

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 1, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to

Commission file number 1-35166

Fortune Brands Innovations, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

62-1411546

(I.R.S. Employer
Identification No.)

520 Lake Cook Road, Deerfield, Illinois 60015-5611

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (847) 484-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock

Trading Symbol(s)

FBIN

Name of each exchange on which registered

New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, at July 21, 2023 was 126,890,520.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

FORTUNE BRANDS INNOVATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Twenty-six and Thirteen Weeks Ended July 1, 2023 and Six and Three Months Ended June 30, 2022

(In millions, except per share amounts)

(Unaudited)

	<u>Twenty-Six Weeks Ended July 1, 2023</u>	<u>Six Months Ended June 30, 2022</u>	<u>Thirteen Weeks Ended July 1, 2023</u>	<u>Three Months Ended June 30, 2022</u>
Net sales	\$ 2,203.7	\$ 2,395.6	\$ 1,163.7	\$ 1,255.4
Cost of products sold	1,327.2	1,413.8	695.6	742.0
Selling, general and administrative expenses	541.7	557.7	280.7	281.3
Amortization of intangible assets	25.2	23.2	12.6	11.6
Restructuring charges	25.2	1.6	22.2	1.0
Operating income	284.4	399.3	152.6	219.5
Interest expense	54.6	52.3	27.7	30.5
Other income, net	(11.6)	(2.4)	(5.2)	(0.2)
Income from continuing operations before income taxes	241.4	349.4	130.1	189.2
Income tax	53.7	78.9	28.0	44.9
Income from continuing operations, net of tax	187.7	270.5	102.1	144.3
(Loss) income from discontinued operations, net of tax	(1.0)	102.4	-	47.7
Net income	<u>\$ 186.7</u>	<u>\$ 372.9</u>	<u>\$ 102.1</u>	<u>\$ 192.0</u>
Basic earnings per common share				
Continuing operations	\$ 1.47	\$ 2.05	\$ 0.81	\$ 1.11
Discontinued operations	-	0.78	-	0.36
Basic earnings per share	\$ 1.47	\$ 2.83	\$ 0.81	\$ 1.47
Diluted earnings per common share				
Continuing operations	\$ 1.47	\$ 2.03	\$ 0.80	\$ 1.10
Discontinued operations	(0.01)	0.77	-	0.36
Diluted earnings per share	\$ 1.46	\$ 2.80	\$ 0.80	\$ 1.46
Comprehensive income	\$ 198.4	\$ 425.3	\$ 114.5	\$ 184.5

See notes to condensed consolidated financial statements.

FORTUNE BRANDS INNOVATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)
(Unaudited)

	July 1, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 681.7	\$ 642.5
Accounts receivable less allowances for discounts and credit losses	621.2	521.8
Inventories	954.5	1,021.3
Other current assets	186.2	274.8
Total current assets	2,443.6	2,460.4
Property, plant and equipment, net of accumulated depreciation	866.6	783.7
Operating lease assets	114.1	118.9
Goodwill	1,910.7	1,640.7
Other intangible assets, net of accumulated amortization	1,421.5	1,000.8
Other assets	116.7	116.4
Total assets	<u>\$ 6,873.2</u>	<u>\$ 6,120.9</u>
Liabilities and equity		
Current liabilities		
Short-term debt	\$ 599.8	\$ 599.2
Accounts payable	489.5	421.6
Other current liabilities	551.4	523.9
Total current liabilities	1,640.7	1,544.7
Long-term debt	2,668.5	2,074.3
Deferred income taxes	138.2	136.9
Accrued defined benefit plans	66.1	79.9
Operating lease liabilities	89.0	95.4
Other non-current liabilities	93.6	102.8
Total liabilities	4,696.1	4,034.0
Commitments and contingencies (see Note 17)		
Stockholders' equity		
Common stock ^(a)	1.9	1.9
Paid-in capital	3,103.5	3,069.6
Accumulated other comprehensive loss	55.3	37.4
Retained earnings	2,475.4	2,323.8
Treasury stock	(3,459.0)	(3,345.8)
Total stockholders' equity	2,177.1	2,086.9
Total liabilities and equity	<u>\$ 6,873.2</u>	<u>\$ 6,120.9</u>

^(a) Common stock, par value \$0.01 per share; 186.8 million shares and 186.2 million shares issued at July 1, 2023 and December 31, 2022, respectively.

See notes to condensed consolidated financial statements.

FORTUNE BRANDS INNOVATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Twenty-Six Weeks Ended July 1, 2023 and Six Months Ended June 30, 2022

(In millions)

(Unaudited)

	Twenty-Six Weeks Ended July 1, 2023	Six Months Ended June 30, 2022
Operating activities		
Net income	\$ 186.7	\$ 372.9
Non-cash adjustments:		
Depreciation	40.9	61.7
Amortization of intangibles	25.2	32.1
Non-cash lease expense	15.8	22.2
Stock-based compensation	16.2	27.5
Deferred taxes	(1.0)	(0.5)
Asset impairment charges	-	26.0
Amortization of deferred financing fees	2.1	1.8
(Gain) on sale of property, plant and equipment	(1.6)	(5.9)
Changes in assets and liabilities:		
Increase in accounts receivable	(65.4)	(110.8)
Decrease (increase) in inventories	177.3	(247.4)
Increase (decrease) in accounts payable	49.6	(1.0)
Decrease (increase) in other assets	130.3	(17.1)
Decrease in accrued expenses and other liabilities	(46.5)	(110.2)
Decrease in accrued taxes	(26.0)	(9.4)
Net cash provided by operating activities	503.6	41.9
Investing activities		
Capital expenditures ^(a)	(112.2)	(115.6)
Proceeds from the disposition of assets	2.7	8.0
Cost of acquisitions, net of cash acquired	(781.8)	(61.6)
Net cash used in investing activities	(891.3)	(169.2)
Financing activities		
Issuance of short-term debt	-	700.0
Repayment of short-term debt	-	(1,100.0)
Issuance of long-term debt	595.1	4,123.7
Repayment of long-term debt	-	(3,073.3)
Proceeds from the exercise of stock options	5.0	0.4
Treasury stock purchases	(100.0)	(505.0)
Employee withholding taxes related to stock-based compensation	(12.4)	(24.8)
Dividends to stockholders	(58.6)	(73.6)
Other financing, net	(1.3)	(20.3)
Net cash provided by financing activities	427.8	27.1
Effect of foreign exchange rate changes on cash	(2.1)	(11.3)
Net increase (decrease) in cash and cash equivalents	\$ 38.0	\$ (111.5)
Cash, cash equivalents and restricted cash ^(b) at beginning of period	\$ 648.3	\$ 476.1
Cash, cash equivalents and restricted cash ^(b) at end of period	\$ 686.3	\$ 364.6

(a) Capital expenditures of \$5.3 million as of July 1, 2023 and \$12.1 million as of June 30, 2022 that had not been paid, were excluded from the Statement of Cash Flows.

(b) Restricted cash of \$2.3 million and \$2.3 million is included in Other current assets and Other assets, respectively, as of July 1, 2023 and restricted cash of \$1.2 million and \$2.8 million is included in Other current assets and Other assets, respectively, as of June 30, 2022. Restricted cash of \$2.1 million and \$3.7 million is included in Other current assets and Other assets, respectively, as of December 31, 2022.

See notes to condensed consolidated financial statements.

FORTUNE BRANDS INNOVATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
For the Twenty-six and Thirteen Weeks Ended July 1, 2023 and Six and Three Months Ended June 30, 2022

(In millions)
(Unaudited)

	Common Stock	Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Stock	Total Equity
Balance at December 31, 2021	\$ 1.9	\$ 3,018.3	\$ (24.6)	\$ 2,807.9	\$ (2,738.7)	\$ 3,064.8
Comprehensive income:						
Net income	-	-	-	372.9	-	372.9
Other comprehensive income (loss)	-	-	52.4	-	-	52.4
Stock options exercised	-	0.4	-	-	-	0.4
Stock-based compensation	-	27.5	-	-	(24.8)	2.7
Treasury stock purchases	-	-	-	-	(505.0)	(505.0)
Dividends (\$0.28 per common share)	-	-	-	(35.8)	-	(35.8)
Balance at June 30, 2022	<u>\$ 1.9</u>	<u>\$ 3,046.2</u>	<u>\$ 27.8</u>	<u>\$ 3,145.0</u>	<u>\$ (3,268.5)</u>	<u>\$ 2,952.4</u>
Balance at December 31, 2022	\$ 1.9	\$ 3,069.6	\$ 37.4	\$ 2,323.8	\$ (3,345.8)	\$ 2,086.9
Comprehensive income:						
Net income	-	-	-	186.7	-	186.7
Other comprehensive income (loss)	-	-	11.7	-	-	11.7
Other	-	12.7	6.2	(6.0)	-	12.9
Stock options exercised	-	5.0	-	-	-	5.0
Stock-based compensation	-	16.2	-	-	(12.4)	3.8
Treasury stock purchases	-	-	-	-	(100.8)	(100.8)
Dividends (\$0.23 per common share)	-	-	-	(29.1)	-	(29.1)
Balance at July 1, 2023	<u>\$ 1.9</u>	<u>\$ 3,103.5</u>	<u>\$ 55.3</u>	<u>\$ 2,475.4</u>	<u>\$ (3,459.0)</u>	<u>\$ 2,177.1</u>
	Common Stock	Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Stock	Total Equity
Balance at March 31, 2022	\$ 1.9	\$ 3,030.8	\$ 35.3	\$ 2,989.4	\$ (3,142.6)	\$ 2,914.8
Comprehensive income:						
Net income	-	-	-	192.0	-	192.0
Other comprehensive income (loss)	-	-	(7.5)	-	-	(7.5)
Stock options exercised	-	0.2	-	-	-	0.2
Stock-based compensation	-	15.2	-	-	(0.5)	14.7
Treasury stock purchases	-	-	-	-	(125.4)	(125.4)
Dividends (\$0.28 per common share)	-	-	-	(36.4)	-	(36.4)
Balance at June 30, 2022	<u>\$ 1.9</u>	<u>\$ 3,046.2</u>	<u>\$ 27.8</u>	<u>\$ 3,145.0</u>	<u>\$ (3,268.5)</u>	<u>\$ 2,952.4</u>
Balance at April 1, 2023	\$ 1.9	\$ 3,094.1	\$ 42.9	\$ 2,402.4	\$ (3,458.8)	\$ 2,082.5
Comprehensive income:						
Net income	-	-	-	102.1	-	102.1
Other comprehensive income (loss)	-	-	12.4	-	-	12.4
Other	-	-	-	-	-	-
Stock options exercised	-	2.7	-	-	-	2.7
Stock-based compensation	-	6.7	-	-	(0.2)	6.5
Treasury stock purchases	-	-	-	-	-	-
Dividends (\$0.23 per common share)	-	-	-	(29.1)	-	(29.1)
Balance at July 1, 2023	<u>\$ 1.9</u>	<u>\$ 3,103.5</u>	<u>\$ 55.3</u>	<u>\$ 2,475.4</u>	<u>\$ (3,459.0)</u>	<u>\$ 2,177.1</u>

See notes to condensed consolidated financial statements.

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Principles of Consolidation

The Company is a leading home and security products company with a portfolio of leading branded products used for residential home repair, remodeling, new construction and security applications. References to “Fortune Brands,” “the Company,” “we,” “our” and “us” refer to Fortune Brands Innovations, Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires.

