project Griffon's HBP division will return to growth by FY25, providing a solid foundation for the company's overall profitability. In the CPP segment, efforts to reduce channel inventories continue, with volumes expected to improve by the second half of FY24. This progress would reinforce confidence in Griffon's recovery trajectory. Management's target of approximately 15% EBITDA margins for this segment, while likely requiring several years, appears both attainable and suitable for the business's scope. Investors can expect dual growth momentum in the coming years, driven by HBP's high-quality, high-margin garage door business, alongside a revitalization story in CPP, where ongoing streamlining efforts should start to yield results in FY24 and into FY25.

Capital Allocation and Financial Outlook – Following years of strategic realignment, Griffon has streamlined into a focused Building Products business with significant free cash flow potential. We project annual unlevered free cash to exceed \$400 million by FY28. We anticipate the company will prioritize share repurchases and dividend growth, with additional focus on deleveraging and selectively pursuing bolt-on acquisitions.

Our price target of \$98.60 represents approximately 56.80% upside to the current share price and is derived using an EV/EBITDA multiple of 11.31x applied to our FY25 EBITDA estimate of \$536mm. We have assigned a raw weighting based on each segment's contribution to the company's overall EBITDA, with an 80% weight allocated to HBP peers and a 20% weight to CPP peers. By applying our multiple to Griffon's FY25 EBITDA estimate and subtracting net debt, we arrive at our final target price.

Market Outperform Target Price \$98.60

Suitability Moderate Risk/Growth

MARKET DATA

Current Price	\$62.88
52-Week Range	\$39.09 - \$77.99
Market Cap	\$3.13
Current Net Debt	\$1.55
Enterprise Value	\$4.50
Dividend Yield	0.94%
EPS	\$3.71
Beta	1.07

KEY FINANCIAL METRICS

	2022A	2023A	2024E
Revenue	\$2.84	\$2.68	\$2.53
% Growth	25%	(5.7%)	(5.8%)
COGS	\$1.92	\$1.67	\$1.68
% Growth	17.8%	(13%)	0.5%
Net Income	\$-0.20	\$0.08	\$0.21
% Growth	-141%	140%	181%
Op. Margin	12%	15%	11%
% Change	33%	25%	(36%)

KEY MULTIPLES

VALUATION

EV/EBITDA	9.04x
EV/Revenue	1.88x
P/E	18.57x
P/BV	17.30x

LIQUIDITY

Current Ratio	2.78x
Cash Ratio	0.34x
Operating CF Ratio	120.22x

LEVERAGE

Debt/Assets	72.8%
Debt/EBITDA	3.31x
Debt/EBITDA-CAPEX	4.16x

EFFICIENCY

Inventory Turnover	3.16x
Return on Asset	7.8%
Sales per Employee	0.47x

Source(s): FactSet, Griffon Corp. Company Filings
 All figures in billions of \$USD except per share values.
 Data as of October 31, 2024.

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Company Overview

CORPORATE HISTORY

Griffon Corporation is a diversified management and holding company that conducts business through wholly-owned subsidiaries. Griffon operates through two main segments: HBP and CPP. HBP operates through Clopay, the largest manufacturer and marketer of garage doors in North America (NA). Clopay's products include rolling steel service doors, fire doors, shutters, steel security grilles, and room dividers. CPP sells products globally through a portfolio of leading brands including AMES (long-handled tools), Hunter (residential, industrial, and commercial fans), and ClosetMaid (wire storage). Griffon, founded in 1959, is a Delaware corporation headquartered in New York, N.Y. and is listed on the New York Stock Exchange (NYSE: GFF).

Founded in 1959, Griffon is a Delaware corporation based in New York, NY, and is publicly traded on the New York Stock Exchange under the ticker symbol GFF.

A BUILDING PRODUCTS COMPANY WITH DECADES OF EXPERIENCE

In 1986, the previous company, Instrument System Corporation (ISC) acquired Clopay, the plastics and garage door manufacturer, for \$40mm and renamed itself Griffon Corporation in 1992. The garage door business with Clopay was the foundation of the HBP segment. Griffon then acquired companies producing residential garage doors, rolling steel garage doors, and grille products in 1992, 1997, and 2018 respectively. The segment generates enormous margin, contributing just under 60% of overall sales but more than 80% of segment EBITDA last year.

In 2010, Griffon purchased the manual and long-handle landscaping tool manufacturer AMES True Temper, which became a platform for numerous other adjacent acquisitions over the ensuing decade and would ultimately serve as the foundation for the CPP segment, followed by the acquisition of ClosetMaid and Hunter which turned the segment into a \$1bn product portfolio with international reach. Consumer demand and retailer inventory rationalization have been headwinds, leading to trailing organic sales down ~18% and just ~9% EBITDA margins, but management expects its global sourcing initiatives to improve both sales and profitability, targeting a return to mid-double-digit EBITDA margins over time.

PORTFOLIO: SHAPED BY STRATEGIC ACQUISITIONS, SIMPLIFIED THROUGH DIVESTITURES, AND CENTERED ON VALUE CREATION IN BUILDING PRODUCTS

In recent key transactions, the CPP segment acquired ClosetMaid from Emerson Electric Co. (NYSE: EMR) in October 2017 for approximately \$165mm. In February 2018, CPP divested its Clopay Plastics Products ("Plastics") business to Berry Global, Inc. ("Berry") for about \$465mm. Following this, in June 2018, HBP acquired CornellCookson, a leading provider of rolling steel service doors, fire doors, and grilles, for approximately \$170mm. Most recently, on June 27, 2022, Griffon completed the sale of its Defense Electronics segment, including the Telephonics subsidiary, for \$330mm, excluding customary post-closing adjustments. We believe these moves improve Griffon's outlook by strengthening its position from enhancing profitability through a more focused product lineup and creating additional value for shareholders by reallocating resources to areas with higher growth potential. Moving forward, we expect Griffon to continue prioritizing growth within the CPP segment.

Home & Building Products (HBP)

SEGMENT OVERVIEW

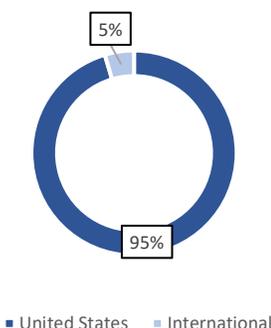
The Home and Building Products (HBP) segment includes the Clopay, Holmes, and Ideal Door brands, which specialize in the manufacturing of residential and commercial sectional garage doors. With the acquisition of CornellCookson, the segment has expanded to include rolling steel and grille products for non-residential applications. Initially, the acquisition of Clopay also brought in a separate plastics manufacturing business, which was later divested. Approximately half of the segment's sales come from residential R&R activities, with somewhat less exposure to the non-residential sector and minimal exposure to residential new construction segment.

Garage doors are primarily constructed from galvanized steel, with options available in plastic composite and wood. Other key raw materials include hardware and insulated foam. Griffon also sources and sells garage door openers from third parties and offers entry door systems designed to complement its residential garage door styles. On the commercial side, Griffon produces rolling steel service doors, fire doors, shutters, steel security grilles, and room dividers.

Griffon's Home & Building Products (HBP) segment is experiencing strong growth, primarily driven by the demand for residential repair and remodel (R&R) garage doors and commercial doors.

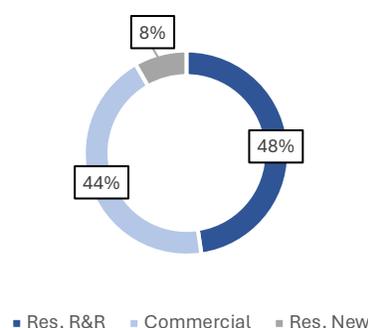
HBP has been experiencing strong growth in its end markets, driven primarily by sales of residential R&R and commercial garage doors (Exhibit 2). A key factor contributing to this growth is the fact that the majority of owner-occupied homes are now over 40 years old, with around 70mm aging homes comprising more than 54% of the total housing stock. Additionally, home renovation spending surged by 60% from 2020 to 2023, indicating a significant uptick in renovation activities and highlighting substantial revenue growth potential. As these older homes increasingly require repair and remodel, the market opportunity for Griffon, particularly within the HBP segment, is considerable. Consequently, Griffon's business is expected to focus more on home R&R rather than new construction.

Exhibit 1: HBP's Revenue Segment by Geographic



Source(s): Company Filings, VIG Research

Exhibit 2: HBP's Revenue Segment by End Market



Source(s): Company Filings, VIG Research

Consumer & Professional Products

SEGMENT OVERVIEW

The Consumer & Professional Products (CPP) segment produces and markets a diverse range of tools, landscaping products, home organization solutions, and with the recent acquisition of Hunter, fans for residential, commercial, and industrial use. The segment's portfolio includes well-known brands such as AMES, True Temper, ClosetMaid, and Hunter, among others. AMES offers long-handled tools and landscaping products to homeowners and professionals across the United States, Canada, Australia, New Zealand, the UK, and Ireland. Since acquiring the AMES brand in 2010, GFF has expanded the segment with several complementary acquisitions, including ClosetMaid, known for wood and wire closet organization, living storage, and wire garage storage products, and Hunter, which specializes in residential, industrial, and commercial fans.

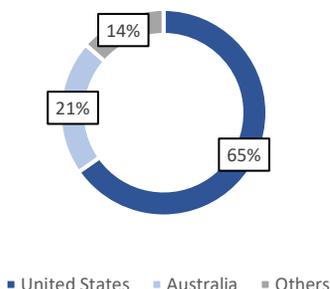
CPP's products have a broad distribution network, reaching consumers through home centers, mass-market retailers, specialty and hardware stores, as well as industrial distributors, direct sales to homebuilders, and e-commerce platforms. GFF is transitioning CPP to a predominantly sourced production model while retaining some manufacturing capabilities. This shift is supported by Griffon's existing reliance on a sourced production approach for its international product portfolio. In the United States, GFF maintains distribution centers for CPP in Carlisle, PA, Reno, NV, and Byhalia, MS.

