

**FORTUNE BRANDS HOME & SECURITY, INC.**

**RECONCILIATION OF OPERATING INCOME BEFORE CHARGES/GAINS TO GAAP OPERATING INCOME**

*(In millions)*

*(Unaudited)*

	For the three months ended			
	September 30, 2017	September 30, 2016	\$ change	% change
<b>CABINETS</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 69.7	\$ 74.8	\$ (5.1)	(7)
Operating income (GAAP)	\$ 69.7	\$ 74.8	\$ (5.1)	(7)
<b>PLUMBING</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 97.4	\$ 84.9	\$ 12.5	15
Restructuring charges <sup>(b)</sup>	-	(0.4)	0.4	100
Other charges <sup>(b)</sup>				
Cost of products sold	(0.1)	(0.6)	0.5	83
Selling, general and administrative expenses	-	0.1	(0.1)	(100)
Operating income (GAAP)	\$ 97.3	\$ 84.0	\$ 13.3	16
<b>DOORS</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 25.2	\$ 22.3	\$ 2.9	13
Restructuring charges	(0.2)	-	(0.2)	(100)
Other charges				
Selling, general and administrative expenses	0.1	-	0.1	100
Operating income (GAAP)	\$ 25.1	\$ 22.3	\$ 2.8	13
<b>SECURITY</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 28.1	\$ 26.6	\$ 1.5	6
Restructuring charges <sup>(b)</sup>	(0.2)	(2.7)	2.5	93
Other charges <sup>(b)</sup>				
Cost of products sold	(0.2)	(1.0)	0.8	80
Operating income (GAAP)	\$ 27.7	\$ 22.9	\$ 4.8	21
<b>CORPORATE</b>				
General and administrative expense before charges/gains	\$ (20.5)	\$ (20.5)	\$ -	-
Defined benefit plan income before actuarial gains	1.2	0.6	0.6	100
Total Corporate expense before charges/gains	\$ (19.3)	\$ (19.9)	\$ 0.6	3
General and administrative expense before charges/gains	\$ (20.5)	\$ (20.5)	\$ -	-
General and administrative expense (GAAP)	(20.5)	(20.5)	-	-
Defined benefit plan income before actuarial gains	1.2	0.6	0.6	100
Defined benefit plan actuarial gains/(losses) <sup>(c)</sup>	1.3	(1.0)	2.3	230
Defined benefit plan income/(expense) (GAAP)	2.5	(0.4)	2.9	725
Total Corporate expense (GAAP)	\$ (18.0)	\$ (20.9)	\$ 2.9	14
<b>FORTUNE BRANDS HOME &amp; SECURITY</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 201.1	\$ 188.7	\$ 12.4	7
Restructuring charges <sup>(b)</sup>	(0.4)	(3.1)	2.7	87
Other charges <sup>(b)</sup>				
Cost of products sold	(0.3)	(1.6)	1.3	81
Selling, general and administrative expenses	0.1	0.1	-	-
Defined benefit plan actuarial gains/(losses) <sup>(c)</sup>	1.3	(1.0)	2.3	230
Operating income (GAAP)	\$ 201.8	\$ 183.1	\$ 18.7	10

(a) (b) (c) For definitions of Non-GAAP measures, see Definitions of Terms page

## FORTUNE BRANDS HOME & SECURITY, INC.

### BEFORE CHARGES/GAINS OPERATING MARGIN TO OPERATING MARGIN

(Unaudited)

