FORTUNE BRANDS HOME & SECURITY, INC.

RECONCILIATION OF OPERATING INCOME BEFORE CHARGES/GAINS TO GAAP OPERATING INCOME
(In millions)
(Unaudited)

	For the three months ended				For the twelve months ended			
	December 31, 2018	December 31, 2017	$ change	% change	December 31, 2018	December 31, 2017	$ change	% change
CABINETS								
Operating income before charges/gains [a]	$ 62.3	$ 67.0	$ (4.7)	(7)	$ 232.3	$ 272.4	$ (40.1)	(15)
Restructuring charges [b]	(5.8)	(1.4)	(4.4)	(314)	(16.8)	(1.4)	(15.4)	(1,100)
Other charges [b]								
Cost of products sold	0.4	(1.6)	2.0	125	(9.1)	(1.6)	(7.5)	(469)
Selling, general and administrative expenses	(0.1)	(2.2)	2.1	95	(0.3)	(2.2)	1.9	86
Asset impairment charge [e]	(35.5)	-	(35.5)	(100)	(62.6)	-	(62.6)	(100)
Operating income (GAAP)	$ 21.3	$ 61.8	$ (5.0)	(66)	$ 143.5	$ 267.2	$ (61.1)	(46)
PLUMBING								
Operating income before charges/gains [a]	$ 108.8	$ 97.5	$ 11.3	12	$ 396.0	$ 365.8	$ 30.2	8
Restructuring charges [b]	(1.0)	(1.2)	0.2	17	(2.6)	(2.8)	0.2	7
Other charges [b]								
Cost of products sold	(1.0)	(1.1)	0.1	9	(6.0)	(2.1)	(3.9)	(186)
Selling, general and administrative expenses	(0.8)	(2.4)	1.6	67	(8.3)	(2.4)	(5.9)	(246)
Change in inventory costing method [f]	(3.8)	-	(3.8)	(100)	(3.8)	-	(3.8)	(100)
Operating income (GAAP)	$ 102.2	$ 92.8	$ 13.2	10	$ 375.3	$ 358.5	$ 20.6	5
DOORS & SECURITY [g]								
Operating income before charges/gains [a]	$ 26.8	$ 42.5	$ (15.7)	(37)	$ 155.3	$ 163.0	$ (7.7)	(5)
Restructuring charges [b]	-	(2.2)	2.2	100	(4.7)	(4.1)	(0.6)	(15)
Other charges [b]								
Cost of products sold	(4.0)	(5.4)	1.4	26	(7.3)	(5.6)	(1.7)	(30)
Selling, general and administrative expenses	-	(0.2)	0.2	100	1.2	(0.8)	2.0	250
Change in inventory costing method [f]	11.1	-	11.1	100	11.1	-	11.1	100
Asset impairment charge	-	-	-	-	-	(3.2)	3.2	100
Loss on sale of product line	-	-	-	-	-	(2.4)	2.4	100
Operating income (GAAP)	$ 33.9	$ 34.7	$ (0.8)	(2)	$ 155.6	$ 146.9	$ 8.7	6
CORPORATE								
General and administrative expense before charges/gains	$ (17.3)	$ (21.4)	$ 4.1	19	$ (78.9)	$ (85.0)	$ 6.1	7
Other charges [b]								
Selling, general and administrative expenses	-	-	-	-	(0.3)	-	(0.3)	(100)
Asset impairment charge	-	(5.1)	5.1	100	-	(5.1)	5.1	100
Total Corporate expense (GAAP)	(17.3)	(26.5)	9.2	35	(79.2)	(90.1)	10.9	12
FORTUNE BRANDS HOME & SECURITY								
Operating income before charges/gains [a]	$ 180.6	$ 185.6	$ (5.0)	(3)	$ 704.7	$ 716.2	$ (11.5)	(2)
Restructuring charges [b]	(6.8)	(4.8)	(2.0)	(42)	(24.1)	(8.3)	(15.8)	(190)
Other charges [b]								
Cost of products sold	(4.6)	(8.1)	3.5	43	(22.4)	(9.3)	(13.1)	(141)
Selling, general and administrative expenses	(0.9)	(4.8)	3.9	81	(7.7)	(5.4)	(2.3)	(43)
Change in inventory costing method [f]	7.3	-	7.3	100	7.3	-	7.3	100
Asset impairment charge [e]	(35.5)	(5.1)	(30.4)	(596)	(62.6)	(8.3)	(54.3)	(654)
Loss on sale of product line	-	-	-	-	-	(2.4)	2.4	100
Operating income (GAAP)	$ 140.1	$ 162.8	$ (22.7)	(14)	$ 595.2	$ 682.5	$ (87.3)	(13)

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

DILUTED EPS BEFORE CHARGES/GAINS RECONCILIATION

For the three months ended December 31, 2018, 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 $11.8 million ($9.1 million after tax or $0.06 per diluted share) of restructuring and other charges, asset impairment charges of $35.5 million ($27.1 million after tax or $0.19 per diluted share), a benefit from an inventory costing change of $7.3 million ($5.5 million after tax or $0.04 per diluted share), a net charge related to an update to the estimated impact of the Tax Cuts and Jobs Act of 2017 of $4.0 million ($0.03 per diluted share) and the impact from actuarial losses associated with our defined benefit plans of $3.6 million ($2.7 million after tax or $0.02 per diluted share).