A closer look at CPP’s primary end market reveals a significant revenue decline, particularly in retail sales, which fell by 20% as Griffon sought to diversify away from heavy reliance on customers like Home Depot. However, this strategic shift exacerbated the situation in 2023, with retail sales plummeting nearly 42%, further widening the performance gap between HBP and CPP. This 42% decline is indeed severe and raises concerns about the effectiveness of the diversification strategy. While reducing dependence on a single retail partner can be beneficial for long-term resilience, this approach has led to unintended short-term challenges. Given the magnitude of this revenue decline, we believe it may be more advantageous for Griffon to reassess CPP’s retail strategy and place renewed emphasis on strengthening key partnerships like Home Depot. Such partnerships provide stable revenue streams and broad market access, which are crucial for maintaining sales volume and market presence. To counterbalance their existing dependency on Home Depot, CPP has expanded its retail sales to include Menards, Lowe’s, and Bunnings. However, Home Depot’s 12% contribution to Griffon’s revenue is too significant for CPP to abandon. If Griffon were to sever ties with Home Depot without establishing equally strong relationships with other retail customers, we believe their retail sales could continue to decline over the coming years.

Griffon’s CPP segment saw a 42% decline in retail sales in 2023 due to reduced reliance on Home Depot. While diversifying partnerships can strengthen resilience, the loss underscores the importance of stable relationships. Reassessing CPP’s retail strategy to reinforce ties with major partners like Home Depot could help stabilize revenue amid market challenges.

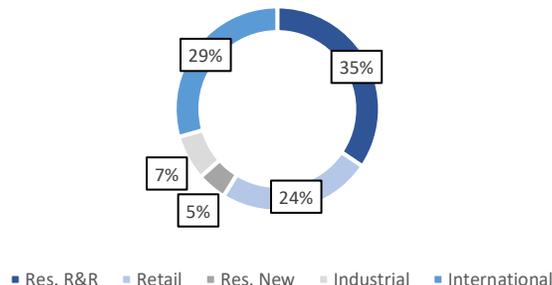
While reducing dependence on a single retail partner can be beneficial for long-term resilience, this approach has led to unintended short-term challenges, which highlights the importance of balancing diversification efforts with maintaining key retail relationships. Given this decline in revenue, we believe it may be more advantageous for Griffon to reassess CPP’s retail strategy and continue to focus on strengthening key partnerships like Home Depot. Such partnerships provide stable revenue streams and broad market access, which are crucial for maintaining sales volume and market presence. By reinforcing and diversifying these relationships, CPP can mitigate the impact of fluctuations in any single partner’s performance and enhance overall business stability.

Exhibit 3: CPP’s Revenue Segment by Geographic



Source(s): Company Filings, VIG Research

Exhibit 4: CPP’s Revenue Segment by End Market



Source(s): Company Filings, VIG Research

The Expansion of the Global Sourcing Strategy Will Position CPP to Lead the Market Through Enhanced Production Efficiency

WHILE CPP’S MARGIN HAS NOT YET IMPROVED, GRIFFON WILL REMAIN PROFITABLE DUE TO ITS HBP BUSINESS

As management indicated, CPP aims to achieve a 15% EBITDA margin within the next one to two years. Griffon seems to prioritize improvements in CPP’s performance, as its EBITDA margin has steadily declined from LDD% EBITDA margin to HSD% in FY23 due to weak demand for building tools. This decline has resulted in CPP losing its status as GFF’s primary revenue driver since 2019. Additionally, Griffon incurred a significant \$287mm net income loss in 2022, which is also attributed to the downfall of the CPP segment. Therefore, to meet the EBITDA margin target, CPP has taken measures to lower operating expenses by reducing material costs, equipment expenditures, rent, and payroll through the expansion of the Global Sourcing Strategy (GSS), introduced in May 2023.

The GSS is expected to be fully implemented by the end of 2024, with Griffon allocating approximately \$120-\$130mm for employee severance, operational transitions, facility/lease exits, and asset write-downs. The GSS is designed to transition Griffon’s product lines to an asset-light structure while reducing its facility footprint.

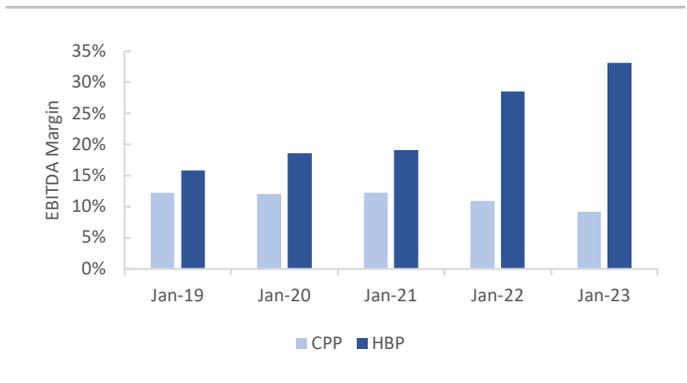
The asset-light strategy allows CPP to serve customers more cost-effectively by leveraging suppliers worldwide. It is essential for achieving a 15% EBITDA margin and enhances free cash flow through improved working capital and reduced capital expenditures. The shift to an asset-light model has enabled CPP to remain agile and responsive to market changes. By outsourcing production and reducing fixed costs, CPP can better manage fluctuations in demand and raw material prices. On the other hand, the facility footprint reduction involves an ongoing reduction of 15% of facilities, approximately 1.2mm square feet, and 600 employees. The reduction in facility footprint and workforce has also streamlined operations, which results in more efficient production processes and faster turnaround times. Given the reduction in facilities, we expect rent, utilities, and other administrative expenses to decrease. Additionally, by reducing headcount, we anticipate direct reductions in labor costs, including salaries, bonuses, and travel expenses. We project both COGS and SG&A to decline by low-single digits (LSD%) in FY25, ultimately leading to a total mid-single digits (MSD%) margin decrease.

While the strategy is expected to enhance business performance, we believe that achieving the 15% EBITDA target within a year remains challenging, as we have yet to observe a significant margin improvement in CPP. In contrast, HBP margins have steadily improved over the years (Exhibit 5). We anticipate that CPP’s COGS and SG&A will continue to rise in FY24 due to the restructuring charges associated with the GSS. Griffon is likely to incur ongoing expenses from asset write-downs, employee severance, lease terminations, facility closures, and legal fees, which further support our high COGS margin estimate for FY24. That said, we expect margin improvements to start materializing in 1H25, which will drive an increase in FY25 earnings. While we’re uncertain about what year the 15% target will be achieved, our EBITDA projections indicate that CPP will at least return to LSD% margin, driven by slow revenue growth, but a significant improvement in earnings.

The concern now is whether Griffon can maintain profitability while executing this strategy. We anticipate that Griffon will continue to generate stable net income and free cash flow, driven by the strong profitability of its HBP business. Over the years, HBP’s margins have consistently improved, largely due to its dominant position in the U.S. garage door market. For instance, despite a revenue decline of approximately \$200mm in FY22, Griffon’s net income surged to \$77mm in 2023, following a significant loss in the previous year (Exhibit 6). This trend suggests that Griffon can weather short-term challenges in CPP while awaiting margin improvements. Once economies of scale are achieved upon the project’s completion, we expect lower COGS and SG&A, leading to a margin enhancement for CPP.

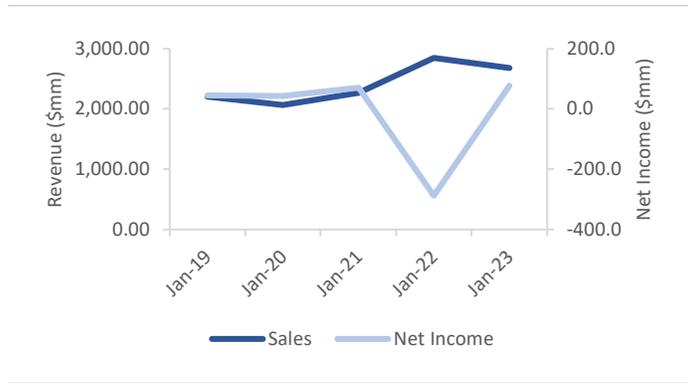
Griffon’s Global Sourcing Strategy aims to shift CPP to an asset-light model by reducing 15% of its facilities and 600 employees, cutting costs by \$120-\$130 million. This strategy targets a 15% EBITDA margin, with initial improvements expected by early FY25, while HBP’s strong margins continue to support overall profitability.

Exhibit 5: While HBP’s Margin Surged Over Time, CPP Having Trouble to Maintain its LDD% Margin



Source(s): FactSet, VIG Research

Exhibit 6: Despite the Revenue Decline and Loss in the Previous Year, Griffon Achieved a Substantial Net Income FY23



Source(s): Company Filings, VIG Research

CPP'S COMPETITIVE ADVANTAGE, DERIVED FROM ITS STRONG INTERNATIONAL PRESENCE, ENABLES IT TO EXPAND ITS MARKET SHARE

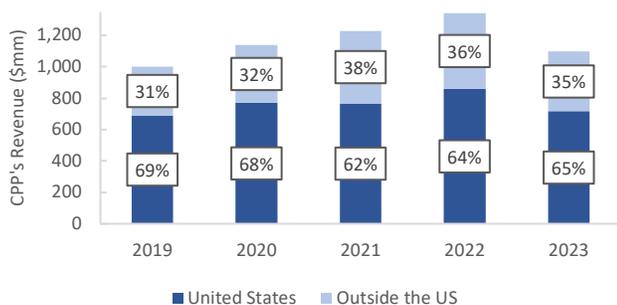
Geographically, the CPP segment exhibits significant diversity. While the primary market for CPP remains the United States, the segment has made substantial strides in expanding its reach to several international markets, including Australia, Canada, and various European countries. More than 30% of CPP's revenue now comes from international sales, which marks a distinct contrast with the HBP division. Although HBP has also made inroads into global markets, over 95% of its revenue continues to stem from the United States. The CPP segment's better international presence can be attributed to its smaller manufacturing facilities in locations outside the United States, such as Jiangmen, China, Grafton, New South Wales, and Wonthaggi, Victoria, both in Australia. Other than that, CPP's smaller facilities also allow them to easily enable localized production, which helps navigate regional regulations and respond to local demand. In addition, the nature of CPP's products, such as compact tools compared to HBP's larger items such as garage doors, enables more cost-efficient distribution while minimizing the risk of damage during shipping. In contrast, HBP's operations are entirely U.S.-based, which reflect Griffon's strategic focus on solidifying HBP's position as a leading domestic garage door provider rather than pursuing aggressive global expansion. In fact, HBP's international market presence has been on the decline, while CPP's international footprint has grown by 4% since 2019 (Exhibit 7).