On December 14, 2022, the Company completed the separation of its Cabinets business, MasterBrand, Inc. (“MasterBrand”), via a tax-free spin-off transaction (the “Separation”) to create an independent, publicly-traded company. Immediately following completion of the Separation, the Company changed its name from “Fortune Brands Home & Security, Inc.” to “Fortune Brands Innovations, Inc.” and its stock ticker changed from “FBHS” to “FBIN” to better reflect its focus on activities related to core brands and innovation. As a result of the Separation, our former Cabinets segment was disposed of and the operating results of the Cabinets business are reported as discontinued operations for all periods presented within this Quarterly Report on Form 10-Q. All amounts, percentages and disclosures for all periods presented reflect only the continuing operations of the Company unless otherwise noted. See Note 4, Acquisitions and Dispositions, in the condensed consolidated financial statements, and Note 5, Discontinued Operations, in the consolidated financial statements in Item 8 of our 2022 Annual Report on Form 10-K for additional information.

The condensed consolidated financial statements and notes are presented pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and do not contain certain information included in our annual audited consolidated financial statements and notes. The December 31, 2022 condensed consolidated balance sheet was derived from our audited consolidated financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles (“GAAP”). This Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2022.

On June 20, 2023, we acquired the Emtek and Schaub premium and luxury door and cabinet hardware business, and the U.S. and Canadian Yale and August residential smart home locks business (collectively the “ASSA Businesses”) from ASSA ABLOY, Inc. (“ASSA”). The Company completed the acquisition for a total purchase price of approximately \$800 million, subject to post-closing adjustments. We financed the transaction with cash on hand. As of the date of this filing, legal title to international operations in Vietnam has not yet transferred, but we expect a deferred closing, which will include a payment of approximately \$24 million (which amount is already included in the overall purchase price but for which the cash payment has not yet been made), shortly following receipt of local regulatory approval, which is expected to occur later in 2023. The results of Emtek and Schaub premium and luxury door and cabinet hardware business are reported as part of the Water segment and the results of the U.S. and Canadian Yale and August residential smart lock business are reported as part of the Security segment. The financial results of the ASSA Businesses were included in the Company’s consolidated balance sheet as of July 1, 2023. The results of operations and cash flows of the ASSA Businesses from the date of acquisition to July 1, 2023 were not material to the Company.

In January 2023, the Board of Directors of the Company approved a change to the Company’s fiscal year end from December 31 to a 52- or 53-week fiscal year ending on the Saturday closest but not subsequent to December 31, effective as of the commencement of the Company’s fiscal year on January 1, 2023. This change was made in order to align the Company’s fiscal year with that of its operating businesses and to align the Company’s reporting calendar with how the Company evaluates its businesses. As a result, the Company’s fiscal quarters for the 2023 fiscal year end on April 1, 2023, July 1, 2023, September 30, 2023, and December 30, 2023.

The condensed consolidated balance sheet as of July 1, 2023, the related condensed consolidated statements of comprehensive income and equity for the 26 weeks and 13 weeks ended July 1, 2023, the related condensed consolidated statements of comprehensive income and equity for the six and three months ended June 30, 2022, the related condensed consolidated statements of cash flows for the 26 weeks ended July 1, 2023, and the related condensed consolidated statements of cash flows for the six months ended June 30, 2022 are unaudited. The presentation of these financial statements requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. In the opinion of management, all adjustments necessary for a fair statement of the financial statements have been included. Interim results may not be indicative of results for a full year.

Effective in the first quarter of 2023, the Company revised its segment reporting from two reportable segments, Water Innovations and Outdoors & Security, to three reportable segments, Water, Outdoors and Security. The change in segment reporting was made to align with changes made in the manner our chief operating decision maker reviews the Company’s operating results in assessing performance and allocating resources. Comparative prior periods amounts have been recast to conform to the new segment presentation.

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On July 29, 2022, we acquired 100% of the outstanding equity of Aqualisa Holdings (International) Ltd. ("Aqualisa"), a leading U.K. manufacturer of shower products known for premium, innovative and smart digital shower systems, for a purchase price of \$156.0 million, net of cash acquired of \$4.8 million. We financed the transaction using cash on hand and borrowings under our revolving credit facility. The results of Aqualisa are reported as part of the Water segment. We have not included pro forma financial information as it is immaterial to our condensed consolidated statements of comprehensive income. The fair value allocated to assets acquired and liabilities assumed as of July 29, 2022 was \$156.0 million.

In January 2022, we acquired 100% of the outstanding equity of Solar Innovations LLC and an affiliated entity (together, "Solar"), a leading producer of wide-opening exterior door systems and outdoor enclosures, for a purchase price of \$61.6 million, net of cash acquired of \$4.8 million. We financed the transaction using cash on hand and borrowings under our revolving credit facility. The results of Solar are reported as part of the Outdoors segment. We have not included pro forma financial information as it is immaterial to our condensed consolidated statements of comprehensive income. The fair value allocated to assets acquired and liabilities assumed as of January 31, 2022 was \$61.6 million.

2. Recently Issued Accounting Standards

No material impacts noted from recently issued accounting standards.

3. Balance Sheet Information

Supplemental information on our balance sheets is as follows:

(In millions)	July 1, 2023	December 31, 2022
Inventories:		
Raw materials and supplies	\$ 338.7	\$ 309.4
Work in process	76.8	83.5
Finished products	539.0	628.4
Total inventories	\$ 954.5	\$ 1,021.3
Property, plant and equipment, gross	\$ 1,734.8	\$ 1,614.3
Less: accumulated depreciation	868.2	830.6
Property, plant and equipment, net	\$ 866.6	\$ 783.7

4. Acquisitions and Dispositions

ASSA Businesses

On June 20, 2023, we acquired the Emtek and Schaub premium and luxury door and cabinet hardware business, and the U.S. and Canadian Yale and August residential smart home locks business (collectively the "ASSA Businesses") from ASSA ABLOY, Inc. ("ASSA"). The Company completed the acquisition for a total purchase price of approximately \$800 million, subject to post-closing adjustments. We financed the transaction with cash on hand. As of the date of this filing, legal title to international operations in Vietnam has not yet transferred, but we expect a deferred closing, which will include a payment of approximately \$24 million (which amount is already included in the overall purchase price but for which the cash payment has not yet been made), shortly following receipt of local regulatory approval, which is expected to occur later in 2023. The results of Emtek and Schaub premium and luxury door and cabinet hardware business are reported as part of the Water segment and the results of the U.S. and Canadian Yale and August residential smart lock business are reported as part of the Security segment. The financial results of the ASSA Businesses were included in the Company's consolidated balance sheet as of July 1, 2023. The results of operations and cash flows of the ASSA Businesses from the date of acquisition to July 1, 2023 were not material to the Company.

The following table summarizes the preliminary allocation of the ASSA Businesses purchase price to the fair value of assets acquired and liabilities assumed as of the date of the acquisition.

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<i>(In millions)</i>		
Accounts receivable	\$	32.3
Inventories		109.7
Property, plant and equipment		18.6
Goodwill		261.8
Identifiable intangible assets		439.4
Operating lease assets		6.8
Other assets		2.4
Total assets		871.0
Accounts payable		28.7
Other current liabilities and accruals		33.4
Other non-current liabilities		3.7
Net assets acquired ^(a)	\$	805.2

(a) Net assets exclude \$16.0 million of cash transferred to the Company as the result of the acquisition.

The purchase price allocation is expected to change after asset and liability valuations are finalized. We apply significant judgment in determining the estimates and assumptions used to determine the fair value of the identifiable intangible assets, including forecasted revenue growth rates, EBITDA margins, percentage of revenue attributable to the tradename, contributory asset charges, customer attrition rate, market-participant discount rates and the assumed royalty rates. The Company is in the process of finalizing valuations of certain tangible and intangible assets, including property, plant and equipment. The provisional measurement of property, plant and equipment and goodwill is subject to change. Any change in the acquisition date fair value of the acquired assets and liabilities will change the amount of the purchase price allocable to goodwill.

Goodwill includes expected sales and cost synergies. The goodwill is included in our Security and Water segments. Substantially all of the goodwill is expected to be deductible for income tax purposes, subject to the finalization of the purchase price allocation. ASSA Businesses identifiable intangible assets consist of finite-lived customer relationship assets of \$336.6 million, indefinite-lived tradenames of \$74.9 million, definite-lived tradenames of \$16.8 million and finite-lived proprietary technology assets of \$11.1 million. We will finalize our determination of useful lives and amortization methodology when the asset valuations are completed.

The following unaudited pro forma summary presents consolidated financial information as if the ASSA Businesses had been acquired on January 1, 2022. The unaudited pro forma financial information is based on historical results of operations and financial position of the Company and the ASSA Businesses. The pro forma results include:

- estimated amortization of finite-lived intangible assets, including customer relationships and proprietary technology,
- the estimated cost of the inventory adjustment to fair value,
- the reclassification of ASSA Businesses transaction costs from 2023 to the first quarter of 2022,
- the removal of certain transactions recorded in the historical financial statements of the ASSA Businesses related to assets and activities which were retained by the seller, and
- adjustments to conform accounting policies.

The unaudited pro forma financial information does not necessarily represent the results that would have occurred had the acquisition occurred on January 1, 2022. In addition, the unaudited pro forma information should not be deemed to be indicative of future results.

<i>(In millions)</i>	Twenty-Six Weeks Ended July 1, 2023	Six Months Ended June 30, 2022	Thirteen Weeks Ended July 1, 2023	Three Months Ended June 30, 2022
Net sales	\$ 2,403.7	\$ 2,599.1	\$ 1,259.6	\$ 1,356.4
Income from continuing operations, net of tax	\$ 218.1	\$ 275.6	\$ 120.7	\$ 154.1

Cabinets

On December 14, 2022, the Company completed the separation of its Cabinets business, MasterBrand, Inc. (“MasterBrand”), via a tax-free spin-off transaction (the “Separation”) to create an independent, publicly-traded company. Immediately following completion of the Separation, the Company changed its name from “Fortune Brands Home & Security, Inc.” to “Fortune Brands Innovations,

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inc.” and its stock ticker changed from “FBHS” to “FBIN” to better reflect its focus on activities related to core brands and innovation.

The condensed consolidated statements of income and consolidated balance sheets for all prior periods have been adjusted to reflect the presentation of MasterBrand as discontinued operations. For the six months ended June 30, 2022, the condensed consolidated statement of cash flows includes net cash provided from operations related to discontinued operations of \$128.3 million and net cash in investing activities of \$22.0 million. Depreciation, amortization and capital expenditures attributable to discontinued operations for the six months ended June 30, 2022, were \$21.5 million, \$8.9 million and \$22.0 million, respectively.

Aqualisa

In July 2022, we acquired 100% of the outstanding equity of Aqualisa Holdings (International) Ltd. (“Aqualisa”), a leading U.K. manufacturer of shower products known for premium, innovative and smart digital shower systems, for a purchase price of \$156.0 million, net of cash acquired of \$4.8 million. We financed the transaction using cash on hand and borrowings under our revolving credit facility. The results of Aqualisa are reported as part of the Water segment. We have not included pro forma financial information as the transaction is immaterial to our condensed consolidated statements of comprehensive income. The fair value allocated to assets acquired and liabilities assumed as of July 29, 2022, was \$156.0 million, which includes \$88.7 million of goodwill. Goodwill includes expected sales and cost synergies and is not expected to be deductible for income tax purposes.

Solar

In January 2022, we acquired 100% of the outstanding equity of Solar for a purchase price of \$61.6 million, net of cash acquired of \$4.8 million. We financed the transaction using cash on hand and borrowings under our revolving credit facility. The results of Solar are reported as part of the Outdoors segment. We have not included pro forma financial information as the transaction is immaterial to our condensed consolidated statements of comprehensive income. The fair value allocated to assets acquired and liabilities assumed as of January 31, 2022, was \$61.6 million, which includes \$23.3 million of goodwill. Goodwill includes expected sales and cost synergies and is expected to be deductible for income tax purposes.