	Three Months Ended September 30,		
	2017	2016	Change
<b>CABINETS</b>			
Before Charges/Gains Operating Margin	11.3%	12.4%	(110) bps
Operating Margin	11.3%	12.4%	(110) bps
<b>PLUMBING</b>			
Before Charges/Gains Operating Margin	22.2%	21.7%	50 bps
Restructuring & Other Charges	-	(0.2%)	
Operating Margin	22.2%	21.5%	70 bps
<b>DOORS</b>			
Before Charges/Gains Operating Margin	18.2%	17.3%	90 bps
Restructuring & Other Charges	(0.1%)	-	
Operating Margin	18.1%	17.3%	80 bps
<b>SECURITY</b>			
Before Charges/Gains Operating Margin	17.8%	17.0%	80 bps
Restructuring & Other Charges	(0.2%)	(2.4%)	
Operating Margin	17.6%	14.6%	300 bps
<b>FBHS</b>			
Before Charges/Gains Operating Margin	14.9%	14.8%	10 bps
Restructuring & Other Charges	-	(0.4%)	
Defined benefit plan actuarial gains/(losses)	0.1%	(0.1%)	
Operating Margin	15.0%	14.3%	70 bps

Operating margin is calculated as operating income derived in accordance with GAAP divided by GAAP Net Sales. Before charges/gains operating margin is operating income derived in accordance with GAAP excluding restructuring and other charges, and for FBHS, the impact of expense from actuarial gains or losses associated with our defined benefit plans recorded in the Corporate segment and dividing by GAAP net sales. Before charges/gains operating margin is a measure not derived in accordance with GAAP. Management uses this measure to evaluate the returns generated by FBHS and its business segments. Management believes this measure provides investors with helpful supplemental information regarding the underlying performance of the Company from period to period. This measure may be inconsistent with similar measures presented by other companies.

**FORTUNE BRANDS HOME & SECURITY, INC.**  
**BEFORE CHARGES/GAINS OPERATING MARGIN TO OPERATING**  
**MARGIN**  
*(Unaudited)*

**CABINETS**

**Before Charges/Gains Operating Margin**

Restructuring & Other Charges

**Operating Margin**

<b>Twelve Months Ended December 31, 2016</b>	
	10.8%
	-
	10.8%

Operating margin is calculated as operating income derived in accordance with GAAP divided by GAAP Net Sales. Before charges/gains Operating margin is operating income derived in accordance with GAAP excluding restructuring and other charges and dividing by GAAP net sales. Before charges/gains operating margin is a measure not derived in accordance with GAAP. Management uses this measure to evaluate the returns generated by FBHS and its business segments. Management believes this measure provides investors with helpful supplemental information regarding the underlying performance of the Company from period to period. This measure may be inconsistent with similar measures presented by other companies.

**FORTUNE BRANDS HOME & SECURITY, INC.**

**RECONCILIATION OF PERCENTAGE CHANGE IN OPERATING INCOME BEFORE CHARGES/GAINS EXCLUDING 2016 HEALTH CARE BENEFIT TO PERCENTAGE CHANGE IN GAAP OPERATING INCOME  
(Unaudited)**

**FORTUNE BRANDS HOME & SECURITY**

**Percentage Change in Operating income before charges/gains excluding 2016 health care benefit**

Impact of 2016 health care benefit

**Percentage Change in Operating income before charges/gains <sup>(a)</sup>**

Restructuring & Other Charges <sup>(b)</sup>

Defined benefit plan actuarial gains/(losses) <sup>(c)</sup>

**Percentage Change in Operating income (GAAP)**

**Three Months Ended  
September 30, 2017**

12%
(5%)
7%
2%
1%
10%

Percentage change in operating income before charges/gains excluding the 2016 health care benefit is operating income for the three months ended September 30, 2017, derived in accordance with GAAP excluding restructuring and other charges, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans and the impact of 2016 health care benefit in the third quarter of 2016 divided by operating income for the three months ended September 30, 2016. Percentage change in operating income before charges/gains is a measure not derived in accordance with GAAP. Management uses this measure to evaluate the overall performance and believes this measure provides investors with helpful supplemental information regarding the underlying performance from period to period. This measure may be inconsistent with similar measures presented by other companies.