CPP's competitive edge is its global reach, with 30% of revenue from international markets. Recent acquisitions, especially in Australia, strengthen its presence. Shifting focus to resilient regions like Asia may offset challenges in Europe.

Continuing its strategic expansion, in July, Griffon acquired Pope Products, a leading manufacturer of residential watering products in Australia and New Zealand. This acquisition is expected to generate approximately \$25mm in annual revenue, marking Griffon's seventh acquisition in Australia as it strengthens its CPP portfolio in its second-largest market outside the U.S. Previous acquisitions include Quatro Design, a major supplier of glass fiber-reinforced concrete landscaping products in Australia, which was purchased for around AUD 3.5mm and has since generated approximately AUD 5mm annually. Australia remains a critical market for CPP, accounting for 21% of the segment's revenue, and this latest acquisition will further bolster its market position in the region. Ultimately, we anticipate that as CPP continues its outsourcing strategy, its market share will further expand across international markets.

Aside from Australia, Griffon saw significant growth in countries outside Europe, Canada, and Australia starting in 2022, specifically Asia regions like China. Following the acquisition of Hunter Fan Company, sales in these APAC region increased more than doubled, with more modest growth in other countries, except Europe. Furthermore, despite a challenging year in 2023, these regions remained relatively resilient, declining by only 8%, compared to declines of 52% in Europe, 18% in Canada, 16% in the US, and 10% in Australia (Exhibit 8). Given this steep decline, we anticipate that Griffon may need to address demand issues in Europe, potentially due to increased competition from established players like Fiskars Group and Newell Brands. One strategy could be to double down on more resilient markets like China and scale back European operations to mitigate further losses.

Exhibit 7: CPP's Presence in the International Market Continues to Grow



Source(s): Company Filings, VIG Research

Exhibit 8: Sales in Countries Like China Experienced Significant Growth and Proved Resilience while Griffon Took a Hit in 2023



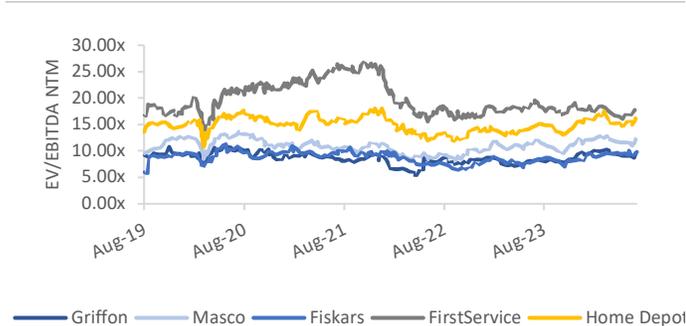
Source(s): FactSet, VIG Research

OUTSOURCING APPEARS TO BE AN OPTIMAL STRATEGY FOR A SMALL-CAP COMPANY LIKE GRIFFON, ESPECIALLY SINCE ITS PEERS ARE NOT ADOPTING A SIMILAR APPROACH

CPP’s competitors generally fall into two categories: small private companies that maintain in-house production and large corporations whose core operations are not directly tied to home-building products. The smaller competitors include Truper, which specializes in long-handled tools; Suncast, known for snow tools; and California Closets, focused on wood solutions. Meanwhile, larger firms like FirstService and Masco have their main business in property management and plumbing products but still have a minor presence in home storage, ceiling fans, and outdoor living products, which make them close rivals to Griffon’s CPP segment. These large competitors can have market cap ranging from 3-6x higher than Griffon, with an exception of Home Depot, which has a market cap almost 300 times that of Griffon. However, we include these large companies in the analysis because their EV/EBITDA ratios are relatively similar to Griffon’s, with differences of less than 2x (Exhibit 9). Given this context, while Griffon has a lower market cap and narrower line of business compared to its competitors, the company is still able to generate substantial earnings that allow it to compete effectively with their gigantic competitors.

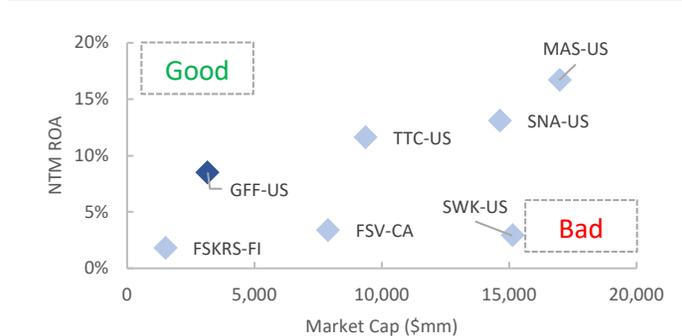
With the expansion of GSS, Griffon's transition to an asset-light model is anticipated to decrease CPP’s asset base. Currently, Griffon is positioned mid-tier in terms of asset efficiency relative to its peers. Despite a comparatively lower market capitalization, Griffon is projected to deliver a next-twelve-month (NTM) return on assets (ROA) of 8.5%, while larger competitors, with more than twice its size, achieve a maximum NTM ROA of 16.7% (Exhibit 10). This presents a strategic opportunity for Griffon to differentiate itself within the industry through margin enhancement. By boosting net income via margin improvements, along with divesting facilities and outsourcing operations, we project Griffon's ROA to increase to the LDD% by FY25.

Exhibit 9: Griffon Has the Lowest EV/EBITDA Ratio Due to Its Robust Earnings



Source(s): Company Filings, VIG Research

Exhibit 10: Griffon Demonstrates Greater Asset Efficiency Relative to Its Peers



Source(s): FactSet, VIG Research

Additionally, when it comes to strategies and M&A activities, Griffon’s M&A and strategic approach notably differ from both smaller private competitors and larger public companies. Griffon focuses on selective acquisitions and outsourcing to complement its existing product lines, enhancing cost-efficiency and operational flexibility. In contrast, smaller private competitors prioritize in-house production and organic growth due to limited resources, which often restricts their ability to invest in cost-saving technologies and innovations, impacting their pricing and service capabilities. Larger public companies pursue more aggressive M&A strategies, emphasizing vertical integration and global reach without incorporating outsourcing. By maintaining a focused acquisition strategy and utilizing outsourcing, Griffon minimizes capital expenditure, allowing it to adapt to market changes without the extensive costs of in-house production. This sets Griffon apart from competitors with broader expansion strategies, underscoring its commitment to efficiency and market responsiveness.

Clopay as the Number One Garage Doors Brand in the U.S. Under Home & Building Products

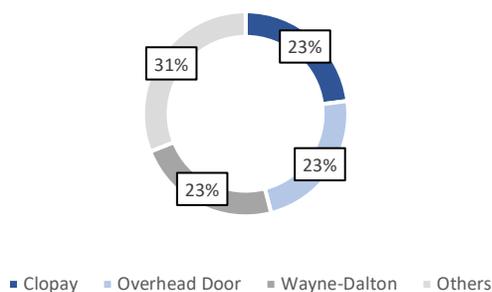
CURRENTLY, GRIFFON STANDS AS THE LARGEST MANUFACTURER AND MARKETER OF GARAGE DOORS AND ROLLING STEEL DOORS IN THE U.S

Clopay stands out as the top brand for garage doors in the U.S., serving as the primary brand under Home & Building Products. While Clopay and its competitors, Overhead Door and Wayne Dalton, have each held a leading position in terms of brand usage over the past two years, each with a 23% share, Clopay possesses unique advantages that set it apart (Exhibit 11). One reason is because Clopay holds the distinction of being the largest manufacturer of residential garage doors in the U.S., where more than 50% of installations are for residential clients rather than commercial ones. Griffon’s emphasis on the residential market, rather than commercial, contributes to our revenue outlook for Griffon, which is expected to slow down by only LSD% in FY24 and rebound in FY25, despite the ongoing slowdown in both public and private commercial construction we discussed before. This significant market presence and specialization in residential doors provide Clopay with a notable edge over its competitors. Furthermore, Wayne Dalton, a smaller private company, may encounter challenges in scaling its operations and expanding its market reach. The company’s size limits its capacity to compete with Clopay in terms of production, distribution, and innovation. The final competitor, Overhead Door, is American-owned, but its parent company, Sanwa Holding Corp., is based in Japan. This international ownership could affect Overhead Door’s responsiveness to local market needs and customer preferences. The complexities of international supply chain management and operational adjustments might pose additional challenges for Overhead Door, which Clopay, with its focused U.S. operations, can navigate more effectively.

Additionally, when we compare Griffon's profitability to that of its HBP peers, we observe that Griffon has a significantly higher gross margin despite its smaller size. With a projected NTM gross margin of 39.2%, Griffon ranks as the fourth highest among its peers. However, when we evaluate EBIT margin, Griffon drops to fifth place (Exhibit 12). This shift is largely due to the recent completion of the GSS project at the end of 2024, which means Griffon is still incurring SG&A expenses such as rent, litigation, utilities, and salaries. As we anticipated, the margin improvements from the GSS project are not expected to materialize in FY24. Nevertheless, with a strong gross margin in the HBP segment and an expected improvement in CPP’s margin, we believe Griffon could close the gap with its HBP peers starting in FY25.