Flo Technologies

In 2018, our Water segment entered into a strategic partnership with, and acquired non-controlling equity interests in, Flo Technologies, Inc. (“Flo”), a U.S. manufacturer of comprehensive water monitoring and shut-off systems with leak detection technologies. In January 2020, we entered into an agreement to acquire the remaining outstanding shares of Flo in a multi-phase transaction. As part of this agreement, we acquired a majority of Flo’s outstanding shares during 2020 and entered into a forward contract to purchase all remaining shares of Flo during the first quarter of 2022. On January 30, 2022, we made a final cash payment of \$16.7 million to the legacy minority shareholders to acquire such shares which is reflected within Other financing, net in our consolidated statements of cash flows.

5. Goodwill and Identifiable Intangible Assets

We had goodwill of \$1,910.7 million and \$1,640.7 million as of July 1, 2023 and December 31, 2022, respectively. The change in the net carrying amount of goodwill by segment was as follows:

(In millions)	Water	Outdoors	Security	Total Goodwill
Goodwill at December 31, 2022 ^(a)	\$ 893.4	\$ 651.0	\$ 96.3	\$ 1,640.7
Year-to-date translation adjustments	7.7	-	0.4	8.1
Acquisition-related adjustments	222.4	0.1	39.4	261.9
Goodwill at July 1, 2023 ^(a)	\$ 1,123.5	\$ 651.1	\$ 136.1	\$ 1,910.7

(a) Net of accumulated impairment losses of \$399.5 million in the Outdoors segment.

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The gross carrying value and accumulated amortization by class of identifiable intangible assets as of July 1, 2023 and December 31, 2022 were as follows:

(In millions)	As of July 1, 2023			As of December 31, 2022		
	Gross Carrying Amounts	Accumulated Amortization	Net Book Value	Gross Carrying Amounts	Accumulated Amortization	Net Book Value
Indefinite-lived tradenames	\$ 553.5	\$ -	\$ 553.5	\$ 478.1	\$ -	\$ 478.1
Amortizable intangible assets						
Tradenames	66.1	(8.0)	58.1	47.5	(6.8)	40.7
Customer and contractual relationships	1,004.3	(259.5)	744.8	662.6	(239.6)	423.0
Patents/proprietary technology	140.1	(75.0)	65.1	128.5	(69.5)	59.0
Total	1,210.5	(342.5)	868.0	838.6	(315.9)	522.7
Total identifiable intangibles	\$ 1,764.0	\$ (342.5)	\$ 1,421.5	\$ 1,316.7	\$ (315.9)	\$ 1,000.8

We had net identifiable intangible assets of \$1,421.5 million and \$1,000.8 million as of July 1, 2023 and December 31, 2022, respectively. The \$447.3 million increase in gross identifiable intangible assets was primarily due to the acquisition of ASSA Businesses and foreign translation adjustments.

Amortizable identifiable intangible assets, principally customer relationships, are subject to amortization over their estimated useful life, ranging from 5 to 30 years, based on the assessment of a number of factors that may impact useful life, which includes customer attrition rates and other relevant factors.

6. External Debt and Financing Arrangements

Senior Notes

In June 2023, the Company issued \$600 million in aggregate principal 5.875% senior unsecured notes maturing in 2033 in a registered public offering. The Company intends to use the net proceeds from the notes offering to pay off its 2023 4.000% senior unsecured notes maturing in September 2023 and for general corporate purposes.

In March 2022, the Company issued \$900 million in aggregate principal amount of senior unsecured notes in a registered public offering consisting of \$450 million of 4.000% senior unsecured notes maturing in 2032 and \$450 million of 4.500% senior unsecured notes maturing in 2052 (together, the “2022 Notes”). The Company used the net proceeds from the 2022 Notes offering to pay down a portion of the outstanding balance on the 2021 Term Loan, as described below.

On July 1, 2023, the Company had aggregate outstanding senior notes in the amount of \$3.3 billion, with varying maturities (the “Notes”). The Notes are unsecured senior obligations of the Company. The following table provides a summary of the Company’s outstanding Notes, including the net carrying value of the Notes, net of underwriting commissions, price discounts, and debt issuance costs as of July 1, 2023 and December 31, 2022:

(in millions)	Principal Amount	Issuance Date	Maturity Date	Net Carrying Value	
				July 1, 2023	December 31, 2022
4.000% Senior Notes	\$ 500.0	June 2015	June 2025	\$ 498.5	\$ 498.1
4.000% Senior Notes	600.0	September 2018	September 2023	599.8	599.2
3.250% Senior Notes	700.0	September 2019	September 2029	695.3	695.0
4.000% Senior Notes	450.0	March 2022	March 2032	446.0	445.8
4.500% Senior Notes	450.0	March 2022	March 2052	435.6	435.4
5.875% Senior Notes	600.0	June 2023	June 2033	593.1	-
Total Senior Notes	\$ 3,300.0			\$ 3,268.3	\$ 2,673.5

Credit Facilities

In August 2022, the Company entered into a third amended and restated \$1.25 billion revolving credit facility (the “2022 Revolving Credit Agreement”), and borrowings thereunder will be used for general corporate purposes. The maturity date of the facility is August 2027. Interest rates under the 2022 Revolving Credit Agreement are variable based on the Secured Overnight Financing Rate (“SOFR”) at the time of the borrowing and the Company’s long-term credit rating and can range from SOFR + 1.02% to SOFR + 1.525%. Under the 2022 Revolving Credit Agreement, the Company is required to maintain a minimum ratio of consolidated EBITDA to consolidated interest expense of 3.0 to 1.0. Consolidated EBITDA is defined as consolidated net income before interest

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expense, income taxes, depreciation, amortization of intangible assets, losses from asset impairments, and certain other one-time adjustments. In addition, the Company's ratio of consolidated debt minus certain cash and cash equivalents to consolidated EBITDA generally may not exceed 3.5 to 1.0. On July 1, 2023, and December 31, 2022, there were no outstanding borrowings under this facility. As of July 1, 2023, we were in compliance with all covenants under this facility.

In November 2021, the Company entered into a 364-day, \$400 million term loan credit agreement (the "2021 Term Loan"), for general corporate purposes, to mature in November 2022. On March 1, 2022, the Company entered into a First Amendment and Incremental Agreement to the 2021 Term Loan (the "First Amendment"). The First Amendment provided for an increase in the principal amount from \$400 million to \$600 million as well as the transition from LIBOR to SOFR interest rates. As a result, interest rates under the 2021 Term Loan were variable based on SOFR at the time of the borrowing and the Company's long-term credit rating and could range from SOFR + 0.725% to SOFR + 1.350%. On March 18, 2022, the Company entered into a Second Amendment and Incremental Agreement to the 2021 Term Loan (the "Second Amendment"), increasing the principal amount from \$600 million to \$1.1 billion. All other terms and conditions remained the same under the First Amendment and Second Amendment. Proceeds from the increased 2021 Term Loan were used to repay outstanding balances under our previous revolving credit facility. The outstanding \$1.1 billion under the 2021 Term Loan was repaid on March 25, 2022 with proceeds from the senior notes offering in March 2022 (as described above) and other existing sources of liquidity.

We currently have uncommitted bank lines of credit in China, which provide for unsecured borrowings for working capital of up to \$20.5 million in aggregate as of July 1, 2023 and December 31, 2022, respectively. There were no outstanding balances as of July 1, 2023 and December 31, 2022.

Commercial Paper

The Company operates a commercial paper program (the "Commercial Paper Program") pursuant to which the Company may issue unsecured commercial paper notes. The Company's 2022 Revolving Credit Agreement is the liquidity backstop for the repayment of any notes issued under the Commercial Paper Program, and as such, borrowings under the Commercial Paper Program are included in Long-term debt in the condensed consolidated balance sheets. Amounts available under the Commercial Paper Program may be borrowed, repaid and re-borrowed, with the aggregate principal amount outstanding at any time, including borrowings under the 2022 Revolving Credit Agreement, not to exceed \$1.25 billion. The Company will use any issuances under the Commercial Paper Program for general corporate purposes. There were no outstanding borrowings under the Commercial Paper Program as of July 1, 2023 and December 31, 2022.

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Financial Instruments

We do not enter into financial instruments for trading or speculative purposes. We principally use financial instruments to reduce the impact of changes in foreign currency exchange rates and commodities used as raw materials in our products. The principal derivative financial instruments we enter into on a routine basis are foreign exchange contracts. Derivative financial instruments are recorded at fair value. The counterparties to derivative contracts are major financial institutions. We are subject to credit risk on these contracts equal to the fair value of these instruments. Management currently believes that the risk of incurring material losses is unlikely and that the losses, if any, would be immaterial to the Company.

Raw materials used by the Company are subject to price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. As a result, from time to time, we enter into commodity swaps to manage the price risk associated with forecasted purchases of materials used in our operations.

We may be exposed to interest rate risk on existing debt or forecasted debt issuance. To mitigate this risk, we may enter into interest rate hedge contracts. The Company entered into a total of \$600 million of interest rate hedge contracts during the fourth quarter of 2021 and first quarter of 2022. These contracts were terminated during the second quarter of 2023 in parallel with the issuance of \$600 million of long-term debt. Terminating the contracts resulted in a pre-tax gain of \$84.2 million which was recorded in accumulated other comprehensive income and will be reclassified to earnings over the 10-year maturity associated with the new long-term debt.

Our primary foreign currency hedge contracts pertain to the British pound, the Canadian dollar, the Mexican peso and the Chinese yuan. The gross U.S. dollar equivalent notional amount of all foreign currency derivative hedges outstanding at July 1, 2023 was \$325.8 million. Based on foreign exchange rates as of July 1, 2023, we estimate that \$12.5 million of net derivative gains included in accumulated other comprehensive income as of July 1, 2023 will be reclassified to earnings within the next twelve months.