For the twelve months ended December 31, 2018, 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 $54.2 million ($43.4 million after tax or $0.30 per diluted share) of restructuring and other charges, asset impairment charges of $62.6 million ($50.8 million after tax or $0.35 per diluted share), a benefit from an inventory costing change of $7.3 million ($5.5 million after tax or $0.04 per diluted share), a net tax charge principally related to an update to the estimated impact from the Tax Cuts and Jobs Act of 2017 ($7.2 million or $0.05 per diluted share) and the impact from actuarial losses associated with our defined benefit plans of $3.9 million ($2.9 million after tax or $0.02 per diluted share).

For the three months ended December 31, 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 $17.7 million ($12.5 million after tax or $0.08 per diluted share) of restructuring and other charges, actuarial losses associated with our defined benefit plans of $0.8 million ($0.6 million after tax or $0.01 per diluted share), asset impairments of $12.1 million ($7.9 million after tax or $0.05 per diluted share) and a net benefit related to the Tax Cuts and Jobs Act of 2017 of $25.7 million ($0.17 per diluted share).

For the twelve months ended December 31, 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 $23.0 million ($16.3 million after tax or $0.10 per diluted share) of restructuring and other charges, asset impairments of $15.3 million ($11.1 million after tax or $0.07 per diluted share), the loss on sale of product line of $2.4 million ($2.5 million after tax or $0.02 per diluted share), the impact of income from actuarial gains associated with our defined benefit plans of $0.5 million ($0.3 million after tax) and a net benefit related to the Tax Cuts and Jobs Act of 2017 of $25.7 million ($0.16 per diluted share).

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Earnings Per Common Share - Diluted						
Diluted EPS Before Charges/Gains - Continuing Operations [c]	$ 0.86	$ 0.80	8	$ 3.34	$ 3.08	8
Restructuring and other charges	(0.06)	(0.08)	25	(0.30)	(0.10)	(200)
Asset impairment charges [e]	(0.19)	(0.05)	(280)	(0.35)	(0.07)	(400)
Loss on sale of product line	-	-	-	-	(0.02)	100
Change in inventory costing method [f]	0.04	-	-	0.04	-	-
Defined benefit plan actuarial gains/(losses)	(0.02)	(0.01)	(100)	(0.02)	-	-
Tax items	(0.03)	0.17	(118)	(0.05)	0.16	(131)
Diluted EPS - Continuing Operations	$ 0.60	$ 0.83	(28)	$ 2.66	$ 3.05	(13)

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

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

RECONCILIATION OF EBITDA BEFORE CHARGES/GAINS TO INCOME FROM CONTINUING OPERATIONS

	Twelve Months Ended December 31, 2018
EBITDA BEFORE CHARGES/GAINS [d]	$ 868.3
Depreciation*	$ (107.3)
Amortization of intangible assets	(36.1)
Restructuring and other charges	(54.2)
Interest expense	(74.5)
Change in inventory costing method [f]	7.3
Asset impairments [e]	(62.6)
Defined benefit plan actuarial (losses)/gains	(3.9)
Income taxes	(147.0)
Income from continuing operations, net of tax	$ 390.0

* Depreciation excludes accelerated depreciation of ($6.2) million for the twelve months ended December 31, 2018. Accelerated depreciation is included in restructuring and other charges.

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

As of December 31, 2018	
Short-term debt *	525.0
Long-term debt *	1,809.0
Total debt	2,334.0
Less:	
Cash and cash equivalents *	262.9
Net debt (1)	2,071.1
For the twelve months ended December 31, 2018	
EBITDA before charges/gains (2) [d]	868.3
Net debt-to-EBITDA before charges/gains ratio (1/2)	2.4

* Amounts are per the unaudited Condensed Consolidated Balance Sheet as of December 31, 2018.