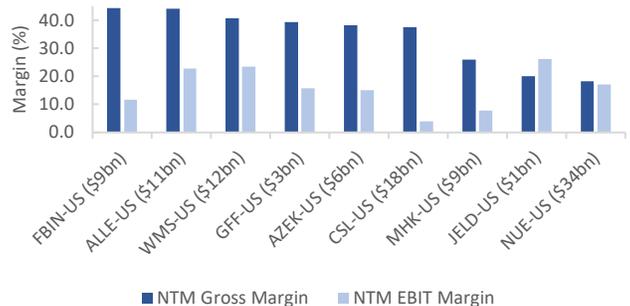
Clopay leads the U.S. residential garage door market, with Griffon’s focus on this sector giving it an edge over competitors like Wayne Dalton and Overhead Door. Despite ongoing increase in SG&A, Griffon’s strong HBP gross margin of 39.2% positions it for improved profitability in FY25 as GSS benefits begin.

Exhibit 11: Clopay, Among Others, Held the Leading Position for the Most Used Garage Door Brands Over the Past Two Years



Source(s): Zonda Survey, VIG Research

Exhibit 12: Griffon Ranks Fourth in Yielding High Gross Margin Despite Its Size



Source(s): FactSet, VIG Research

THE HOME & BUILDING PRODUCTS SEGMENT IS RELATIVELY COST-EFFECTIVE BUT REPRESENTS A HIGHLY LUCRATIVE BUSINESS

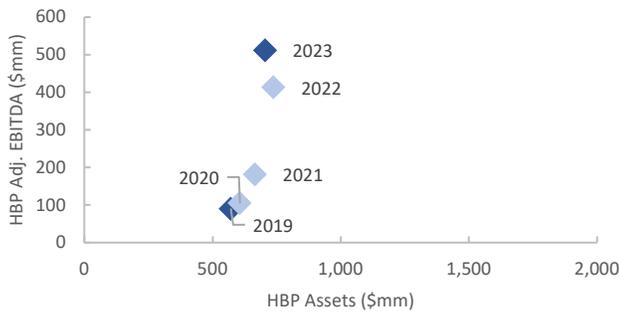
Despite its leading position in the U.S., competitive advantages, and favorable market conditions, it is surprising that the HBP segment was not Griffon's primary segment until 2022. Between 2019 and 2023, a significant disparity in profitability between HBP and CPP is evident. HBP, with half the total asset value of CPP, has effectively leveraged its resources to achieve substantial EBITDA growth (Exhibit 13). In contrast, CPP with more than double the asset base of HBP, has demonstrated a concerning decline in EBITDA, decreasing from \$120.2mm in 2019 to just \$50.3mm in 2023, despite a significant increase in the amount of its assets (Exhibit 14).

HBP emerged as Griffon's top segment in 2022, achieving strong EBITDA growth despite a smaller asset base than CPP. Focusing on core products and trimming less aligned offerings in CPP could enhance efficiency.

The substantial asset base in CPP's segment appears to be consumed by high operating costs, including maintenance and administrative expenses related to its extensive portfolio. This is why CPP is now implementing the previously discussed Global Sourcing Strategy to manage costs and enhance profitability. In relation to the extensive portfolio, we think that CPP's ecosystem is rather too broad. For example, while Griffon has expertise in home-building tools, it may not be as well-suited to selling products like fans and home furniture. Focusing on core competencies and shedding less aligned business segments could help Griffon reduce costs, improve operational efficiency, and enhance profitability within CPP.

Exhibit 13: HBP is Able to Leverage Its Low Asset Base to Achieve a Substantial EBITDA...

Exhibit 14: ... While CPP, with double HBP's total assets, remains unable to reach even half of HBP's EBITDA



Source(s): Company Filings, VIG Research

Source(s): Company Filings, VIG Research

HOME & BUILDING PRODUCTS RESILIENT AMID RISING INTEREST RATES AND DECLINING HOME CONSTRUCTION

Despite the challenging macroeconomic environment, HBP has demonstrated impressive resilience. Since late 2021, the 30-year mortgage rate has surged significantly, leading to a marked decline in New Privately-Owned Housing Units Started (New Housing Starts). Higher mortgage rates not only increase the cost of borrowing but also make housing development more expensive. However, even with the downturn in new housing construction, HBP's revenue continues to grow robustly (Exhibit 15).

This strength can be attributed to several factors. While new residential construction has decreased, HBP has been able to offset this decline with growth in the residential R&R and the commercial sector, which together account for 48% and 44% of HBP's end market revenue, respectively. With its small revenue segment in residential new construction, Griffon is less exposed to macroeconomic challenges stemming from high interest rates, elevated mortgage rates, and the subsequent decline in housing construction. This diversification allows HBP to maintain its revenue growth and operational stability despite broader market pressures. Also, Griffon's strong relationships with contractors and distributors in the U.S. have enabled it to adapt quickly to changing market conditions.

Exhibit 15: HBP's Revenue Keep Growing despite the High Mortgage Rate and Low New Housing Construction

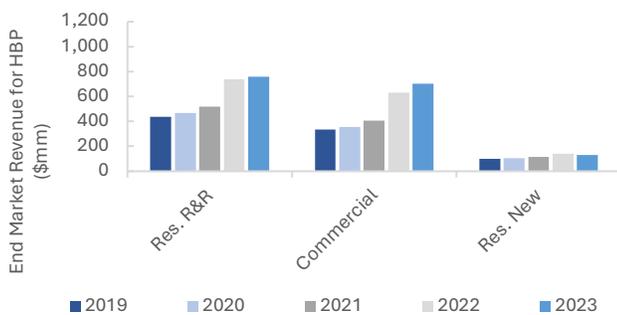


Source(s): Factset, Federal Reserve Economic Data, VIG Research

Over the years, particularly in FY22 and FY23, sales in HBP and CPP segments have been significantly driven by residential R&R activities rather than new construction. We expect Griffon to continue rely on the residential and commercial R&R rather than new construction as there are several tailwinds surrounding it. One reason is because the aging housing stock, where over 54% of homes in the US are older than 40 years. This has led to a heightened demand for home improvement tools and replacement products, such as Griffon's garage doors. In 2022, sales in the residential R&R surged by 42% in the HBP division and over 100% in the CPP division (Exhibit 16 & 17). Other than that, home renovation spending in the US has increased over the past three years, with the median spend increasing by 60% from \$15,000 in 2020 to \$24,000 in 2023. The top 90th percentile of spend rose by 77% from \$85,000 in 2020 to \$150,000 in 2023. Additionally, more than half of renovating homeowners (51%) spent \$25,000 or more on their renovations in 2023, up from 37% in 2020. During this period, Griffon's revenue up by nearly 30% from 2020 to 2023 (Exhibit 6).

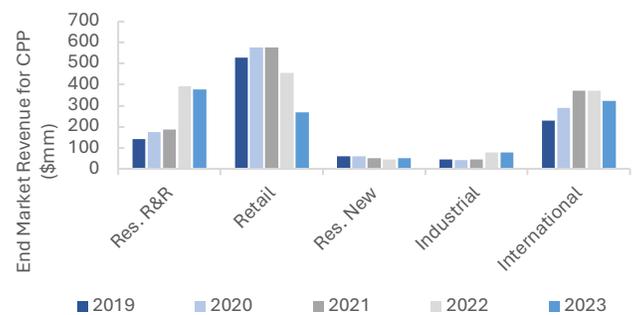
HBP's resilience, fueled by its R&R and commercial focus, buffers it against rising rates and a slowdown in new housing construction.

Exhibit 16: HBP's Sales in Retail R&R Surged by 42% from 2021 to 2022



Source(s): Company Filings, VIG Research

Exhibit 17: CPP's Sales in Retail R&R Surged More than Double from 2021 to 2022



Source(s): Company Filings, VIG Research

Customer Overview

HOME & BUILDING PRODUCTS

Under the Home and Building Products (HBP) division, Clopay serves a diverse customer base ranging from local rural dealerships to national retail chains. Its customers include over 3,000 independent professional installing dealers and major home center retailers such as Home Depot and Menards. Clopay maintains strong relationships with its installing dealers and believes it is the largest supplier of sectional garage doors to both retail and professional installing channels in North America, as well as the largest supplier of rolling steel door products in the region.

Clopay distributes its garage doors directly from its manufacturing facilities and through distribution centers located across the United States and Canada. These centers enable the company to maintain inventory close to installing dealers, providing quick-ship services to retail and professional dealer customers.

Currently, Clopay is the exclusive supplier of residential and commercial garage doors to Home Depot and Menards locations throughout North America, relationships that have each lasted over 25 years. The loss of either customer would have a material adverse effect on both Clopay and its parent company, Griffon.

CONSUMER & PROFESSIONAL PRODUCTS

CPP markets its products across North America, Australia, New Zealand, the U.K., and Ireland through multiple channels:

Home Centers: These include The Home Depot, Inc. ("Home Depot"), Lowe's Companies Inc. ("Lowe's"), Rona Inc., Bunnings Warehouse ("Bunnings"), and Woodies. The average duration of CPP's relationships with these customers is approximately 30 years.

Mass Market, Specialty, and Hardware Retailers: Partners in this category consist of Tractor Supply Company ("Tractor Supply"), Walmart Inc. ("Walmart"), Target Corporation ("Target"), Canadian Tire Corporation, Limited ("Canadian Tire"), Costco Wholesale Corporation ("Costco"), Ace Hardware Corporation ("Ace Hardware"), Do it Best Corp. ("Do it Best"), and True Value Company ("True Value").

Industrial Distributors: Key distributors include W.W. Grainger, Inc. and ORS Nasco.

Homebuilders: Collaborations exist with companies like D.R. Horton, KB Home, Lennar, and NVR, Inc.

E-commerce Platforms: CPP's online presence is facilitated through Amazon.com, Inc. ("Amazon"), Wayfair Inc. ("Wayfair"), Hayneedle Inc. ("Hayneedle"), Overstock.com, Inc. ("Overstock"), and Spreetail LLC ("Spreetail").

Significant customers such as Home Depot, Lowe's, Menards, and Bunnings play a crucial role in CPP's business. The loss of any of these customers would have a material adverse effect on both CPP and its parent company, Griffon.