(a) (b) (c) For definitions of Non-GAAP measures, see Definitions of Terms page

## **DILUTED EPS BEFORE CHARGES/GAINS RECONCILIATION**

For the three months ending September 30, 2017, diluted EPS before charges/gains is net income from continuing operations, net of tax including the impact from noncontrolling interests calculated on a diluted per-share basis excluding \$0.6 million (\$0.4 million after tax) of restructuring and the impact from actuarial gains associated with our defined benefit plans of \$1.3 million (\$0.9 million after tax).

For the three months ending September 30, 2016, diluted EPS before charges/gains is income from continuing operations, net of tax and including the impact from noncontrolling interests calculated on a diluted per-share basis excluding \$4.6 million (\$3.3 million after tax or \$0.03 per diluted share) of net restructuring and other charges, the impact of expense from actuarial losses associated with our defined benefit plans of \$1.0 million (\$0.7 million after tax) and expense related to a tax item of \$0.5 million.

	<b>Three Months Ended September 30,</b>		
	<b>2017</b>	<b>2016</b>	<b>% Change</b>
<b>Earnings Per Common Share - Diluted</b>			
Diluted EPS Before Charges/Gains - Continuing Operations <sup>(e)</sup>	\$ 0.83	\$ 0.80	4
Restructuring and other charges	-	(0.03)	100
Defined benefit plan actuarial gains/(losses)	-	-	-
Tax item	-	-	-
Diluted EPS - Continuing Operations	\$ 0.83	\$ 0.77	8

## **RECONCILIATION OF FULL YEAR 2017 EARNINGS GUIDANCE TO GAAP**

The Company is targeting diluted EPS before charges/gains from continuing operations to be in the range of \$3.05 to \$3.10 per share. For the full year, on a GAAP basis, the Company is targeting diluted EPS from continuing operations to be in the range of \$2.99 to \$3.04 per share. Reconciliation of non-GAAP diluted EPS guidance to GAAP diluted EPS guidance cannot be provided without unreasonable efforts on a forward-looking basis due to the high variability and low visibility with respect to gains and losses associated with our defined benefit plans and restructuring and other charges, which are excluded from the diluted EPS before charges/gains. In addition, the Company's GAAP EPS range assumes the Company incurs no additional gains or losses associated with its defined benefit plans.

(e) For definitions of Non-GAAP measures, see Definitions of Terms page

**FORTUNE BRANDS HOME & SECURITY, INC.**  
(In millions)  
(Unaudited)

**CALCULATION OF NET DEBT-TO-EBITDA BEFORE CHARGES/GAINS RATIO**

**As of September 30, 2017**

Long-term debt *	1,462.2
Total debt	1,462.2
Less:	
Cash and cash equivalents *	277.1
Net debt (1)	1,185.1

**For the twelve months ended September 30, 2017**

EBITDA before charges/gains (2) <sup>(d)</sup>	839.0
<b>Net debt-to-EBITDA before charges/gains ratio (1/2)</b>	<b>1.4</b>

\* Amounts are per the unaudited Condensed Consolidated Balance Sheet as of September 30, 2017.

	Three Months Ended December 31, 2016	Nine Months Ended September 30, 2017	Twelve Months Ended September 30, 2017
<b>EBITDA BEFORE CHARGES/GAINS <sup>(d)</sup></b>	\$ 204.2	\$ 634.8	\$ 839.0
Depreciation	\$ (25.3)	\$ (72.7)	\$ (98.0)
Amortization of intangible assets	(7.7)	(23.6)	(31.3)
Restructuring and other charges	(6.4)	(5.3)	(11.7)
Interest expense	(11.6)	(36.5)	(48.1)
Loss on sale of product line	-	(2.4)	(2.4)
Asset impairment charges	-	(3.2)	(3.2)
Defined benefit plan actuarial gains	-	1.3	1.3
Income taxes	(48.8)	(145.1)	(193.9)
<b>Income from continuing operations, net tax</b>	<b>\$ 104.4</b>	<b>\$ 347.3</b>	<b>\$ 451.7</b>