(d) (e) (f) 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 December 31,			Twelve Months Ended December 31,		
	2018	2017	Change	2018	2017	Change
CABINETS						
Before Charges/Gains Operating Margin	10.0%	10.7%	(70) bps	9.6%	11.0%	(140) bps
Restructuring & Other Charges	(0.9%)	(0.8%)		(1.1%)	(0.2%)	
Asset Impairment Charges	(5.7%)	-		(2.6%)	-	
Operating Margin	3.4%	9.9%	(650) bps	5.9%	10.8%	(490) bps
PLUMBING						
Before Charges/Gains Operating Margin	22.3%	20.8%	150 bps	21.0%	21.3%	(30) bps
Restructuring & Other Charges	(0.6%)	(1.0%)		(0.9%)	(0.5%)	
Change in inventory costing method (f)	(0.8%)	-		(0.2%)		
Operating Margin	20.9%	19.8%	110 bps	19.9%	20.8%	(90) bps
DOORS & SECURITY						
Before Charges/Gains Operating Margin	8.7%	14.8%	(610) bps	13.1%	14.9%	(180) bps
Restructuring & Other Charges	(1.3%)	(2.7%)		(0.8%)	(1.0%)	
Asset Impairment	-	-		-	(0.3%)	
Loss on sale of product line	-	-		-	(0.2%)	
Change in inventory costing method (f)	3.6%	-		0.9%	-	
Operating Margin	11.0%	12.1%	(110) bps	13.2%	13.4%	(20) bps
Total Company						
Before Charges/Gains Operating Margin	12.7%	13.4%	(70) bps	12.8%	13.6%	(80) bps
Restructuring & Other Charges	(0.9%)	(1.3%)		(1.0%)	(0.4%)	
Asset Impairment charges	(2.4%)	(0.3%)		(1.0%)	(0.2%)	
Loss on sale of product line	-	-		-	(0.1%)	
Change in inventory costing method (f)	0.5%	-		0.1%	-	
Operating Margin	9.9%	11.8%	(190) bps	10.9%	12.9%	(200) 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, a change in inventory costing method and asset impairment charges, divided 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.

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

FORTUNE BRANDS HOME & SECURITY, INC.

BEFORE CHARGES/GAINS OPERATING MARGIN EXCLUDING 53rd WEEK (AT CABINETS) AND NON-REPEATING SALES PROMOTIONS/FIBERON (AT DOORS & SECURITY) IMPACT TO OPERATING MARGIN

(Unaudited)

	Three Months Ended December 31,		
	2018	2017	Change
CABINETS			
Before Charges/Gains Operating Margin excluding 53rd week	11.3%	10.7%	60 bps
53rd week in prior year impact	(1.3%)	-	
Before Charges/Gains Operating Margin	10.0%	10.7%	(70) bps
Restructuring & Other Charges	(0.9%)	(0.8%)	
Asset Impairment Charges	(5.7%)	-	
Operating Margin	3.4%	9.9%	(650) bps
DOORS & SECURITY			
Before Charges/Gains Operating Margin excluding non-repeating sales promotions/Fiberon	13.3%	14.8%	(150) bps
Non-repeating sales promotions/other one time items impact	(3.7%)	-	
Ex Fiberon	(0.9%)	-	
Before Charges/Gains Operating Margin	8.7%	14.8%	(610) bps
Restructuring & Other Charges	(1.3%)	(2.7%)	
Change in inventory costing method (f)	3.6%	-	
Operating Margin	11.0%	12.1%	(110) bps

Operating margin is calculated as operating income derived in accordance with GAAP divided by GAAP Net Sales. Before charges/gains operating margin excluding 53rd week (at Cabinets) and non-repeating sales promotions/Fiberon (at Doors & Security) is operating income derived in accordance with GAAP excluding restructuring and other charges, a benefit from an inventory costing change and asset impairment charges as well as the 53rd week (at Cabinets) and non-repeating sales promotions and Fiberon (at Doors & Security), divided 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.

(f) 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)

	Twelve Months Ended December 31, 2018
Free Cash Flow*	$ 464.9
Add:	
Capital Expenditures	150.1
Less:	
Proceeds from the sale of assets	6.1
Proceeds from the exercise of stock options	4.9
Cash Flow From Operations (GAAP)	$ 604.0

* 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 2019 GUIDANCE DILUTED EPS BEFORE CHARGES/GAINS TO GAAP DILUTED EPS
(Unaudited)

	For the twelve months ended		
	December 31, 2019	December 31, 2018	% change
Diluted EPS before charges/gains - full year range	$ 3.53 - 3.77	$ 3.34	6 - 13
Diluted EPS Before Charges/Gains - Continuing Operations [c]	$ 3.65	$ 3.34	9
Restructuring and other charges	(0.06)	(0.30)	
Asset impairment charges [e]	-	(0.35)	
Change in inventory costing method [f]	-	0.04	
Defined benefit plan actuarial gains/(losses)	-	(0.02)	
Tax items	-	(0.05)	
Diluted EPS - Continuing Operations	$ 3.59	$ 2.66	35
Diluted EPS - Continuing Operations - full year range	$ 3.47 - 3.71	$ 2.66	30 - 39

The Company is targeting diluted EPS before charges/gains from continuing operations to be in the range of $3.53 to $3.77 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 $3.47 to $3.71 per share and including the full year impact of previously announced restructuring actions. 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 during 2019.