GRIFFON CUTS RELIANCE ON HOME DEPOT, INVITING NEW CHALLENGES

As previously discussed, Griffon has been dependent on major retail customers such as Home Depot, Lowe's, and Menards, which introduces potential risks if any issues arise with these retailers.

Under HBP, Clopay supplies over 3,000 professional dealers and major retailers like Home Depot and Menards, where it holds exclusive garage door supply agreements.

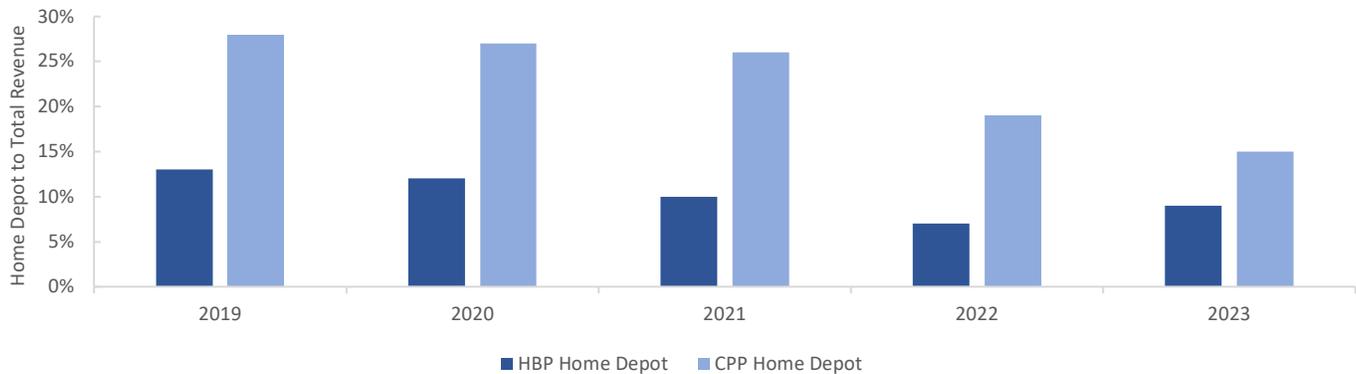
The loss of any key customer, particularly in CPP's partnerships with Home Depot, Lowe's, and Menards, would adversely impact Griffon, given its strong reliance on these channels across North America.

However, Griffon has gradually reduced its dependence on Home Depot, as evidenced by the declining proportion of revenue derived from Home Depot over time—from accounting for approximately 30% of CPP’s revenue to ~LDD% (Exhibit 18). The HBP division has experienced a similar trend, though not as pronounced as CPP. This shift can be interpreted in two ways. On one hand, it indicates that Griffon is successfully diversifying its revenue streams and reducing its dependency on Home Depot, thereby mitigating risk and enhancing financial stability by broadening its customer base. On the other hand, the declining revenue from Home Depot has significantly impacted CPP’s retail sales, which plummeted by nearly 42% in 2023.

Griffon has reduced its reliance on Home Depot, with its share of CPP revenue dropping from 30% to around LDD%. While this diversification strengthens Griffon’s financial stability, it has led to a 42% drop in CPP retail sales in 2023.

Moving forward, Griffon must carefully balance its efforts to diversify its customer base with strategies to stabilize and potentially grow its relationships with key retailers. The company should focus on strengthening relationships with existing customers while exploring new markets to offset declines in traditional retail channels. Additionally, understanding the factors contributing to the decrease in revenue from Home Depot—such as market competition, changes in consumer behavior, or shifts in Home Depot’s purchasing strategies—will be crucial for Griffon’s strategic planning and risk management.

Exhibit 18: Griffon is Gradually Reducing Its Dependency on Home Depot for Retail Sales, Especially in the CPP Segment.



Source(s): Griffon Corp. Company Filings

Expansion Plan

EXPANDING CPP’S GLOBAL SOURCING STRATEGY AND MANAGING RESTRUCTURING CHARGES

In May 2023, Griffon announced that CPP would expand its global sourcing strategy in response to shifting market conditions. This strategic enhancement will increase CPP’s reliance on third-party suppliers, thereby elevating the company’s exposure to risks associated with external partnerships. For the fiscal year ending September 30, 2023, restructuring charges related to this global sourcing expansion amounted to \$82,028 within Cost of Goods and Services and \$10,440 within Selling, General, and Administrative (SG&A) expenses.

To date, the global sourcing expansion project is progressing as planned, remaining on schedule and within budget. By the end of calendar year 2023, operations at two manufacturing facilities and four wood mills, encompassing over one million square feet of space, will be discontinued. The transition of the remaining affected AMES locations is scheduled for completion during calendar year 2024. During this period, CPP expects to reduce its facility footprint by approximately 1.2 million square feet (around 15%) and decrease its workforce by approximately 600 employees. The affected U.S. locations include Camp Hill and Harrisburg, Pennsylvania; Grantsville, Maryland; Fairfield, Iowa; and four wood mills.

employee retention and severance, operational transitions, and facility and lease terminations, as well as \$70,000 to \$75,000 in non-cash charges primarily related to asset write-downs. Additionally, capital investments ranging from \$3,000 to \$5,000 will be necessary. These costs exclude cash proceeds from the sale of real estate and equipment, which are expected to significantly offset the cash charges, and do not account for potential inefficiencies due to duplicated labor costs and absorption impacts during the transition.

For the year ended September 30, 2023, CPP recorded pre-tax restructuring and related exit costs totaling approximately \$92,468. Of these, cash charges amounted to \$33,536, including \$16,772 for one-time termination benefits and other personnel-related expenses, and \$16,764 for facility exit and related costs. Non-cash charges totaled \$58,932, consisting of a \$21,832 impairment charge on certain fixed assets at several manufacturing locations and \$37,100 to adjust inventory to its net realizable value.

Exhibit 19: Restructuring Charges

	Cash Charges		Non-Cash Charges	Total	Capital Investment
	Personnel related costs	Facilities, exit costs, and other	Facilities, inventory, and other		
Anticipated Charges	\$19,500.00	\$35,500.00	\$75,000.00	\$130,000.00	\$5,000.00
Total 2023 restructuring charges	(\$16,772.00)	(\$16,764.00)	(\$58,932.00)	(\$92,468.00) -	
Estimate to Complete	\$2,728.00	\$18,736.00	\$16,068.00	\$37,532.00	\$5,000.00

Source(s): Factset, Federal Reserve Economic Data, VIG Research

RISKS ASSOCIATED WITH THE GLOBAL SOURCING STRATEGY

International Trade Agreements and Regulations: CPP and its operations are subject to international trade agreements and regulations, such as the United States-Mexico-Canada Agreement (USMCA) and the regulations of the World Trade Organization (WTO). While these agreements generally promote trade liberalization, sourcing flexibility, and reduced costs by eliminating duties and quotas on products manufactured in specific countries, they can also impose quotas on imports into key markets like the U.S., Canada, Australia, and the U.K. Additionally, the removal of restrictions may intensify competition from other companies sourcing from countries where CPP's competitors operate. With the expansion of its global sourcing strategy and the closure of numerous U.S. manufacturing locations, CPP may experience a reduced ability to capitalize on the trade benefits offered by the USMCA.

Dependence on Third-Party Suppliers: The increased reliance on third-party suppliers, many based in China and other non-U.S. jurisdictions, exposes CPP to risks related to supplier reliability, quality control, and geopolitical uncertainties. Disruptions in the supply chain, whether due to political tensions, natural disasters, or other factors, could hinder CPP's ability to deliver products to customers efficiently.

Operational and Workforce Disruptions: The closure of domestic manufacturing facilities and the subsequent termination of employees present risks of operational disruptions. There is a potential for CPP's ability to provide products to its customers to be compromised as it transitions to an expanded network of third-party suppliers and an altered distribution system.

Cybersecurity Risks: The expanded global sourcing strategy may heighten CPP's exposure to cybersecurity threats. As outlined in the risk factor titled "Griffon's operations and reputation may be adversely impacted if our information technology (IT) systems, or the IT systems of third parties with whom we do business, fail to perform adequately or if we or such third parties are the subject of a data breach or cyber-attack," vulnerabilities in IT systems could lead to significant operational and reputational damage.

Financial Risks: CPP may not realize the anticipated proceeds from the sale of facilities no longer in use, potentially impacting the expected financial benefits of the restructuring. Furthermore, the anticipated charges do not account for possible inefficiencies arising from duplicated labor costs and absorption impacts during the transition period.

Griffon's global sourcing strategy for CPP introduces risks in supply chain reliability, regulatory compliance, and cybersecurity. Facility closures and third-party dependencies may disrupt operations, with potential financial impacts if anticipated proceeds and efficiencies aren't realized.

Significant Event Review

CONSUMERS CONTINUE TO POSTPONE SIGNIFICANT EXPENDITURES ON HOME TOOLS AND RENOVATIONS

We have observed that a leading home-improvement retailer, Home Depot, has revised its annual forecast for a key sales metric downward, which anticipate continued consumer restraint in spending over the coming months. The company now expects comparable sales to decline by 3-4% for the year, following a 3.3% decrease in the most recently completed quarter—marking the seventh consecutive quarter of sales declines. In both Q1 and Q2 of FY23 and FY24, comparable sales changes remained negative. Although comparable sales improved from ~-4% in Q1 2023 to around ~-2.5% in Q1 2024. However, in 2Q24, comparable sales declined further compared to 2Q23 (Exhibit 20).

Exhibit 20: Home Depot’s Comparable Sales Remained Soft



Source(s): Home Depot Company Filings, VIG Research

In the current environment of elevated interest rates and persistent inflation, consumers are deferring significant expenditures such as home purchases and major renovations that typically require financing. This cautious spending behavior has adversely affected Home Depot and other similar retailers, reversing the pandemic-era trend of increased home improvement activities. The expectation of declining interest rates is fostering a deferral mindset among customers who have the financial capacity to spend but are waiting for more favorable borrowing conditions.