(d) For definitions of Non-GAAP measures, see Definitions of Terms page

**FORTUNE BRANDS HOME & SECURITY, INC.**  
**FREE CASH FLOW GUIDANCE TO GAAP CASH FLOW FROM OPERATIONS**  
(In millions)  
*(Unaudited)*

**Free Cash Flow\***

Add:

Capital Expenditures

Less:

Proceeds from the exercise of stock options

**Cash Flow From Operations (GAAP)**

Twelve Months Ended December 31, 2017	
\$	450.0
	150.0 - 155.0
	25.0 - 30.0
\$	575.0

\* Free cash flow is cash flow from operations calculated in accordance with U.S. generally accepted accounting principles ("GAAP") less net capital expenditures (capital expenditures less proceeds from the sale of assets including property, plant and equipment, and the proceeds from the exercise of stock options). Free cash flow does not include adjustments for certain non-discretionary cash flows such as mandatory debt repayments. Free cash flow is a measure not derived in accordance with GAAP. Management believes that free cash flow provides investors with helpful supplemental information about the Company's ability to fund internal growth, make acquisitions, repay debt and related interest, pay dividends and repurchase common stock. This measure may be inconsistent with similar measures presented by other companies.

**FORTUNE BRANDS HOME & SECURITY, INC.**

**RECONCILIATION OF FULL YEAR 2017 GUIDANCE DILUTED EPS BEFORE CHARGES/GAINS TO GAAP DILUTED EPS (Unaudited)**

	For the twelve months ended		
	December 31, 2017	December 31, 2016	% change
<b>Diluted EPS before charges/gains - full year range</b>	<b>\$ 3.05 - 3.10</b>	<b>\$ 2.75</b>	<b>11 - 13</b>
Diluted EPS Before Charges/Gains - Continuing Operations <sup>(e)</sup>	\$ 3.08	\$ 2.75	12
Restructuring and other charges	(0.02)	(0.10)	
Asset impairment charges	(0.02)	-	
Loss on sale of product line	(0.02)	-	
Defined benefit plan actuarial gains/(losses)	-	(0.01)	
Write off of prepaid debt issuance costs	-	(0.01)	
Tax item	-	(0.02)	
Diluted EPS - Continuing Operations	\$ 3.02	\$ 2.61	16
Diluted EPS - Continuing Operations - full year range	\$ 2.99 - 3.04	\$ 2.61	15 - 17

For the twelve months ended December 31, 2017 the Company is targeting diluted EPS before charges/gains from continuing operations to be in the range of \$3.05 to \$3.10 per share. For the full year, on a GAAP basis, the Company is targeting diluted EPS from continuing operations to be in the range of \$2.99 to \$3.04 per share. Included in the full year 2017 guidance reconciliation of diluted EPS before charges/gains from continuing operations to GAAP diluted EPS from continuing operations are the non-GAAP adjustments that occurred in the first half of 2017. Reconciliation of non-GAAP diluted EPS guidance to GAAP diluted EPS guidance cannot be provided without unreasonable efforts on a forward-looking basis due to the high variability and low visibility with respect to gains and losses associated with our defined benefit plans and restructuring and other charges, which are excluded from the diluted EPS before charges/gains. In addition, the Company's GAAP EPS range assumes the Company incurs no additional gains or losses associated with its defined benefit plans.

For the year ended December 31, 2016, diluted EPS before charges/gains is income from continuing operations, net of tax and including the impact from noncontrolling interests calculated on a diluted per-share basis excluding \$23.2 million (\$16.5 million after tax or \$0.10 per diluted share) of restructuring and other charges, the impact of the write off of prepaid debt issuance cost of \$1.3 million (\$0.8 million after tax or \$0.01 per diluted share), expense related to tax items of \$3.1 million (\$0.02 per diluted share), and actuarial losses of \$1.9 million (\$1.3 million after tax or \$0.01 per diluted share).