The fair values of derivative instruments on the consolidated balance sheets as of July 1, 2023 and December 31, 2022 were as follows:

(In millions)	Location	Fair Value	
		July 1, 2023	December 31, 2022
Assets:			
Foreign exchange contracts	Other current assets	\$ 2.3	\$ 5.0
Interest rate contracts	Other current assets	-	84.6
	Total assets	\$ 2.3	\$ 89.6
Liabilities:			
Foreign exchange contracts	Other current liabilities	\$ 2.7	\$ 0.7
Commodity contracts	Other current liabilities	0.3	3.6
	Total liabilities	\$ 3.0	\$ 4.3

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The effects of derivative financial instruments on the statements of comprehensive income for the twenty-six weeks ended July 1, 2023 and six months ended June 30, 2022 were as follows:

(In millions)

	Classification and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships		
	Twenty-Six Weeks Ended July 1, 2023		
	Cost of products sold	Interest expense	Other income, net
Total amounts per Consolidated Statements of Comprehensive Income	\$ 1,327.2	\$ 54.6	\$ 11.6
The effects of fair value and cash flow hedging:			
Gain (loss) on fair value hedging relationships			
Foreign exchange contracts:			
Hedged items	-	-	4.4
Derivative designated as hedging instruments	-	-	(2.9)
Gain (loss) on cash flow hedging relationships			
Foreign exchange contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	4.0	-	-
Commodity contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	(0.1)	-	-
Interest rate contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	-	2.6	-

(In millions)

	Classification and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships		
	Six Months Ended June 30, 2022		
	Cost of products sold	Interest expense	Other income, net
Total amounts per Consolidated Statements of Comprehensive Income	\$ 1,413.8	\$ 52.3	\$ 2.4
The effects of fair value and cash flow hedging:			
Gain (loss) on fair value hedging relationships			
Foreign exchange contracts:			
Hedged items	-	-	(10.4)
Derivative designated as hedging instruments	-	-	7.7
Gain (loss) on cash flow hedging relationships			
Foreign exchange contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	1.3	-	-
Commodity contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	(0.3)	-	-
Interest rate contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	-	1.4	-

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The effects of derivative financial instruments on the statements of comprehensive income for the thirteen weeks ended July 1, 2023 and three months ended June 30, 2022 were as follows:

(In millions)

	Classification and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships		
	Thirteen Weeks Ended July 1, 2023		
	Cost of products sold	Interest expense	Other income, net
Total amounts per Consolidated Statements of Comprehensive Income	\$ 695.6	\$ 27.7	\$ 5.2
The effects of fair value and cash flow hedging:			
Gain (loss) on fair value hedging relationships			
Foreign exchange contracts:			
Hedged items	-	-	3.1
Derivative designated as hedging instruments	-	-	(2.1)
Gain (loss) on cash flow hedging relationships			
Foreign exchange contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	2.0	-	-
Commodity contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	(0.3)	-	-
Interest rate contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	-	1.5	-

(In millions)

	Classification and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships		
	Three Months Ended June 30, 2022		
	Cost of products sold	Interest expense	Other income, net
Total amounts per Consolidated Statements of Comprehensive Income	\$ 742.0	\$ 30.5	\$ 0.2
The effects of fair value and cash flow hedging:			
Gain (loss) on fair value hedging relationships			
Foreign exchange contracts:			
Hedged items	-	-	(8.4)
Derivative designated as hedging instruments	-	-	7.2
Gain (loss) on cash flow hedging relationships			
Foreign exchange contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	0.9	-	-
Commodity contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	(0.4)	-	-
Interest rate contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	-	1.2	-

8. Fair Value Measurements

FASB ASC requirements for Fair Value Measurements and Disclosures establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs, the highest priority, are quoted prices in active markets for identical assets or liabilities. Level 2 inputs reflect other than quoted prices included in Level 1 that are either observable directly or through corroboration with observable market data. Level 3 inputs are unobservable inputs, due to little or no market

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

activity for the asset or liability, such as internally-developed valuation models. We do not have any assets or liabilities measured at fair value on a recurring basis that are Level 3.

The carrying value and fair value of debt as of July 1, 2023 and December 31, 2022 were as follows:

(In millions)	July 1, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes, net of underwriting commissions, price discounts and debt issuance costs	\$ 3,268.3	\$ 3,038.5	\$ 2,673.5	\$ 2,412.6

The estimated fair value of our Notes is determined by using quoted market prices of our debt securities, which are Level 1 inputs. The estimated fair value of our 2022 Revolving Credit Facility, borrowings under our Commercial Paper Program and 2021 Term Loan is determined primarily using broker quotes, which are Level 2 inputs.

Assets and liabilities measured at fair value on a recurring basis as of July 1, 2023 and December 31, 2022 were as follows:

(In millions)	Fair Value	
	July 1, 2023	December 31, 2022
Assets		
Derivative financial instruments (Level 2)	\$ 2.3	\$ 89.6
Deferred compensation program assets (Level 2)	15.9	14.9
Total assets	\$ 18.2	\$ 104.5
Liabilities		
Derivative financial instruments (Level 2)	\$ 3.0	\$ 4.3

9. Accumulated Other Comprehensive Income (Loss)

Total accumulated other comprehensive income (loss) consists of net income and other changes in business equity from transactions and other events from sources other than stockholders. It includes currency translation gains and losses, unrealized gains and losses from derivative instruments designated as cash flow hedges, and defined benefit plan adjustments.

In order to mitigate interest rate risk associated with forecasted debt issuances, Fortune Brands entered into a total of \$600 million of interest rate hedges during the fourth quarter of 2021 and first quarter of 2022. These hedges were terminated during the second quarter of 2023 in parallel with the issuance of \$600 million of long-term debt. Terminating the hedges resulted in a pre-tax gain of \$84.2 million which was recorded in accumulated other comprehensive income and will be reclassified to earnings over the 10-year maturity associated with the new long-term debt.

The after-tax components of and changes in accumulated other comprehensive (loss) income for the twenty-six and thirteen weeks ended July 1, 2023 and six and three months ended June 30, 2022 were as follows:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions)	Foreign Currency Adjustments	Derivative Hedging Gain (Loss)	Defined Benefit Plan Adjustments	Accumulated Other Comprehensive Loss
Balance at December 31, 2021	\$ 3.3	\$ 2.9	\$ (30.8)	\$ (24.6)
Amounts classified into accumulated other comprehensive (loss) income	(16.1)	72.4	(0.1)	56.2
Amounts reclassified from accumulated other comprehensive (loss) income	-	(3.8)	-	(3.8)
Net current-period other comprehensive (loss) income	(16.1)	68.6	(0.1)	52.4
Balance at June 30, 2022	<u>\$ (12.8)</u>	<u>\$ 71.5</u>	<u>\$ (30.9)</u>	<u>\$ 27.8</u>
Balance at December 31, 2022	\$ (12.1)	\$ 93.5	\$ (44.0)	\$ 37.4
Amounts classified into accumulated other comprehensive (loss) income	13.0	4.4	(0.2)	17.2
Other	-	-	6.2	6.2
Amounts reclassified from accumulated other comprehensive (loss) income	-	(5.5)	-	(5.5)
Net current-period other comprehensive (loss) income	13.0	(1.1)	6.0	17.9
Balance at July 1, 2023	<u>\$ 0.9</u>	<u>\$ 92.4</u>	<u>\$ (38.0)</u>	<u>\$ 55.3</u>
 (In millions)				
	Foreign Currency Adjustments	Derivative Hedging Gain (Loss)	Defined Benefit Plan Adjustments	Accumulated Other Comprehensive Loss
Balance at March 31, 2022	\$ 14.9	\$ 51.0	\$ (30.6)	\$ 35.3
Amounts classified into accumulated other comprehensive (loss) income	(27.7)	23.2	(0.3)	(4.8)
Amounts reclassified from accumulated other comprehensive (loss) income	-	(2.7)	-	(2.7)
Net current-period other comprehensive (loss) income	(27.7)	20.5	(0.3)	(7.5)
Balance at June 30, 2022	<u>\$ (12.8)</u>	<u>\$ 71.5</u>	<u>\$ (30.9)</u>	<u>\$ 27.8</u>
Balance at April 1, 2023	\$ (4.1)	\$ 85.0	\$ (38.0)	\$ 42.9
Amounts classified into accumulated other comprehensive (loss) income	5.0	10.2	-	15.2
Other	-	-	-	-
Amounts reclassified from accumulated other comprehensive (loss) income	-	(2.8)	-	(2.8)
Net current-period other comprehensive (loss) income	5.0	7.4	-	12.4
Balance at July 1, 2023	<u>\$ 0.9</u>	<u>\$ 92.4</u>	<u>\$ (38.0)</u>	<u>\$ 55.3</u>

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The reclassifications out of accumulated other comprehensive loss for the twenty-six and thirteen weeks ended July 1, 2023 and six and three months ended June 30, 2022 were as follows:

(In millions)

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Statement of Comprehensive Income
	Twenty-Six Weeks Ended July 1, 2023	Six Months Ended June 30, 2022	
Gains (losses) on cash flow hedges			
Foreign exchange contracts	\$ 4.0	\$ 1.3	Cost of products sold
Commodity contracts	(0.1)	(0.3)	Cost of products sold
Interest rate contracts	2.6	1.4	Interest expense
	6.5	2.4	Total before tax
	(1.0)	(0.3)	Tax expense
Total reclassifications for the period	\$ 5.5	\$ 2.1	Net of tax

(In millions)

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Statement of Comprehensive Income
	Thirteen Weeks Ended July 1, 2023	Three Months Ended June 30, 2022	
Gains (losses) on cash flow hedges			
Foreign exchange contracts	\$ 2.0	\$ 0.9	Cost of products sold
Commodity contracts	(0.3)	(0.4)	Cost of products sold
Interest rate contracts	1.5	1.2	Interest expense
	3.2	1.7	Total before tax
	(0.4)	(0.2)	Tax expense
Total reclassifications for the period	\$ 2.8	\$ 1.5	Net of tax

The amounts in the table above reflect continuing operations, and exclude income amounts, net of tax, related to discontinued operations of \$1.7 million and \$1.2 million in the six months and three months ended, June 30, 2022, respectively.

10. Revenue

The following table disaggregates our consolidated revenue by major sales distribution channels for the twenty-six and thirteen weeks ended July 1, 2023 and six and three months ended June 30, 2023:

(In millions)	Twenty-Six Weeks Ended July 1, 2023	Six Months Ended June 30, 2022	Thirteen Weeks Ended July 1, 2023	Three Months Ended June 30, 2022
Wholesalers ^(a)	\$ 966.2	\$ 1,053.2	\$ 505.7	\$ 565.3
Home Center retailers ^(b)	605.1	666.9	309.7	347.4
Other retailers ^(c)	191.7	210.3	96.2	117.1
Builder direct	0.5	-	-	-
U.S. net sales	1,763.5	1,930.4	911.6	1,029.8
International ^(d)	440.2	465.2	252.1	225.6
Net sales	\$ 2,203.7	\$ 2,395.6	\$ 1,163.7	\$ 1,255.4

- (a) Represents sales to customers whose business is oriented towards builders, professional trades and home remodelers, inclusive of sales through our customers' respective internet website portals.
- (b) Represents sales to the three largest "Do-It-Yourself" retailers; The Home Depot, Inc., Lowe's Companies, Inc. and Menards, Inc., inclusive of sales through their respective internet website portals.
- (c) Represents sales principally to our mass merchant and standalone independent e-commerce customers.
- (d) Represents sales in markets outside the United States, principally in Canada, China, Europe and Mexico.

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Defined Benefit Plans

The components of net periodic benefit income for pension benefits for the twenty-six and thirteen weeks ended July 1, 2023 and six and three months ended June 30, 2022 were as follows:

(In millions)	Pension Benefits			
	Twenty-Six Weeks Ended July 1, 2023	Six Months Ended June 30, 2022	Thirteen Weeks Ended July 1, 2023	Three Months Ended June 30, 2022
Service cost	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.1
Interest cost	13.6	10.2	6.7	5.1
Expected return on plan assets	(14.3)	(14.1)	(7.1)	(7.1)
Net periodic benefit income	\$ (0.6)	\$ (3.7)	\$ (0.3)	\$ (1.9)

Service cost relates to benefit accruals in an hourly Union defined benefit plan in our Security segment. All other defined benefit pension plans were frozen as of December 31, 2016.

12. Income Taxes

The effective income tax rates for the twenty-six and thirteen weeks ended July 1, 2023 were 22.2% and 21.5% respectively. The effective income tax rates for the six and three months ended June 30, 2022 were 22.6% and 23.7%, respectively.

The difference between the Company's effective tax rate for the twenty-six weeks ended July 1, 2023, and the U.S. federal statutory rate of 21% primarily relates to state income taxes (net of federal income tax benefits), foreign income taxed at higher rates, partially offset by a favorable benefit related to decreases in uncertain tax positions and a valuation allowance release.

13. Product Warranties

We generally record warranty expense related to contractual warranty terms at the time of sale. We may also provide customer concessions for claims made outside of the contractual warranty terms and those expenses are recorded in the period in which the concession is made. We offer our customers various warranty terms based on the type of product that is sold. Warranty expense is determined based on historic claim experience and the nature of the product category. The following table summarizes activity related to our product warranty liability for the twenty-six weeks ended July 1, 2023 and six months ended June 30, 2022, respectively.