As the year progresses, heightened economic uncertainty has further tempered consumer confidence, leading to reduced overall demand. While consumers continue to invest in smaller projects like painting, they are postponing larger, more costly endeavors such as kitchen or bathroom remodels. Additionally, professional contractors are experiencing better business performance compared to do-it-yourself (DIY) customers, which raises concerns for Griffon, given its focus on the residential R&R market rather than the commercial sector.

Considering that Home Depot accounts for approximately 12% of Griffon’s revenue, the company’s future operating results will remain significantly influenced by the performance of Home Depot and the strength of their relationship. Any changes in orders from Home Depot could materially affect Griffon, and with Home Depot lowering its guidance for the year, there is potential for a negative impact on Griffon. We have incorporated this factor into our revenue projections, further supporting our expectation of a moderate decline in Griffon’s FY24 performance.

With consumer spending on major home projects slowing, Home Depot, which makes up 12% of Griffon’s revenue, has lowered its sales forecast, impacting Griffon’s outlook. Elevated interest rates and inflation are driving consumers to defer large renovations, which would contribute to a moderate decline in Griffon’s FY24 performance.

STRONG RETAIL PERFORMANCE IS EXPECTED IN 2025, ALTHOUGH CERTAIN DOWNTREND DATA POINTS MAY EMERGE WITHIN THE OVERALL RETAIL LANDSCAPE

While we have observed a slowdown in home improvement spending, recent U.S. retail sales data have remained robust. In August, retail sales increased by 0.1% m/m, surpassing consensus expectations. A moderation in retail spending is anticipated for September—especially after the indicator has exceeded forecasts for three consecutive months— where several factors may be influencing this trend. The upcoming presidential elections are generating political uncertainty, which could curb consumer spending as Americans prepare to vote. Additionally, the recent rise in inflation may have further restrained consumption in September.

However, we view these downtrends as isolated data points within the broader retail landscape. Inflation remains relatively low, even with some upward pressure as it approaches the 2% target. The observed fluctuations in consumer spending may be partly attributed to political anxiety, leading consumers to defer major expenditures until the election results are finalized. We have factored this robust retail performance into Griffon’s FY25 revenue projections, which emphasize our confidence in the company’s growth prospects despite short-term headwinds.

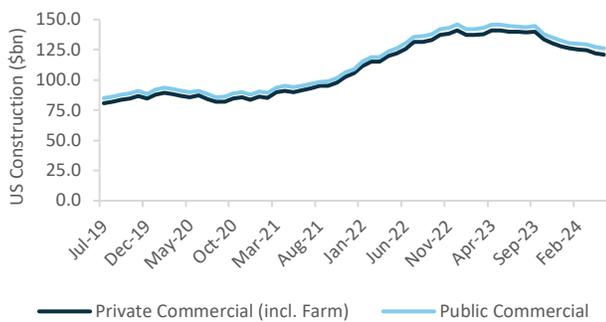
Financial Forecast

A SLOWDOWN IN END-MARKET REVENUE SUPPORTS A ~MSD% DECLINE IN REVENUE FOR FY24

We anticipate both HBP’s residential R&R and residential new construction sales to decrease in F2H24 as the monthly number of new and existing home sales continues to decline. However, we also anticipate the residential new construction to increase in F1H25 as we expect a low mortgage rate following the rate cut in September. As for residential R&R sales, we anticipate a return to more typical seasonality in FY25 onwards, with sales soaring in the summer and slowing down during colder seasons like fall and winter.

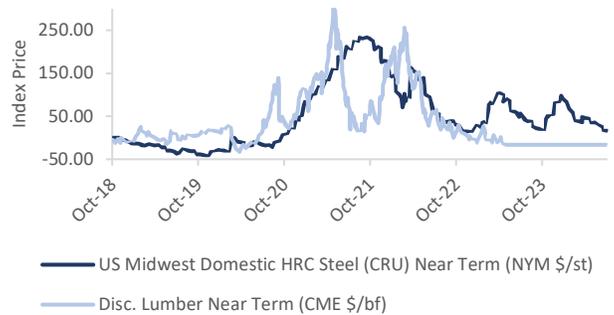
Compared to residential sales, certain pockets of non-residential like commercial sales are likely to continue weakening, as indicated by recent trends in the Dodge Momentum Index and the Architectural Billings Index, even though we view long-term construction trends as more favorable. In addition to the two indices, this trend is also evident in the total construction data (Exhibit 21). However, a large portion of Griffon’s Commercial HBP business consists of non-discretionary repairs, which we expect to be more resilient than new construction, similar to how residential R&R outperforms residential new construction.

Exhibit 21: Slowdown Trend in Both Private and Public Commercial Construction Since 2022



Source(s): Company Filings, VIG Research

Exhibit 22: HBP Favored by the Steel and Lumber Deflation



Source(s): Company Filings, VIG Research

Similar to HBP, CPP's near-term outlook has been affected by decreased consumer demand and high customer inventory levels, reflecting broader market conditions. This environment has prompted Griffon to broaden its global sourcing strategy and shift to a more asset-light structure, providing greater flexibility as demand recovers. Although the rollout of this sourcing model is ongoing, we anticipate it will positively impact the segment's performance in the medium to long term, laying the groundwork for a turnaround as consumer inventories stabilize and demand conditions improve.

We anticipate CPP's residential R&R and retail sales will decline in F2H24 continuing the downtrend in the demand for building tools. Even though we have seen an improved margin due to the global sourcing strategy, the project hasn't finished yet, therefore we anticipate the cost of the project will outweigh the benefits in the near term. However, we expect a recovery in CPP's sales in F1H25, as the firm will have established a robust supply chain and will begin to realize economies of scale.

Considering these factors, we observe that Griffon's revenue consistently declined year-over-year across the first three quarters of FY24, with shortfalls of nearly 1% in 1Q24, 5% in 2Q24, and another 5% in 3Q24. We averaged these declines to inform our projection for Griffon's full-year FY24 performance. Adopting a conservative approach, we anticipate a 5% decline in revenue for FY24, with relatively stable price/mix trends, followed by ~LSD% organic sales growth until FY29.

HOWEVER, STEEL AND LUMBER'S DEFLATIONARY TREND AND GSS IS EXPECTED TO IMPROVE MARGINS THROUGH DECLINING COGS AND SG&A EXPENSES

Inflation in steel, the segment's primary raw material, prompted Griffon to implement price increases starting early in FY21. However, by the time these price adjustments could impact backlogs and the P&L, significant steel cost pressures had already been absorbed into inventory, resulting in margin pressures for much of calendar year 2021. Eventually, the benefits of the price increases became evident, leading to substantial EBITDA margin improvement starting in Q2 2022. Additionally, enhanced service levels accelerated the rate at which the higher prices in backlog were reflected in the P&L.

Favorability from steel deflation has now begun to bolster profitability as pricing seems to be holding on a comparable basis, with benefits from mix also driving top-line in recent quarters. Since 2021, the prices have been on a downward trajectory, gradually moving towards pre-COVID levels, though lumber experienced some volatility in 2022. Despite this decline, it is important to note that steel prices have not yet fully returned to their pre-pandemic state, meaning there is still potential for further price reductions in the future (Exhibit 22). Therefore, recognizing this commodity deflation could eventually have some impact on margins, we believe that margins are more likely to increase following the declining cost of production, with COGS margins to decline to 60% over the coming years.

CPP's margin has been challenged over the last few years as customer inventories remain high and consumer softness remains a concern. Previously, the legacy business consistently achieved low double-digit (LDD) EBITDA margins. However, in light of recent demand deterioration and headwinds from customer destocking, margins have now declined to high single-digit (HSD) levels. The acquisition of Hunter Fan should be accretive to profitability, and improvement initiatives should begin to contribute to margin improvement beginning in late FY24, but primarily beyond, with much of the benefits coming into effect in the longer term. We expect FY24 profitability to trend similar to FY23 for the year, but anticipate meaningful improvement in FY25 and FY26, with FY27 approximating management's long-term 15% EBITDA margin target.

For FY24, we expect a ~5% revenue decline, driven by softening demand in residential R&R and commercial segments, along with elevated customer inventories in CPP.

However, steel deflation and Griffon's Global Sourcing Strategy (GSS) are projected to reduce COGS and SG&A, improving margins over time. We foresee margin improvement mainly from FY25 onward, targeting a long-term EBITDA margin of 15% by FY27.

Valuation: Initiating Coverage with an Outperform Rating and a Target Price of \$98.60

Initiating coverage with an outperform rating and a \$98.60 target price. Our target price is derived using an EV/EBITDA multiple of 11.31x based on our FY25 EBITDA estimate. Given Griffon's unique margin improvement story, we believe that an earnings-based multiple is the most appropriate valuation method. A revenue-based multiple, such as EV/Revenue, would be misleading due to Griffon's declining revenue trend and could result in an undervaluation of the company. The anticipated margin improvement is expected to drive earnings growth, supporting an upside potential of ~56.80% return.

Downside scenario of ~\$53.79. With a continuing decline in consumer demand and high customer inventory levels, we believe that both earnings and valuation levels could be impacted, pushing the stock to as low as \$53.79. In this scenario, the earnings outlook could decline by up to 4% relative to our expectations, with valuation contracting to 7.31x, underpinning a pullback below \$55.

Upside scenario likely requires stronger macro but could push valuation to +\$100. In this scenario, demand accelerates in FY25 driving both volume and margin higher, underpinning an earnings outlook that is ~4% above our current forecast. We would expect valuation to expand to the high-15x range, which would be consistent with past periods of demand acceleration.

We would consider upgrading on a pullback in valuation. We are constructive on the fundamentals of the Griffon story. Should valuation pullback and/or currently elevated macro risk abate, we would consider a more constructive rating all else equal.