For the twelve months ended December 31, 2018, 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 $54.2 million ($43.3 million after tax or $0.30 per diluted share) of restructuring and other charges, asset impairment charges of $62.6 million ($50.8 million after tax or $0.35 per diluted share), a benefit from an inventory costing change of $7.3 million ($5.5 million after tax or $0.04 per diluted share), a net tax charge principally related to an update to the estimated impact from the Tax Cuts and Jobs Act of 2017 ($7.2 million or $0.05 per diluted share) and the impact from actuarial losses associated with our defined benefit plans of $3.9 million ($2.9 million after tax or $0.02 per diluted share).

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

FORTUNE BRANDS HOME & SECURITY, INC.
RECONCILIATION OF PERCENTAGE CHANGE IN CABINETS NET SALES EXCLUDING EXITS FROM TARGETED BUSINESS TO PERCENTAGE CHANGE IN NET SALES (GAAP)
(Unaudited)

	Three months ended December 31, 2018
	% change
CABINETS	
Percentage change in Net Sales excluding exits from targeted U.S. Homecenter business	**2%**
Impact of targeted U.S. Homecenter business exit	(2%)
Percentage change in Net Sales (GAAP)	**-**

Cabinets net sales excluding exits of targeted business lines is Cabinets net sales derived in accordance with GAAP excluding the impact of targeted U.S. Homecenter business exit. Management uses this measure to evaluate the overall performance of the Cabinets segment and believes this measure provides investors with helpful supplemental information regarding the underlying performance of the segment from period to period. This measure may be inconsistent with similar measures presented by other companies.

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, asset impairment charges, a benefit from an inventory costing change and the loss on sale of product line. 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 existing product lines, write-off of displays from exiting a customer relationship, accelerated depreciation resulting from the closure of facilities, and gains and losses on the sale of previously closed facilities totaling $0.3 million and $11.3 million for the three and twelve months ended December 31, 2018 and $9.4 million and $10.2 million for the three and twelve months ended December 31, 2017.

In our Plumbing segment, other charges also includes an acquisition-related inventory step-up expense classified in cost of products sold of $0.5 million and $5.5 million for the three and twelve months ended December 31, 2018, respectively, and $1.1 million and $2.1 million for the three and twelve months ended December 31, 2017. In our Doors & Security segment, other charges also includes an acquisition-related inventory step-up expense classified in cost of products sold of $3.9 million and $4.9 million for the three and twelve months ended December 31, 2018. In addition, in our Plumbing segment, other charges also includes compensation expense related to deferred purchase price consideration payable to certain former Victoria + Albert shareholders contingent on their employment through October 2018 of $0.8 million and $8.1 million classified in selling, general and administrative expense for the three and twelve months ended December 31, 2018. In Corporate, other charges also includes $0.3 million of expense associated with our assessment of the impact on the Company from the Tax Cuts and Jobs act of 2017, for the twelve months ended December 31, 2018.

(c) Diluted EPS before charges/gains is income from continuing operations, net of tax, less noncontrolling interests calculated on a diluted per-share basis excluding restructuring and other charges, asset impairment charges, the loss on sale of product line, a change in inventory costing method, tax items and gains and losses associated with our defined benefit plans. 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.

(d) EBITDA before charges/gains is income from continuing operations, net of tax, derived in accordance with GAAP excluding restructuring and other charges, depreciation, asset impairments, a benefit from an inventory costing change, gains and losses associated with our defined benefit plans, 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) Asset impairment charges for the three and twelve months ended December 31, 2018 represent pre-tax impairment charges of $35.5 million and $62.6 million, respectively, related to two indefinite-lived tradenames within our Cabinets segment. Asset impairment charges for the three months ended December 31, 2017 represents an impairment of a cost investment in a developmental stage home security company classified in other expense and an impairment of a long-lived Corporate asset classified in selling, general and administrative expenses. In addition, asset impairments for the twelve months ended December 31, 2017, include impairments related to our decision during the first quarter of 2017 to sell the Field ID product line.

(f) During the fourth quarter of 2018, we determined that it was preferable to change our accounting policy for product groups in which metals inventory comprise a significant portion of inventories from last-in, first-out ("LIFO") to first-in, first-out ("FIFO"). As a result, we recorded a pre-tax benefit of $7.3 million within cost of products sold during the three months ended December 31, 2018.

Definitions of Terms: GAAP Measures

(g) As previously announced, we combined our Doors and Security segments into a new reportable segment 'Doors & Security'. Reporting for the new Doors & Security segment began in the third quarter of 2018 and historical financial segment information has been restated to conform to the new segment presentation.