(In millions)	Twenty-Six Weeks Ended July 1, 2023	Six Months Ended June 30, 2022
Reserve balance at January 1,	\$ 20.1	\$ 19.5
Provision for warranties issued	4.3	3.9
Settlements made (in cash or in kind)	(5.1)	(4.2)
Acquisition	-	0.4
Foreign translation adjustments	-	(0.2)
Reserve balance at end of period	\$ 19.3	\$ 19.4

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Information on Business Segments

Net sales and operating income for the twenty-six and thirteen weeks ended July 1, 2023 and six and three months ended June 30, 2022 by segment were as follows:

(In millions)	Twenty-Six Weeks Ended July 1, 2023	Six Months Ended June 30, 2022	% Change vs. Prior Year
Net Sales			
Water	\$ 1,211.3	\$ 1,293.6	(6.4) %
Outdoors	665.5	780.8	(14.8)
Security	326.9	321.2	1.8
Net sales	\$ 2,203.7	\$ 2,395.6	(8.0) %

Operating Income (Loss)

Water	\$ 270.5	\$ 310.0	(12.7) %
Outdoors	74.2	107.2	(30.8)
Security	20.8	45.5	(54.3)
Less: Corporate expenses	(81.1)	(63.4)	(27.9)
Operating income	\$ 284.4	\$ 399.3	(28.8) %

(In millions)	Thirteen Weeks Ended July 1, 2023	Three Months Ended June 30, 2022	% Change vs. Prior Year
Net Sales			
Water	\$ 617.1	\$ 650.0	(5.1) %
Outdoors	375.6	437.2	(14.1)
Security	171.0	168.2	1.7
Net sales	\$ 1,163.7	\$ 1,255.4	(7.3) %

Operating Income (Loss)

Water	\$ 142.1	\$ 160.7	(11.6) %
Outdoors	61.2	67.4	(9.2)
Security	(0.4)	25.1	(101.6)
Less: Corporate expenses	(50.3)	(33.7)	(49.3)
Operating income	\$ 152.6	\$ 219.5	(30.5) %

15. Restructuring and Other Charges

Pre-tax restructuring and other charges for the twenty-six and thirteen weeks ended July 1, 2023 and six and three months ended June 30, 2022 are shown below.

(In millions)	Twenty-Six Weeks Ended July 1, 2023			Six Months Ended June 30, 2022		
	Restructuring Charges	Other Charges (Gains) ^(a)	Total Charges	Restructuring Charges	Other Charges (Gains) ^(a)	Total Charges
Water	\$ 1.3	\$ 0.2	\$ 1.5	\$ 0.9	\$ 0.8	\$ 1.7
Outdoors	3.0	(1.7)	1.3	0.7	(6.3)	(5.6)
Security	20.2	7.5	27.7	-	-	-
Corporate	0.7	-	0.7	-	-	-
Total	\$ 25.2	\$ 6.0	\$ 31.2	\$ 1.6	\$ (5.5)	\$ (3.9)

(a) "Other Charges (Gains)" represent charges directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such costs may include losses on disposal of inventories, trade receivables allowances from exiting product lines, accelerated depreciation resulting from the closure of facilities and gains or losses on the sale of previously closed facilities.

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restructuring and other charges (gains) in the first twenty-six weeks of 2023 are largely related to costs associated with the planned closure of a manufacturing facility within our Security segment and headcount actions across all segments. Restructuring and other charges (gains) in the first six months of 2022 were largely related to a gain on the sale of a previously closed manufacturing facility within our Outdoors segment, partially offset by severance actions within our Water and Outdoors segments.

(In millions)	Thirteen Weeks Ended July 1, 2023			Three Months Ended June 30, 2022		
	Restructuring Charges	Other Charges (Gains) ^(a)	Total Charges	Restructuring Charges	Other Charges (Gains) ^(a)	Total Charges
Water	\$ 1.1	\$ 0.1	\$ 1.2	\$ 0.9	\$ -	\$ 0.9
Outdoors	1.5	(1.7)	(0.2)	0.1	-	0.1
Security	19.6	7.5	27.1	-	-	-
Total	\$ 22.2	\$ 5.9	\$ 28.1	\$ 1.0	\$ -	\$ 1.0

(a) "Other Charges (Gains)" represent charges directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such costs may include losses on disposal of inventories, trade receivables allowances from exiting product lines, accelerated depreciation resulting from the closure of facilities and gains or losses on the sale of previously closed facilities.

Restructuring and other charges (gains) in the second quarter of 2023 are largely related to costs associated with the planned closure of a manufacturing facility within our Security segment. Restructuring and other charges in the second quarter of 2022 were largely related to severance costs associated with headcount actions within our Water segment.

Reconciliation of Restructuring Liability

(In millions)	Balance at December 31, 2022	2023 Provision	Cash Expenditures ^(a)	Non-Cash Write-offs	Balance at July 1, 2023
Workforce reduction costs	\$ 16.2	\$ 14.2	\$ (14.1)	0.7	\$ 17.0
Other	13.5	11.0	(1.1)	(14.3)	9.1
Total	\$ 29.7	\$ 25.2	\$ (15.2)	\$ (13.6)	\$ 26.1

(a) Cash expenditures primarily relate to severance charges.

(In millions)	Balance at December 31, 2021	2022 Provision	Cash Expenditures ^(a)	Balance at June 30, 2022
Workforce reduction costs	\$ 3.2	\$ 1.6	\$ (3.4)	\$ 1.4
Other	0.8	-	-	0.8
Total	\$ 4.0	\$ 1.6	\$ (3.4)	\$ 2.2

(a) Cash expenditures primarily relate to severance charges.

FORTUNE BRANDS INNOVATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Earnings Per Share

The computations of earnings per common share for the twenty-six and thirteen weeks ended July 1, 2023 and six and three months ended June 30, 2022 were as follows:

(In millions, except per share data)	<u>Twenty-Six Weeks Ended July 1, 2023</u>	<u>Six Months Ended June 30, 2022</u>	<u>Thirteen Weeks Ended July 1, 2023</u>	<u>Three Months Ended June 30, 2022</u>
Income from continuing operations, net of tax	\$ 187.7	\$ 270.5	\$ 102.1	\$ 144.3
(Loss) income from discontinued operations, net of tax	(1.0)	102.4	-	47.7
Net income	\$ 186.7	\$ 372.9	\$ 102.1	\$ 192.0
Earnings per common share				
Basic				
Continuing operations	\$ 1.47	\$ 2.05	\$ 0.81	\$ 1.11
Discontinued operations	-	0.78	-	0.36
Basic earnings per share	\$ 1.47	\$ 2.83	\$ 0.81	\$ 1.47
Diluted				
Continuing operations	\$ 1.47	\$ 2.03	\$ 0.80	\$ 1.10
Discontinued operations	(0.01)	0.77	-	0.36
Diluted earnings per share	\$ 1.46	\$ 2.80	\$ 0.80	\$ 1.46
Basic average shares outstanding	127.3	131.9	126.8	130.3
Stock-based awards	0.7	1.1	0.7	0.9
Diluted average shares outstanding	128.0	133.0	127.5	131.2
Antidilutive stock-based awards excluded from weighted-average number of shares outstanding for diluted earnings per share	1.0	1.0	1.0	1.6

17. Commitments and Contingencies

Litigation

The Company is a defendant in lawsuits that are ordinary, routine litigation matters incidental to its businesses. It is not possible to predict the outcome of the pending actions, and, as with any litigation, it is possible that these actions could be decided unfavorably to the Company. The Company believes that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon our results of operations, cash flows or financial condition, and where appropriate, these actions are being vigorously contested. Accordingly, the Company believes the likelihood of material loss is remote.

Environmental

We are involved in remediation activities to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs of each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop estimates of environmental remediation exposures. Some of the potential liabilities relate to sites we own, and some relate to sites we no longer own or never owned. Several of our subsidiaries have been designated as potentially responsible parties (“PRP”) under Superfund or similar state laws. In most instances where our subsidiaries are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance for PRP costs. We believe compliance with current environmental protection laws (before taking into account estimated recoveries from third parties) will not have a material adverse effect upon our results of operations, cash flows or financial condition.

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto, which are included in this report, as well as our audited consolidated financial statements for the year ended December 31, 2022, which are included in our Annual Report on Form 10-K for the year ended December 31, 2022.

This discussion contains forward-looking statements that are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include all statements that are not historical statements of fact and those regarding our intent, belief or expectations for our business, operations, financial performance or financial condition in addition to statements regarding our general business strategies, the market potential of our brands, trends in the housing market, the potential impact of costs, including material and labor costs, the potential impact of inflation, expected capital spending, expected pension contributions, the expected impact of acquisitions, dispositions and other strategic transactions including the expected benefits of the Separation of MasterBrand and the tax-free nature of the Separation, the anticipated impact of recently issued accounting standards on our financial statements, and other matters that are not historical in nature. Statements preceded by, followed by or that otherwise include the words “believes,” “expects,” “anticipates,” “intends,” “projects,” “estimates,” “plans,” “outlook,” “positioned” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may” and “could” are generally forward-looking in nature and not historical facts. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on current expectations, estimates, assumptions and projections of our management about our industry, business and future financial results, available at the time this report is filed with the Securities and Exchange Commission. Although we believe that these statements are based on reasonable assumptions, they are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those indicated in such statements, including but not limited to: (i) our reliance on the North American and Chinese home improvement, repair and remodel and new home construction activity levels, (ii) the housing market, downward changes in the general economy, unfavorable interest rates or other business conditions, (iii) the competitive nature of consumer and trade brand businesses, (iv) our ability to execute on our strategic plans and the effectiveness of our strategies in the face of business competition, (v) our reliance on key customers and suppliers, including wholesale distributors and dealers and retailers, (vi) risks associated with our ability to improve organizational productivity and global supply chain efficiency and flexibility, (vii) risks associated with global commodity and energy availability and price volatility, as well as the possibility of sustained inflation, (viii) delays or outages in our information technology systems or computer networks, (ix) risks associated with doing business globally, including changes in trade-related tariffs and risks with uncertain trade environments, (x) risks associated with the disruption of operations, (xi) our inability to obtain raw materials and finished goods in a timely and cost-effective manner, (xii) risks associated with entering into potential strategic acquisitions and joint ventures and related integration activities, (xiii) impairments in the carrying value of goodwill or other acquired intangible assets, (xiv) risk of increases in our defined benefit-related costs and funding requirements, (xv) the uncertainties relating to the impact of COVID-19 on the Company’s business, financial performance and operating results, (xvi) our ability to attract and retain qualified personnel and other labor constraints, (xvii) the effect of climate change and the impact of related changes in government regulations and consumer preferences, (xviii) risks associated with environmental, social and governance matters, (xix) changes in government and industry regulatory standards, (xx) future tax law changes or the interpretation of existing tax laws, (xxi) our ability to secure and protect our intellectual property rights, (xxii) potential liabilities and costs from claims and litigation, (xxiii) our ability to achieve the expected benefits of the Separation of MasterBrand, (xxiv) the risk that we may be required to indemnify MasterBrand in connection with the Separation or that MasterBrand’s indemnities to us may not be sufficient to hold us harmless for the full amount of liabilities for which MasterBrand has been allocated responsibility and (xxv) the potential that the Separation fails to qualify as tax-free for U.S. federal income tax purposes. These and other factors are discussed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2022. We undertake no obligation to, and expressly disclaim any such obligation to, update or clarify any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or changes to future results over time or otherwise, except as required by law.