(e) For definitions of Non-GAAP measures, see Definitions of Terms page



## Definitions of Terms: Non-GAAP Measures

(a) Operating income before charges/gains is operating income derived in accordance with GAAP excluding restructuring and other charges and the impact of income and expense from actuarial gains or losses associated with our defined benefit plans. Operating income before charges/gains is a measure not derived in accordance with GAAP. Management uses this measure to evaluate the returns generated by FBHS and its business segments. Management believes this measure provides investors with helpful supplemental information regarding the underlying performance of the Company from period to period. This measure may be inconsistent with similar measures presented by other companies.

(b) Restructuring charges are costs incurred to implement significant cost reduction initiatives and include workforce reduction costs. "Other charges" represent charges or gains 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. In addition, it includes \$0.5 million of estimated acquisition related inventory step-up expense in our Plumbing segment for the three months ended September 30, 2016.

(c) Represents actuarial gains or losses associated with our defined benefit plans. Actuarial gains or losses in a period represent the difference between actual and actuarially assumed experience, principally related to liability discount rates and plan asset returns, as well as other actuarial assumptions including compensation rates, turnover rates, and health care cost trend rates. The Company recognizes actuarial gains or losses immediately in operating income to the extent they cumulatively exceed a "corridor." The corridor is equal to the greater of 10% of the fair value of plan assets or 10% of a plan's projected benefit obligation. Actuarial gains or losses are determined at required remeasurement dates which occur at least annually in the fourth quarter. Remeasurements due to plan amendments and settlements may also occur in interim periods during the year. Our operating income before charges/gains reflects our expected rate of return on pension plan assets which in a given period may materially differ from our actual return on plan assets. Our liability discount rates and plan asset returns are based upon difficult to predict fluctuations in global bond and equity markets that are not directly related to the Company's business. We believe that the exclusion of actuarial gains or losses from operating income before charges/gains provides investors with useful supplemental information regarding the underlying performance of the business from period to period that may be considered in conjunction with our operating income as measured on a GAAP basis. We present this supplemental information because such actuarial gains or losses may create volatility in our operating income that does not necessarily have an immediate corresponding impact on operating cash flow or the actual compensation and benefits provided to our employees. The table below sets forth additional supplemental information on the Company's historical actual and expected rate of return on plan assets, as well as discount rates used to value its defined benefit obligations:

(\$ In millions)	Year Ended December 31, 2016		Year Ended December 31, 2015	
	%	\$	%	\$
Actual return on plan assets	10.0%	\$46.6	(2.1)%	(\$18.2)
Expected return on plan assets	6.6%	37.2	6.8%	40.2
Discount rate at December 31:				
Pension benefits	4.3%		4.6%	
Postretirement benefits	3.4%		4.1%	

(d) EBITDA before charges/gains is income from continuing operations, net of tax, derived in accordance with GAAP excluding restructuring and other charges, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans, depreciation, asset impairment charges, the loss on sale of product line, amortization of intangible assets, interest expense, and income taxes. EBITDA before charges/gains is a measure not derived in accordance with GAAP. Management uses this measure to assess returns generated by FBHS. Management believes this measure provides investors with helpful supplemental information about the Company's ability to fund internal growth, make acquisitions and repay debt and related interest. This measure may be inconsistent with similar measures presented by other companies.

(e) Diluted EPS before charges/gains is net income from continuing operations, net of tax, less noncontrolling interests calculated on a diluted per-share basis excluding restructuring and other charges, the impact of an income tax item, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans, asset impairment charges and the loss on the sale of product line. Diluted EPS before charges/gains is a measure not derived in accordance with GAAP. Management uses this measure to evaluate the overall performance of the Company and believes this measure provides investors with helpful supplemental information regarding the underlying performance of the Company from period to period. This measure may be inconsistent with similar measures presented by other companies.