Exhibit 23: GFF Sensitivity Analysis, Target Price on F2025 EV/EBITDA

		EV/EBITDA FY2								
		3.31x	5.31x	7.31x	9.31x	11.31x	13.31x	15.31x	17.31x	19.31x
EBITDA	\$506.91	\$9.92	\$30.38	\$50.84	\$71.30	\$91.76	\$112.22	\$132.68	\$153.13	\$173.59
	\$516.91	\$10.59	\$31.45	\$52.31	\$73.18	\$94.04	\$114.90	\$135.76	\$156.63	\$177.49
	\$526.91	\$11.25	\$32.52	\$53.79	\$75.05	\$96.32	\$117.59	\$138.85	\$160.12	\$181.39
	\$536.91	\$11.92	\$33.59	\$55.26	\$76.93	\$98.60	\$120.27	\$141.94	\$163.61	\$185.28
	\$546.91	\$12.59	\$34.66	\$56.74	\$78.81	\$100.88	\$122.96	\$145.03	\$167.10	\$189.18
	\$556.91	\$13.26	\$35.73	\$58.21	\$80.69	\$103.17	\$125.64	\$148.12	\$170.60	\$193.07
	\$566.91	\$13.92	\$36.80	\$59.69	\$82.57	\$105.45	\$128.33	\$151.21	\$174.09	\$196.97

Source(s): Factset, Federal Reserve Economic Data, VIG Research

Exhibit 24: GFF Sensitivity Analysis, Target Price on Exit Multiple 5-Year EV/Sales

		2028 NTM EV/Sales										
		2.00x	2.10x	2.20x	2.30x	2.40x	2.50x	2.60x	2.70x	2.80x	2.90x	3.00x
2028 Sales	\$2,050.00	\$58.48	\$59.93	\$61.37	\$62.81	\$64.25	\$65.70	\$67.14	\$68.58	\$70.02	\$71.47	\$72.91
	\$2,250.00	\$65.33	\$66.91	\$68.50	\$70.08	\$71.66	\$73.25	\$74.83	\$76.41	\$78.00	\$79.58	\$81.16
	\$2,450.00	\$72.18	\$73.90	\$75.62	\$77.35	\$79.07	\$80.80	\$82.52	\$84.25	\$85.97	\$87.69	\$89.42
	\$2,650.00	\$79.02	\$80.89	\$82.75	\$84.62	\$86.48	\$88.35	\$90.21	\$92.08	\$93.94	\$95.81	\$97.67
	\$2,850.00	\$85.87	\$87.88	\$89.88	\$91.89	\$93.89	\$95.90	\$97.90	\$99.91	\$101.92	\$103.92	\$105.93
	\$3,050.00	\$92.72	\$94.86	\$97.01	\$99.16	\$101.30	\$103.45	\$105.60	\$107.74	\$109.89	\$112.03	\$114.18
	\$3,250.00	\$99.56	\$101.85	\$104.14	\$106.43	\$108.71	\$111.00	\$113.29	\$115.57	\$117.86	\$120.15	\$122.44

Source(s): Factset, Federal Reserve Economic Data, VIG Research

Home & Building Products (HBP)

Our reference peers include ASSA, ALLE, CSL, AZEK, WMS, and FBIN, all of whom trade in the range of approximately 12x-15x FY25 EBITDA, as well as NUE, JELD, and MHK, which trade at around 6x-8x FY25 EBITDA. In our valuation approach, we prioritize the compatibility of the business and its EBITDA multiple relative to Griffon, rather than focusing solely on market capitalization. We intentionally exclude certain peers from our valuation, such as Sanwa Holding, despite its similar size, due to its significantly higher multiple of 62x FY25 EBITDA. Including such outliers could distort our analysis and potentially lead to an overvaluation of Griffon.

Consumer & Professional Products (CPP)

The segment's current earnings power does not fully capture the medium-term potential of the business over the next 2-3 years. This perspective supports assigning a higher multiple to NTM EBITDA, while still accounting for the uncertainties related to timing and execution. Our reference peers include FSKRS and MBC, both of which trade at approximately 7x FY25 EBITDA, as well as FSV, MAS, HD, SWK, SNA, and TTC, which trade at around 10x-17x FY25 EBITDA. Valuing peers for CPP presents challenges, as many are large companies with only a minor presence in specific business lines that overlap with CPP, such as building tools and outdoor living tools. Even competitors like Home Depot (HD) are also CPP customers to some extent. Despite these complexities, these companies operate within the same broader business line and exhibit relatively similar EBITDA multiples.

Our price target of \$98.60 represents approximately 56.80% upside to the current share price and is derived using an EV/EBITDA multiple of 11.31x applied to our FY25 EBITDA estimate of \$536mm. We have assigned a raw weighting based on each segment's contribution to the company's overall EBITDA, with an 80% weight allocated to HBP peers and a 20% weight to CPP peers. By applying our multiple to Griffon's FY25 EBITDA estimate and subtracting net debt, we arrive at our final target price.

While none of the companies included in the selected comparable companies are directly comparable to the Company, the companies identified have operations that, for the purposes of this analysis, may be considered similar to certain operations of the Company. We excluded companies whose business models may include services similar to those of the Company but that also derive a significant portion of their revenues from segments that are dissimilar to those of the Company.

COMPARABLE COMPANIES

Exhibit 26: Homebuilders & Building Products Peer Group

Company	Ticker	Price	Market Cap	Dividend Yield	EBITDA		EV/EBITDA		EPS		P/E		Sales		EV/Sales	
					2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Building Products																
ASSA ABLLOY B	ASSA.B-SE	\$28.54	\$31,751.06	1.86%	\$2,758.08	\$2,962.79	13.43x	12.50x	\$1.35	\$1.49	21.20x	19.10x	\$14,176.27	\$14,891.53	2.61x	2.49x
Nucor	NUE-US	\$151.05	\$36,216.02	1.19%	\$4,771.47	\$5,292.61	8.16x	7.35x	\$10.28	\$11.51	14.70x	13.12x	\$31,035.15	\$31,787.83	1.25x	1.22x
Allegion	ALLE-US	\$129.54	\$11,286.57	1.42%	\$916.65	\$971.08	14.24x	13.44x	\$7.23	\$7.72	17.93x	16.78x	\$3,767.34	\$3,919.80	3.47x	3.33x
Carlisle Cos	CSL-US	\$397.27	\$18,370.92	1.02%	\$1,379.69	\$1,473.46	14.18x	13.27x	\$20.58	\$23.19	19.31x	17.13x	\$5,127.57	\$5,411.61	3.81x	3.61x
AZEK A	AZEK-US	\$42.17	\$6,136.53	0.00%	\$375.30	\$416.49	17.63x	15.88x	\$1.17	\$1.37	36.12x	30.84x	\$1,429.72	\$1,541.84	4.63x	4.29x
JELD-WEN Holding	JELD-US	\$14.08	\$1,190.36	0.00%	\$342.27	\$381.07	6.65x	5.97x	\$1.39	\$1.67	10.16x	8.44x	\$3,916.43	\$4,012.91	0.58x	0.57x
Mohawk Industries	MHK-US	\$146.42	\$9,241.60	0.00%	\$1,469.19	\$1,581.93	7.68x	7.13x	\$10.00	\$11.62	14.65x	12.60x	\$10,777.40	\$11,052.01	1.05x	1.02x
Advanced Drainage Systems	WMS-US	\$161.53	\$12,519.90	0.33%	\$969.97	\$1,051.83	15.02x	13.85x	\$6.80	\$7.61	23.74x	21.23x	\$3,009.19	\$3,275.06	4.84x	4.45x
Fortune Brands Innovations	FBIN-US	\$76.59	\$9,505.41	1.21%	\$1,000.50	\$1,065.19	12.21x	11.47x	\$4.28	\$4.74	17.88x	16.15x	\$4,790.08	\$5,004.65	2.55x	2.44x
Building Products Mean	-	-	-	-	-	-	12.13x	11.21x	-	-	19.52x	17.26x	-	-	2.75x	2.60x
Building Products Median	-	-	-	-	-	-	13.43x	12.50x	-	-	17.93x	16.78x	-	-	2.61x	2.49x
Tools and Outdoor Care Equipments																
Fiskars	FSKRS-FI	\$17.28	\$1,399.63	4.59%	\$181.00	\$235.58	9.78x	7.51x	\$0.76	\$1.21	22.84x	14.32x	\$1,293.28	\$1,359.85	1.37x	1.30x
FirstService	FSV-CA	\$170.19	\$7,661.52	0.56%	\$482.15	\$531.82	19.20x	17.40x	\$4.77	\$5.48	35.68x	31.08x	\$5,058.47	\$5,462.44	1.83x	1.69x
Masco	MAS-US	\$74.97	\$16,362.12	1.71%	\$1,535.45	\$1,625.35	12.64x	11.94x	\$4.11	\$4.51	18.23x	16.62x	\$7,920.97	\$8,202.27	2.45x	2.37x
Home Depot	HD-US	\$355.43	\$352,449.43	2.35%	\$24,921.58	\$26,057.50	15.76x	15.07x	\$15.25	\$16.16	23.30x	21.99x	\$154,597.69	\$159,176.03	2.54x	2.47x
Stanley Black & Decker	SWK-US	\$98.63	\$15,185.02	3.28%	\$1,604.15	\$1,901.05	13.51x	11.40x	\$4.16	\$5.59	23.70x	17.65x	\$15,405.84	\$15,946.79	1.41x	1.36x
Snap-On	SNA-US	\$276.74	\$14,579.40	2.33%	\$1,432.61	\$1,467.70	10.36x	10.11x	\$19.18	\$19.96	14.43x	13.87x	\$4,724.73	\$4,884.05	3.14x	3.04x
Toro	TTC-US	\$90.91	\$9,443.19	1.68%	\$732.07	\$789.53	14.06x	13.03x	\$4.31	\$4.74	21.10x	19.16x	\$4,722.55	\$4,901.50	2.18x	2.10x
MasterBrand	MBC-US	\$18.05	\$2,292.41	0.00%	\$387.00	\$415.00	7.60x	7.09x	\$1.51	\$1.66	11.96x	10.90x	\$2,694.00	\$2,809.00	1.09x	1.05x
Tools and Outdoor Care Equipments Mean	-	-	-	-	-	-	12.86x	11.70x	-	-	21.41x	18.20x	-	-	2.00x	1.92x
Tools and Outdoor Care Equipments Median	-	-	-	-	-	-	13.08x	11.67x	-	-	21.97x	17.14x	-	-	2.00x	1.90x
Griffon	GFF-US	\$72.06	\$3,570.81	1.13%	\$506.24	\$555.26	9.94x	9.06x	\$4.94	\$5.76	14.59x	12.51x	\$2,528.28	\$2,563.03	1.89x	1.84x
Unweighted Mean	-	-	-	-	-	-	12.48x	11.44x	-	-	20.41x	17.70x	-	-	2.40x	2.28x
VIG Estimates	-	-	-	-	-	-	12.28x	11.31x	-	-	19.90x	17.45x	-	-	2.45x	2.32x