OVERVIEW

References to “Fortune Brands,” “the Company,” “we,” “our” and “us” refer to Fortune Brands Innovations, Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires. The Company is a leading home, security and commercial building products company that competes in attractive long-term growth markets in our product categories.

On December 14, 2022, the Company completed the separation of its Cabinets business, MasterBrand, Inc. (“MasterBrand”), via a tax-free spin-off transaction (the “Separation”) to create an independent, publicly-traded company. Immediately following completion of the Separation, the Company changed its name from “Fortune Brands Home & Security, Inc.” to “Fortune Brands Innovations, Inc.” and its stock ticker changed from “FBHS” to “FBIN” to better reflect its focus on activities related to core brands and innovation. As a result of the Separation, our former Cabinets segment was disposed of and the operating results of the Cabinets business are reported as discontinued operations for all periods presented within this Quarterly Report on Form 10-Q. All amounts, percentages and disclosures for all periods presented reflect only the continuing operations of the Company unless otherwise noted. See Note 4, Acquisitions and Dispositions, in the condensed consolidated financial statements, and Note 5, Discontinued Operations, in the consolidated financial statements in Item 8 of our 2022 Annual Report on Form 10-K for additional information.

We believe that the Company has certain competitive advantages including market-leading brands, a diversified mix of channels, lean and flexible supply chains, a decentralized business model and a strong capital structure, as well as a tradition of strong innovation and customer service. We are focused on outperforming our markets in growth, profitability and returns in order to drive increased stockholder value. We believe the Company’s track record reflects the long-term attractiveness and potential of the categories we serve and our leading brands. The long-term outlook for our products remain favorable, and our strategic advantages, including the set of capabilities we refer to as the Fortune Brands Advantage, helps us to continue to achieve profitable organic growth.

We continue to believe our most attractive opportunities are to invest in profitable organic growth initiatives, pursue accretive strategic acquisitions, non-controlling equity investments, and joint ventures, and return cash to stockholders through a combination of dividends and repurchases of shares of our common stock under our share repurchase program as explained in further detail under “Liquidity and Capital Resources” below.

The U.S. market for our products primarily consists of spending on both new home construction and repair and remodel activities within existing homes, with a substantial majority of the markets we serve consisting of repair and remodel spending. Continued growth in the U.S. market for our home products will largely depend on consumer confidence, employment, wage growth, home prices, stable mortgage rates and credit availability. Recent increases in inflation and mortgage rates have slowed the pace of single-family and existing home sales activity and new home construction and repair and remodel activities. However, we believe we are well positioned to manage what we expect to be a short-term slow-down in the housing market as we believe the fundamental drivers of the housing market remain intact.

We have been and may continue to be impacted by near-term supply, labor and freight constraints, a volatile global supply chain environment, as well as sustained increased rates of inflation, rising interest rates, unfavorable fluctuations in foreign exchange rates and the ongoing costs of tariffs. We continue to manage these challenges and are diligently working to offset potential unfavorable impacts of these items through continuous productivity improvement initiatives and price increases.

In January 2023, the Board of Directors of the Company approved a change to the Company’s fiscal year end from December 31 to a 52-or 53-week fiscal year ending on the Saturday closest but not subsequent to December 31, effective as of the commencement of the Company’s fiscal year on January 1, 2023. This change was made in order to align the Company’s fiscal year with that of its operating businesses and to align the Company’s reporting calendar with how the Company evaluates its businesses. There was no material impact to any of our previously disclosed financial information. As a result, the Company’s fiscal quarters for the 2023 fiscal year end on April 1, 2023, July 1, 2023, September 30, 2023, and December 30, 2023.

In February 2023, we publicly announced an internal reorganization to separate our Outdoors & Security segment under separate leadership to drive innovation, accelerate product development, and enhance investments and business processes. In conjunction with the reorganization, we changed how our chief operating decision maker evaluates and allocates the resources for the two businesses. Separate reporting for the new Outdoors and Security segments began in the first quarter of 2023 and comparative prior period amounts have been recast to conform to the new segment presentation. There was no impact to our Water Innovations segment (which we refer to as “Water”).

On June 20, 2023, we acquired the Emtek and Schaub premium and luxury door and cabinet hardware business, and the U.S. and Canadian Yale and August residential smart home locks business (collectively the “ASSA Businesses”) from ASSA ABLOY, Inc. (“ASSA”). The Company completed the acquisition for a total purchase price of approximately \$800 million, subject to post-closing adjustments. We financed the transaction with cash on hand. As of the date of this filing, legal title to international operations in Vietnam has not yet transferred, but we expect a deferred closing, which will include a payment of approximately \$24 million (which amount is already included in the overall purchase price but for which the cash payment has not yet been made), shortly following receipt of local regulatory approval, which is expected to occur later in 2023. The results of Emtek and Schaub premium and luxury

door and cabinet hardware business are reported as part of the Water segment and the results of the U.S. and Canadian Yale and August residential smart lock business are reported as part of the Security segment. The financial results of the ASSA Businesses were included in the Company's consolidated balance sheet as of July 1, 2023. The results of operations and cash flows of the ASSA Businesses from the date of acquisition to July 1, 2023 were not material to the Company.

In July 2022, we acquired 100% of the outstanding equity of Aqualisa Holdings (International) Ltd. ("Aqualisa"), a leading U.K. manufacturer of shower products known for premium, innovative and smart digital shower systems, for a purchase price of \$156.0 million, net of cash acquired of \$4.8 million. We financed the transaction using cash on hand and borrowings under our revolving credit facility. The results of Aqualisa are reported as part of the Water segment.

In January 2022, we acquired 100% of the outstanding equity of Solar Innovations LLC and an affiliated entity (together, "Solar"), a leading producer of wide-opening exterior door systems and outdoor enclosures, for a purchase price of \$61.6 million, net of cash acquired. We financed the transaction using cash on hand and borrowings under our revolving credit facility. The results of Solar are reported as part of the Outdoors segment.

In the first quarter of 2022, our Plumbing segment was renamed Water Innovations to better align with our key brands and organizational purpose. The Plumbing segment name change had no impact on the Company's historical financial position, results of operations, cash flow or segment-level results previously reported.

RESULTS OF OPERATIONS**Twenty-Six Weeks Ended July 1, 2023 Compared To Six Months Ended June 30, 2022**

(In millions)	Net Sales			% Change vs. Prior Year
	2023	2022		
Water	\$ 1,211.3	\$ 1,293.6		(6.4) %
Outdoors	665.5	780.8		(14.8)
Security	326.9	321.2		1.8
Net sales	\$ 2,203.7	\$ 2,395.6		(8.0) %
	Operating Income (Loss)			% Change vs. Prior Year
	2023	2022		
Water	\$ 270.5	\$ 310.0		(12.7) %
Outdoors	74.2	107.2		(30.8)
Security	20.8	45.5		(54.3)
Less: Corporate expenses	(81.1)	(63.4)		(27.9)
Operating income	\$ 284.4	\$ 399.3		(28.8) %

The following discussion of consolidated results of operations and segment results refers to the twenty-six weeks ended July 1, 2023 compared to the six months ended June 30, 2022. Consolidated results of operations should be read in conjunction with segment results of operations.

Net sales

Net sales decreased by \$191.9 million, or 8.0%, due to lower sales unit volume in the U.S. and lower sales in our international markets (\$25.0 million) as well as unfavorable foreign exchange of approximately \$18 million. These factors were partially offset by the benefit from price increases to help mitigate the impact of cumulative commodity cost increases across all of our segments and from the Aqualisa acquisition (\$27.7 million) in 2022.

Cost of products sold

Cost of products sold decreased by \$86.6 million, or 6.1%, due to lower sales volumes and productivity improvements in all of our segments. These factors were partially offset by manufacturing inefficiencies related to the lower sales unit volume in all of our segments, the impact of the Aqualisa acquisition in 2022 and costs associated with the planned closure of a manufacturing facility within our Security segment (\$7.5 million).

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by \$16.0 million, or 2.9%, due to lower advertising and marketing costs. These factors were partially offset by costs related to the acquisition of the ASSA Businesses, increased headcount-related costs and expenses related to the Aqualisa acquisition in 2022.

Amortization of intangible assets

Amortization of intangible assets increased by \$2.0 million primarily due to the Aqualisa acquisition in our Water segment (\$2.2 million).

Restructuring charges

Restructuring charges of \$25.2 million in the twenty-six weeks ended July 1, 2023 are largely related to costs associated with the planned closure of a manufacturing facility within our Security segment and headcount actions across all segments. Restructuring charges of \$1.6 million in the six months ended June 30, 2022 were largely related to a gain on the sale of a previously closed manufacturing facility within our Outdoors segment, partially offset by severance actions within our Water and Outdoors segments.

RESULTS OF OPERATIONS (Continued)

Operating income

Operating income decreased by \$114.9 million, or 28.8%, primarily due to manufacturing inefficiencies related to the lower sales unit volume, restructuring costs associated with the planned closure of a manufacturing facility within our Security segment, unfavorable channel mix in our Water segment, higher commodity, transportation and headcount-related costs, as well as unfavorable foreign exchange of approximately \$5 million. These factors were partially offset by productivity improvements and lower advertising and marketing costs.

Interest expense

Interest expense increased by \$2.3 million to \$54.6 million due to higher fixed rate debt balances with the new issuance of \$600 million of 5.875% Senior Notes due 2033.

Other income, net

Other income, net, was \$11.6 million in the twenty-six weeks ended July 1, 2023, compared to \$2.4 million in the six months ended June 30, 2022. The increase in other income, net is primarily due to an increase in foreign currency transaction income (\$7.4 million) and an increase in interest income (\$5.4 million). These benefits were partially offset by an increase in defined benefit expenses (\$3.1 million).

Income taxes

The effective income tax rates for the twenty-six weeks ended July 1, 2023 and six months ended June 30, 2022 were 22.2% and 22.6%, respectively. The effective income tax rate in 2023 was lower than the prior period primarily due to change in jurisdictional mix of income and greater tax benefits from uncertain tax positions.

Income from Continuing Operations, net of tax

Income from continuing operations, net of tax, was \$187.7 million in the twenty-six weeks ended July 1, 2023, compared to \$270.5 million in the six months ended June 30, 2022. The decrease was due to lower operating income and higher interest expense, partly offset by lower income tax expense and higher other income.

Income from Discontinued Operations, net of tax

Income from discontinued operations, net of income taxes, was \$102.4 million for the six months ended June 30, 2022 and includes the results from operations of our former Cabinets segment.

Results By Segment

Water

Net sales decreased by \$82.3 million, or 6.4%, due to lower sales unit volume primarily in the U.S. and unfavorable foreign exchange of approximately \$19 million. These factors were partially offset by the benefit from the Aqualisa acquisition (\$27.7 million) in 2022, volume increases in China due primarily to the non-recurrence of 2022 COVID lockdowns and price increases to help mitigate the impact of cumulative commodity cost increases.

Operating income decreased by \$39.5 million, or 12.7%, due to the lower net sales, including unfavorable channel mix, and manufacturing inefficiencies related to the lower sales unit volume. These factors were partially offset by productivity improvements and lower advertising and marketing costs.

Outdoors

Net sales decreased by \$115.3 million, or 14.8%, due to lower sales unit volume of our doors and decking products. These were partially offset by the benefit from price increases to help mitigate the impact of cumulative commodity cost increases.

Operating income decreased by \$33.0 million, or 30.8%, due to lower net sales, the impact of costs associated with manufacturing inefficiencies related to the lower sales unit volume, the absence of the 2022 gain of \$6.2 million on the sale of a previously closed manufacturing facility and higher commodity and employee-related costs. These factors were partially offset by savings resulting from the rationalization of certain of our production facilities and lower transportation costs.

Security

Net sales increased by \$5.7 million, or 1.8%, due to price increases to help mitigate the impact of cumulative commodity cost increases and favorable foreign exchange of approximately \$1 million. These benefits were partially offset by lower sales unit volume.

Operating income decreased by \$24.7 million, or 54.3%, due to higher restructuring costs associated with the planned closure of a manufacturing facility and the impact of costs associated with manufacturing inefficiencies related to lower sales unit volume, partially offset by the benefit from higher net sales and productivity improvements.

Corporate

Corporate expenses increased by \$17.7 million, or 27.9%, due to costs related to the acquisition of the ASSA Businesses.

Thirteen Weeks Ended July 1, 2023 Compared To Three Months Ended June 30, 2022

(In millions)	Net Sales		
	2023	2022	% Change vs. Prior Year
Water	\$ 617.1	\$ 650.0	(5.1) %
Outdoors	375.6	437.2	(14.1)
Security	171.0	168.2	1.7
Net sales	\$ 1,163.7	\$ 1,255.4	(7.3) %

(In millions)	Operating Income (Loss)		
	2023	2022	% Change vs. Prior Year
Water	\$ 142.1	\$ 160.7	(11.6) %
Outdoors	61.2	67.4	(9.2)
Security	(0.4)	25.1	(101.6)
Less: Corporate expenses	(50.3)	(33.7)	(49.3)
Operating income	\$ 152.6	\$ 219.5	(30.5) %

The following discussion of consolidated results of operations and segment results refers to the thirteen-weeks period ended July 1, 2023 compared to the three months ended June 30, 2022. Consolidated results of operations should be read in conjunction with segment results of operations.

Net sales

Net sales decreased by \$91.7 million, or 7.3%, due to lower sales unit volume in the U.S. and higher customer sales incentives due to a stronger single family new-home construction market. These factors were partially offset by higher net sales in our international markets (\$26.5 million), the benefit from price increases to help mitigate the impact of cumulative commodity cost increases across all of our segments and from the Aqualisa acquisition (\$13.0 million) in 2022.

Cost of products sold

Cost of products sold decreased by \$46.4 million, or 6.3%, due to the lower sales volumes, the benefit of productivity improvements and raw material cost deflation across all of our segments. These factors were partially offset by manufacturing inefficiencies related to the lower sales unit volume, costs associated with the planned closure of a manufacturing facility within our Security segment (\$7.5 million) and the impact of the Aqualisa acquisition in 2022.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by \$0.6 million, or 0.2%, due to lower advertising, marketing and transportation, as well as savings associated with our 2022 corporate reorganization and restructuring activities. These factors were partially offset by costs related to the acquisition of the ASSA Businesses, higher headcount-related costs and the impact of the Aqualisa acquisition in 2022.

Amortization of intangible assets

Amortization of intangible assets increased by \$1.0 million primarily due to the Aqualisa acquisition.

Restructuring charges

Restructuring charges of \$22.2 million in the thirteen-weeks period ended July 1, 2023 are largely related to costs associated with the planned closure of a manufacturing facility within our Security segment. Restructuring charges of \$1.0 million in the three months ended June 30, 2022 were largely related to severance costs associated with headcount actions within our Water segment.

Operating income

Operating income decreased by \$66.9 million, or 30.5%, primarily due to lower net sales, restructuring costs associated with the planned closure of a manufacturing facility within our Security segment, costs related to the planned acquisition of the ASSA Businesses, manufacturing inefficiencies related to the lower sales unit volume and higher headcount-related costs, as well as unfavorable foreign exchange of approximately \$2 million. These factors were partially offset by the benefit from productivity improvements and raw material cost deflation.

Interest expense

Interest expense decreased \$2.8 million to \$27.7 million due to no short-term borrowing from our Revolving Credit Facility or Commercial Paper program during the quarter.

Other income, net

Other income, net, was \$5.2 million in the thirteen-weeks period ended July 1, 2023, compared to \$0.2 million in the three months ended June 30, 2022. The increase in other income, net is primarily due to an increase in foreign currency transaction income (\$4.3 million) and interest income (\$2.9 million). These benefits were partially offset by an increase in defined benefit expenses (\$1.6 million).

Income taxes

The effective income tax rates for the thirteen weeks ended July 1, 2023 and three months ended June 30, 2022 were 21.5% and 23.7%, respectively. The effective income tax rate in 2023 was lower than the prior period primarily due to change in jurisdictional mix of income and greater tax benefits from uncertain tax positions.

Income from Continuing Operations, net of tax

Income from continuing operations, net of tax, was \$102.1 million in the thirteen weeks ended July 1, 2023, compared to \$144.3 million in the three months ended June 30, 2022. The decrease was due to lower operating income, partly offset by lower income tax expense, higher other income and lower interest expense.

Income from Discontinued Operations, net of tax

Income from discontinued operations, net of income taxes, was \$47.7 million for the quarter ended June 30, 2022 and includes the results from operations of our former Cabinets segment.

Results By Segment

Water

Net sales decreased by \$32.9 million, or 5.1%, due to lower sales unit volume primarily in the U.S. and higher customer sales incentives due to a stronger single family new-home construction market. These factors were partially offset by volume increases in China due primarily to the non-recurrence of 2022 COVID lockdowns, the benefit from the Aqualisa acquisition (\$13.0 million) in 2022 and price increases to help mitigate the impact of cumulative commodity cost increases.

Operating income decreased by \$18.6 million, or 11.6%, due to lower net sales, manufacturing inefficiencies related to the lower sales unit volume, higher headcount-related costs and unfavorable foreign exchange of approximately \$1 million. These factors were partially offset by productivity improvements, raw material cost deflation, lower advertising, marketing and transportation costs.

Outdoors

Net sales decreased by \$61.6 million, or 14.1%, due to lower sales unit volume for our doors and decking products. These were partially offset by the benefit from price increases to help mitigate the impact of cumulative commodity cost increases.

Operating income decreased by \$6.2 million, or 9.2%, due to the impact of costs associated with manufacturing inefficiencies related to the lower sales unit volume, lower net sales and higher headcount-related costs. These factors were partially offset by savings resulting from the rationalization of certain of our production facilities, raw material cost deflation, lower advertising and marketing costs and lower transportation costs.

Security

Net sales increased by \$2.8 million, or 1.7%, due to price increases to help mitigate the impact of cumulative commodity cost increases and continued growth in the commercial business. These benefits were partially offset by lower sales unit volume in our retail locks and retail safe businesses.

Operating income decreased by \$25.5 million, or 101.6%, due to higher restructuring and other charges associated with the planned closure of a manufacturing facility and manufacturing inefficiencies related to the lower sales unit volume. These factors were partially offset by the benefit from price increases to help mitigate the impact of cumulative commodity cost increases, raw material cost deflation, productivity improvements and lower marketing and advertising costs.

Corporate

Corporate expenses increased by \$16.6 million, or 49.3%, due to costs related to the planned acquisition of the ASSA Businesses.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are cash on hand, cash flows from operating activities, cash borrowed under our credit facility and cash from debt issuances in the capital markets. Our operating income is generated by our subsidiaries. We believe our operating cash flows, including funds available under the credit facility and access to capital markets, provide sufficient liquidity to support the Company's working capital requirements, capital expenditures and service of indebtedness, as well as to finance acquisitions, repurchase shares of our common stock and pay dividends to stockholders, as the Board of Directors deems appropriate.

Our cash flows from operations, borrowing availability and overall liquidity are subject to certain risks and uncertainties, including those described in the section of our Annual Report on Form 10-K for the year-ended December 31, 2022 entitled "Item 1A. Risk Factors." In addition, we cannot predict whether or when we may enter into acquisitions, joint ventures or dispositions, repurchase shares of our common stock under our share repurchase program, pay dividends, or what impact any such transactions could have on our results of operations, cash flows or financial condition, whether as a result of the issuance of debt or equity securities, or otherwise.

Long-Term Debt

In June 2023, the Company issued \$600 million in aggregate principal 5.875% senior unsecured notes maturing in 2033 in a registered public offering. The Company intends to use the net proceeds from the notes offering to pay off its 2023 4.000% senior unsecured notes maturing in September 2023 and for general corporate purposes.

In March 2022, the Company issued \$900 million in aggregate principal amount of senior unsecured notes in a registered public offering consisting of \$450 million of 4.000% senior unsecured notes maturing in 2032 and \$450 million of 4.500% senior unsecured notes maturing in 2052 (together, the "2022 Notes"). The Company used the net proceeds from the 2022 Notes offering to pay down a portion of the outstanding balance on the 2021 Term Loan.

On July 1, 2023, the Company had aggregate outstanding senior notes in the amount of \$3.3 billion, with varying maturities (the "Notes"). The Notes are unsecured senior obligations of the Company. The following table provides a summary of the Company's outstanding Notes, including the net carrying value of the Notes, net of underwriting commissions, price discounts and debt issuance costs as of July 1, 2023 and December 31, 2022:

(in millions)	Principal Amount	Issuance Date	Maturity Date	Net Carrying Value	
				July 1, 2023	December 31, 2022
4.000% Senior Notes	\$ 500.0	June 2015	June 2025	\$ 498.5	\$ 498.1
4.000% Senior Notes	600.0	September 2018	September 2023	599.8	599.2
3.250% Senior Notes	700.0	September 2019	September 2029	695.3	695.0
4.000% Senior Notes	450.0	March 2022	March 2032	446.0	445.8
4.500% Senior Notes	450.0	March 2022	March 2052	435.6	435.4
5.875% Senior Notes	600.0	June 2023	June 2033	593.1	-
Total Senior Notes	\$ 3,300.0			\$ 3,268.3	\$ 2,673.5

Credit Facilities

In August 2022, the Company entered into a third amended and restated \$1.25 billion revolving credit facility (the "2022 Revolving Credit Agreement"), and borrowings thereunder will be used for general corporate purposes. The maturity date of the facility is August 2027. Interest rates under the 2022 Revolving Credit Agreement are variable based on the Secured Overnight Financing Rate ("SOFR") at the time of the borrowing and the Company's long-term credit rating and can range from SOFR + 1.02% to SOFR + 1.525%. Under the 2022 Revolving Credit Agreement, the Company is required to maintain a minimum ratio of consolidated EBITDA to consolidated interest expense of 3.0 to 1.0. Consolidated EBITDA is defined as consolidated net income before interest expense, income taxes, depreciation, amortization of intangible assets, losses from asset impairments, and certain other one-time adjustments. In addition, the Company's ratio of consolidated debt minus certain cash and cash equivalents to consolidated EBITDA generally may not exceed 3.5 to 1.0. On July 1, 2023 and December 31, 2022, there were no outstanding borrowings under this facility. As of July 1, 2023, we were in compliance with all covenants under this facility.

We currently have uncommitted bank lines of credit in China, which provide for unsecured borrowings for working capital of up to \$20.5 million in aggregate as of July 1, 2023 and December 31, 2022, respectively. There were no outstanding balances as of July 1, 2023 and December 31, 2022.

Commercial Paper

The Company operates a commercial paper program (the "Commercial Paper Program") pursuant to which the Company may issue unsecured commercial paper notes. The Company's 2022 Revolving Credit Agreement is the liquidity backstop for the repayment of any notes issued under the Commercial Paper Program, and as such borrowings under the Commercial Paper Program are included in Long-term debt in the condensed consolidated balance sheets. Amounts available under the Commercial Paper Program may be borrowed, repaid and re-borrowed, with the aggregate principal amount outstanding at any time, including borrowings under the 2022 Revolving Credit Agreement, not to exceed \$1.25 billion. The Company will use any issuances under the Commercial Paper Program for general corporate purposes. On July 1, 2023 and December 31, 2022, there were no outstanding borrowings under the Commercial Paper Program.