Comparable Company Sector	Griffon Equivalent	Raw Weighting		Mean EV/EBITDA		Mean P/E		Mean EV/Sales	
		EBITDA	Sales	2024E	2025E	2024E	2025E	2024E	2025E
Building Products	Home & Building Products	80%	59%	12.13x	11.21x	19.52x	17.26x	2.75x	2.60x
Tools and Outdoor Care Equipments	Consumer & Professional Pro	20%	41%	12.86x	11.70x	21.41x	18.20x	2.00x	1.92x
Weighted				12.28x	11.31x	19.90x	17.45x	2.45x	2.32x

Estimated Company Financials				
(\$ in Millions)	2022A	2023A	2024E	2025E
EBITDA	\$458.16	\$505.33	\$472.87	\$536.91
% Growth		10.30%	-6.42%	13.54%
EPS	\$4.07	\$4.54	\$4.94	\$5.76
% Growth		11.55%	8.81%	16.56%
Sales	\$2,848.49	\$2,685.18	\$2,528.28	\$2,563.03
% Growth		-5.73%	-5.84%	1.37%
Net Debt	\$1,453.50	\$1,366.62	\$1,378.20	\$1,184.25

Shares Outstanding	49.55
EV/EBITDA Imp. EV	\$6,070.24
EV/EBITDA Imp. Price	\$98.60
P/E Imp. Price	\$100.48
EV/Sales Imp. EV	\$5,957.84
EV/Sales Imp. Price	\$96.33
Final Target Price	\$98.47

Source(s): Company Filings, FactSet, VIG Research

Management Team & Executive Compensation

MANAGEMENT

Ronald J. Kramer (65) Chief Executive Officer since April 2008, Chairman of the Board since January 2018, Director since 1993, Vice Chairman of the Board from November 2003 to January 2018. From 2002 through March 2008, President and a Director of Wynn Resorts, Ltd. (Nasdaq:WYNN), a developer, owner and operator of destination casino resorts. From 1999 to 2001, Managing Director at Dresdner Kleinwort Wasserstein, an investment banking firm, and its predecessor Wasserstein Perella & Co. Member of the board of directors of Douglas Elliman Inc. (NYSE:DOUG), Franklin BSP Capital Corporation, Franklin BSP Lending Corporation and Franklin Private Credit Fund.

Robert F. Mehmel (61) President and Chief Operating Officer since December 2012, director from May 2018 to March 2022. From August 2008 to October 2012, President and Chief Operating Officer of DRS Technologies (Formerly NYSE:DRS) ("DRS"), a supplier of integrated products, services and support to military forces, intelligence agencies and prime contractors worldwide. From May 2006 to August 2008, Executive Vice President and Chief Operating Officer of DRS and from January 2001 to May 2006, Executive Vice President, Business Operations and Strategy, of DRS.

Brian G. Harris (54) Senior Vice President and Chief Financial Officer since August 2015. From November 2012 to July 2015, Vice President and Controller of Griffon. From July 2009 to July 2015, Griffon's Chief Accounting Officer. From May 2005 to June 2009, Assistant Controller of Dover Corporation, a diversified global manufacturer (NYSE:DOV). Prior to this time, held various finance and accounting roles with Hearst Argyle Television (Formerly NYSE:HTV), John Wiley and Sons, Inc. (NYSE:WLY) and Arthur Andersen, LLP.

Seth L. Kaplan (54) Senior Vice President, General Counsel and Secretary since May 2010. From July 2008 to May 2010, Assistant General Counsel and Assistant Secretary at Hexcel Corporation (NYSE:HXL), a manufacturer of advanced composite materials for space and defense, commercial aerospace and wind energy applications. From 2000 to July 2008, Senior Corporate Counsel and Assistant Secretary at Hexcel. From 1994 to 2000, associate at the law firm

Griffon's management is led by CEO Ronald J. Kramer, with extensive experience from past roles at Wynn Resorts and in investment banking.

COMPENSATION

We analyze Griffon's executive compensation structure, which comprises three primary components: (1) annual cash salary, (2) defined benefits, and (3) supplemental benefits. Griffon offers defined contribution plans to the majority of its U.S. employees, supplementing employee contributions with company contributions based on various percentages of compensation and/or employee contributions. These contributions amounted to \$10,857 in 2023, \$11,080 in 2022, and \$8,576 in 2021.

Additionally, Griffon provides healthcare and life insurance benefits for certain retiree groups through multiple plans. For some employees, these benefits are fixed per retiree and partially contributory by the retiree. As of September 30, 2023, the post-retirement benefit obligation stood at \$1,679, up slightly from \$1,796 in 2022. The accumulated other comprehensive income (loss) for these plans was \$420 in 2023 and \$399 in 2022. Benefit expenses were reported at \$67, \$47, and \$35 for 2023, 2022, and 2021, respectively, reflecting the company's practice of funding these benefits as incurred.

Exhibit 27: Griffon Executive Compensation Summary, 2023

Name	Founder /Director	Position	Age	Company Tenure (Yrs)	Insider Holdings (%)	Salary	TotalComp.
Ronald J. Kramer, MBA	-	Chairman & Chief Executive Officer	66	31	4.50%	\$1,212,614	\$13,109,546
Robert F. Mehmel	-	President & Chief Operating Officer	61	12	1.52%	\$1,076,374	\$4,800,998
Brian G. Harris	-	Chief Financial Officer & Senior Vice President	55	15	0.40%	\$523,645	\$2,255,827
Seth L. Kaplan	-	Secretary, Senior Vice President & General Counsel	55	14	0.35%	\$473,380	\$2,149,374
Michael A. Sarrica	-	Senior Vice President	-	-	-	-	-
Thomas D. Gibbons	-	Treasurer & Vice President	-	15	-	-	-
W. Christopher Durborrow, MBA, CPA	-	Chief Accounting Officer & Vice President	-	-	0.10%	-	-

Source(s): Company Filings, VIG Research

Exhibit 28: Griffon's Plan for Defined and Supplemental Benefits

For the years ending September 30	Defined Benefits (\$)	Supplemental Benefits (\$)
2024	\$12,009	\$1,853
2025	\$11,993	\$1,709
2026	\$12,021	\$1,562
2027	\$12,012	\$1,413
2028	\$11,918	\$1,263
2028 through 2031	\$56,659	\$4,231

Source(s): Company Filings, VIG Research

compensation. Notably, the Clopay AMES Pension Plan, the Hunter Fan Pension Plan, and the AMES Supplemental Executive Retirement Plan have been frozen to new entrants, and existing participants no longer accrue additional benefits. This strategy allows Griffon to reduce its pension liabilities and mitigate investment risks by halting the accrual of new benefits and preventing new participants from joining.

In determining the future liabilities of these plans and the expected investment returns on plan assets, Griffon exercises significant judgment. The expected return on assets assumption for pension expenses is derived from an analysis of historical market returns, current market conditions, and past investment performance of the plans. This long-term rate of return assumption reflects the anticipated average earnings on invested funds, considering historical market index returns, the planned long-term asset allocation, and historical returns. The discount rate assumption is established by constructing a yield curve based on high-quality bonds with maturities that match the expected benefit payment streams of the plans. The projected cash flows of the plans are discounted using these year-by-year spot rates. We assess that a 10% variation in either the discount rate or the return on assets would not materially impact Griffon's financial statements.

Ronald J. Kramer, Chairman and CEO, has a relatively big skin in the game and earns the highest total compensation package at approximately \$13.8mm, including a base salary of \$1.2mm. This highlights the premium placed on leadership and strategic decision-making within the organization. In comparison, Brian G. Harris, CFO, and Sebel L. Martin, General Counsel, receive total compensation packages of \$2.2mm and \$2.6mm, respectively, reflecting their significant but comparatively lower levels of responsibility within the executive team (Exhibit 27).

In terms of pension obligations, we observe that Griffon has structured its defined and supplemental benefit payouts to remain consistent over the next several years. Cumulatively, from 2024 through 2031, Griffon anticipates distributing over \$56,000 in defined benefits and an additional \$4,231 in supplemental benefits. From our perspective, this careful forward planning not only allows Griffon to manage its financial obligations efficiently but also provides its employees with a stable and predictable retirement income stream. This approach aligns with Griffon's broader strategy of balancing current compensation with sustainable long-term financial management, which could support the company's financial resilience over time.

Griffon has frozen the Clopay AMES Pension Plan, Hunter Fan Pension Plan, and AMES Supplemental Executive Retirement Plan, halting new accruals to reduce pension liabilities.

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Company-Specific Risk Factors

Griffon Corporation: We view that Griffon faces at least three specific risks: Debt, customer concentration, and seasonality. Interest rate fluctuations impact its variable rate debt tied to benchmark rates such as SONIA, SOFR, LIBOR, and BBSY. Additionally, Griffon's heavy reliance on a small number of major customers, particularly Home Depot, makes it vulnerable to significant revenue impacts from any reductions or delays in sales. Seasonal variations also affect Griffon's performance, with higher revenues typically occurring during the summer construction season and lower revenues in the winter. Griffon's success is contingent on effectively managing these risks and maintaining stable customer relationships while navigating seasonal demand changes.