Cash and Seasonality

On July 1, 2023, we had cash and cash equivalents of \$681.7 million, of which \$321.3 million was held at non-U.S. subsidiaries. We manage our global cash requirements considering (i) available funds among the subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. The repatriation of non-U.S. cash balances from certain subsidiaries could have adverse tax consequences as we may be required to pay and record tax expense on those funds that are repatriated.

Our operating cash flows are significantly impacted by the seasonality of our business. We typically generate most of our operating cash flow in the third and fourth fiscal quarters of each year.

We believe that our current cash position, cash flow generated from operations, and amounts available under our revolving credit facility should be sufficient for our operating requirements and enable us to fund our capital expenditures, share repurchases, dividend payments, and any required long-term debt payments.

Share Repurchases and Dividends

In the first twenty-six weeks of 2023, we repurchased 1.7 million shares of our outstanding common stock under the Company's share repurchase program for \$100.0 million. As of July 1, 2023, the Company's total remaining share repurchase authorization under its share repurchase program was approximately \$485 million. The share repurchase program does not obligate the Company to repurchase any specific dollar amount or number of shares and may be suspended or discontinued at any time.

In the first twenty-six weeks of 2023, we paid dividends in the amount of \$58.6 million to the Company's stockholders. Our Board of Directors will continue to evaluate dividend payment opportunities on a quarterly basis. There can be no assurance as to when and if future dividends will be paid, and at what level, because the payment of dividends is dependent on our financial condition, results of operations, cash flows, capital requirements and other factors deemed relevant by our Board of Directors. There are no restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Fortune Brands.

Acquisitions

On June 20, 2023, we acquired the Emtex and Schaub premium and luxury door and cabinet hardware business, and the U.S. and Canadian Yale and August residential smart home locks business (collectively the "ASSA Businesses") from ASSA ABLOY, Inc. ("ASSA"). The Company completed the acquisition for a total purchase price of approximately \$800 million, subject to post-closing adjustments. We financed the transaction with cash on hand. As of the date of this filing, legal title to international operations in Vietnam has not yet transferred, but we expect a deferred closing, which will include a payment of approximately \$24 million (which amount is already included in the overall purchase price but for which the cash payment has not yet been made), shortly following receipt of local regulatory approval, which is expected to occur later in 2023. The results of Emtex and Schaub premium and luxury door and cabinet hardware business are reported as part of the Water segment and the results of the U.S. and Canadian Yale and August residential smart lock business are reported as part of the Security segment. The financial results of the ASSA Businesses were

included in the Company's consolidated balance sheet as of July 1, 2023. The results of operations and cash flows of the ASSA Businesses from the date of acquisition to July 1, 2023 were not material to the Company.

We periodically review our portfolio of brands and evaluate potential strategic transactions and other capital initiatives to increase stockholder value.

Cash Flows

Below is a summary of cash flows for the twenty-six weeks ended July 1, 2023 and six months ended June 30, 2022.

(In millions)	Twenty-Six-Weeks Period Ended July 1, 2023	Six Months Ended June 30, 2022
Net cash provided by operating activities	\$ 503.6	\$ 41.9
Net cash used in investing activities	(891.3)	(169.2)
Net cash provided by financing activities	427.8	27.1
Effect of foreign exchange rate changes on cash	(2.1)	(11.3)
Net increase (decrease) in cash and cash equivalents	\$ 38.0	\$ (111.5)

Net cash provided by operating activities was \$503.6 million in the twenty-six weeks ended July 1, 2023, compared to net cash provided by operating activities of \$41.9 million in the six months ended June 30, 2022. The increase in cash provided of \$461.7 million was primarily due to an increase in net cash provided by working capital items, primarily inventory, accounts receivable and accounts payable resulting from an initiative to align working capital with current U.S. home product market activity and expected sales volume. The \$84.2 million settlement of our interest rate swaps during the period and increased accrued expenses and other liabilities also contributed to the increase in cash provided by operating activities. The increase in cash provided by operating activities was partially offset by lower net income in 2023.

Net cash used in investing activities was \$891.3 million in the twenty-six weeks ended July 1, 2023, compared to net cash used in investing activities of \$169.2 million in the six months ended June 30, 2022. The increase in cash used of \$722.1 million reflects the acquisition of the ASSA Businesses for approximately \$800 million in June 2023 as compared to the acquisition of Solar for \$61.6 million in 2022.

Net cash provided by financing activities was \$427.8 million in the twenty-six weeks ended July 1, 2023, compared to cash provided by financing activities of \$27.1 million in the six months ended June 30, 2022. The increase in cash provided of \$400.7 million was primarily due to lower share repurchases in 2023 compared to 2022 (\$405.0 million decrease), lower net borrowings in 2023 compared to 2022 (\$55.3 million decrease), a decrease in dividends paid to stockholders, lower cash used related to stock option activity and the absence of the final payment for the remaining equity interest in Flo (\$16.7 million) made in 2022.

Pension Plans

Subsidiaries of Fortune Brands sponsor their respective defined benefit pension plans that are funded by a portfolio of investments maintained within our benefit plan trust. As of December 31, 2022, the fair value of our total pension plan assets was \$482.5 million, representing funding of 89% of the accumulated benefit obligation liability. For the foreseeable future, we believe that we have sufficient liquidity to meet the minimum funding that may be required by the Pension Protection Act of 2006.

Foreign Exchange

We have operations in various foreign countries, principally Canada, Mexico, the United Kingdom, China, South Africa and France. Therefore, changes in the value of the related currencies affect our financial statements when translated into U.S. dollars.

RECENTLY ISSUED ACCOUNTING STANDARDS

The adoption of recent accounting standards, as discussed in Note 2, "Recently Issued Accounting Standards," to our Condensed Consolidated Financial Statements, has not had and is not expected to have a significant impact on our revenue, earnings or liquidity.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in the information provided in the section entitled “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

The Company’s management has evaluated, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting.

The Company acquired the ASSA Businesses on June 20, 2023. As a result of the acquisition, management is in the process of integrating, evaluating and, where necessary, implementing changes in controls and procedures. Other than with respect to the acquisition, there have been no changes in the Company’s internal control over financial reporting during the quarter ended July 1, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

(a) Litigation.

We are defendants in lawsuits associated with the normal conduct of our businesses and operations. It is not possible to predict the outcome of the pending actions, and, as with any litigation, it is possible that these actions could be decided unfavorably to the Company. The Company believes that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon our results of operations, cash flows or financial condition, and, where appropriate, these actions are being vigorously contested. Accordingly, the Company believes the likelihood of material loss is remote.

(b) Environmental.

We are involved in remediation activities to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs of each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop estimates of environmental remediation exposures. Some of the potential liabilities relate to sites we own, and some relate to sites we no longer own or never owned. Several of our subsidiaries have been designated as potentially responsible parties (“PRP”) under Superfund or similar state laws. In most instances where our subsidiaries are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance for PRP costs. We believe compliance with current environmental protection laws (before taking into account estimated recoveries from third parties) will not have a material adverse effect upon our results of operations, cash flows or financial condition.

Item 1A. RISK FACTORS.

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Below are the repurchases of common stock by the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) for the thirteen-weeks period ended July 1, 2023:

Issuer Purchases of Equity Securities

<u>Thirteen Weeks Ended July 1, 2023</u>	<u>Total number of shares purchased ^(a)</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs ^(a)</u>	<u>Maximum dollar amount that may yet be purchased under the plans or programs ^(a)</u>
April 2 – April 29	—	\$ —	—	\$ 484,580,514
April 30 – May 27	—	—	—	484,580,514
May 28 – July 1	—	—	—	484,580,514
Total	—	\$ —	—	

^(a) Information on the Company’s share repurchase program follows:

<u>Authorization date</u>	<u>Announcement date</u>	<u>Authorization amount of shares of outstanding common stock</u>	<u>Expiration date</u>
March 2, 2022	March 2, 2022	\$750,000,000	March 2, 2024

Item 5. OTHER INFORMATION.

Securities Trading Plans of Directors and Officers

A significant portion of the compensation of our officers is delivered in the form of equity awards, including performance share awards, restricted stock units and stock options. The Company’s compensation programs and practices are designed to pay for performance and to align management’s interests with those of the Company’s stockholders while attracting, motivating and retaining superior talent to lead our Company. In addition, members of the Board of Directors receive a portion of their compensation in

Company common stock. Our executive officers and directors may engage from time to time in the open-market sale or other transactions involving those securities, and may also purchase our securities.

Transactions in our securities by our directors and officers are required to be made in accordance with our Insider Trading Policy, which, among other things, requires that the transactions be in accordance with applicable U.S. federal securities laws that prohibit trading while in possession of material nonpublic information. Rule 10b5-1 under the Exchange Act provides an affirmative defense that enables prearranged transactions in securities in a manner that avoids concerns about initiating transactions at a future date while possibly in possession of material nonpublic information. Our directors and officers are permitted to enter into trading plans designed to comply with Rule 10b5-1.

During the second quarter of 2023, none of our directors or officers adopted or terminated a Rule 10b5-1 trading plan or adopted or terminated a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

Item 6. EXHIBITS

- 3.1 [Amended and Restated Certificate of Incorporation of Fortune Brands Innovations, Inc., effective May 16, 2023, is incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on May 19, 2023.](#)
- 3.2 [Amended and Restated Bylaws of Fortune Brands Innovations, Inc., effective December 13, 2022, are incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on December 16, 2022.](#)
- 4.1 [Fifth Supplemental Indenture, dated as of June 14, 2023, by and among Fortune Brands Innovations, Inc., Wilmington Trust, National Association, as Trustee, and Citibank, N.A., as Securities Agent, is incorporated herein by reference to Exhibit 4.12 to the Company's Current Report on Form 8-K filed with the SEC on June 16, 2023.](#)
- 4.2 [Form of global certificate for the 5.875% Senior Notes due 2033 \(contained in Exhibit 4.12 to the Company's Current Report on Form 8-K filed with the SEC on June 16, 2023\).](#)
- 31.1* [Certificate of Chief Executive Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2* [Certificate of Chief Financial Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.* [Joint CEO/CFO Certificate Required Under Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2023 formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the Cover Page, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Equity, and (vi) the Notes to the Condensed Consolidated Financial Statements.
- 104.* Cover Page Interactive Data File (embedded within the iXBRL document).
- * Filed or furnished herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORTUNE BRANDS INNOVATIONS, INC.

(Registrant)

Date: August 1, 2023

/s/ David V. Barry

David V. Barry

Executive Vice President and Chief Financial Officer

(Duly authorized officer and principal financial officer of the Registrant)

CERTIFICATION

I, Nicholas I. Fink, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended July 1, 2023 of Fortune Brands Innovations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2023

/s/ Nicholas I. Fink

Nicholas I. Fink

Chief Executive Officer

CERTIFICATION

I, David V. Barry, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended July 1, 2023 of Fortune Brands Innovations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2023

/s/ David V. Barry

David V. Barry
Executive Vice President and
Chief Financial Officer

**JOINT CEO/CFO CERTIFICATE REQUIRED PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned, the Chief Executive Officer and the Executive Vice President and Chief Financial Officer of Fortune Brands Innovations, Inc. (the "Company"), hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that the Quarterly Report of the Company on Form 10-Q for the period ended July 1, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company.

Dated: August 1, 2023

/s/ Nicholas I. Fink

Nicholas I. Fink
Chief Executive Officer

/s/ David V. Barry

David V. Barry
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Fortune Brands Innovations, Inc. and will be retained by Fortune Brands Innovations, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
