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

	For the twelve months ended	
	December 31, 2018	December 31, 2012
CABINETS		
Before Charges/Gains Operating Margin	9.6%	3.0%
Restructuring & Other Charges [a]	(1.1%)	(1.0%)
Asset impairment charges [c]	(2.6%)	(0.4%)
Operating Margin	5.9%	1.6%
PLUMBING		
Before Charges/Gains Operating Margin	21.0%	15.4%
Restructuring & Other Charges [a]	(0.9%)	-
Change in inventory costing method [b]	(0.2%)	-
Operating Margin	19.9%	15.4%
DOORS & SECURITY		
Before Charges/Gains Operating Margin	13.1%	8.6%
Restructuring & Other Charges [a]	(0.8%)	-
Change in inventory costing method [b]	0.9%	-
Asset impairment charges [c]	-	(1.1%)
Operating Margin	13.2%	7.5%

	For the twelve months ended		
FORTUNE BRANDS HOME & SECURITY	December 31, 2018	December 31, 2012	Change
Before Charges/Gains Operating Margin	12.8%	6.7%	610 bps
Restructuring & Other Charges [a]	(1.0%)	(0.4%)	
Change in inventory costing method [b]	0.1%	-	
Asset impairment charges [c]	(1.0%)	(0.4%)	
Operating Margin	10.9%	5.9%	500 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 benefit from an inventory costing change and asset impairments 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. In addition, we revised the results herein to reflect the adoption of ASU 2017-17 during the first quarter of 2018.

(a) (b) (c) 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	2012	% Change vs 2018
EBITDA BEFORE CHARGES/GAINS [f]	$ 868.3	$ 289.7	200
Depreciation *	$ (107.3)	$ (69.6)	(54)
Amortization of intangible assets	(36.1)	(7.4)	(388)
Interest expense	(74.5)	(8.5)	(776)
Restructuring and other charges [a]	(54.2)	(13.6)	(299)
Change in inventory costing method [b]	7.3	-	100
Asset impairments [c]	(62.6)	(13.2)	(374)
Defined benefit plan actuarial gains/(losses) [d]	(3.9)	(42.2)	91
Income taxes	(147.0)	(26.9)	(446)
Income from continuing operations, net of tax	$ 390.0	$ 108.3	260

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

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

2018 vs 2012 DILUTED EPS BEFORE CHARGES/GAINS RECONCILIATION

(Unaudited)

	Twelve Months Ended December 31,		
	2018	2012	% Change vs 2018
Earnings Per Common Share - Diluted			
EPS Before Charges/Gains [e]	$ 3.34	$ 0.83	302
Restructuring and Other charges [a]	(0.30)	(0.05)	(500)
Change in inventory costing method [b]	0.04	-	-
Asset impairment charges [c]	(0.35)	(0.05)	(600)
Income Tax gains/(losses)	(0.05)	0.08	(163)
Defined benefit plan actuarial gains/(losses) [d]	(0.02)	(0.16)	88
Diluted EPS - Continuing Operations	$ 2.66	$ 0.65	309

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 twelve months ended December 31, 2012, 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 $13.6 million ($8.9 million after tax or $0.05 per diluted share) of restructuring and other charges, asset impairment charges of $13.2 million ($8.1 million after tax or $0.05 per diluted share) pertaining to the impairment of certain indefinite lived trade names, income tax gains pertaining to the favorable resolution of tax audits of $12.7 million ($0.08 per diluted share) and the impact of expense from actuarial losses associated with our defined benefit plans of $42.2 million ($26.2 million after tax or $0.16 per diluted share).

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

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 [f]	$ 3.65	$ 3.34	9
Restructuring and other charges [a]	(0.08)	(0.30)	
Asset impairment charges [c]	-	(0.35)	
Change in inventory costing method [b]	-	0.04	
Defined benefit plan actuarial losses [g]	-	(0.02)	
Tax items	-	(0.05)	
Diluted EPS - Continuing Operations	$ 3.57	$ 2.66	34
Diluted EPS - Continuing Operations - full year range	$ 3.45 - 3.69	$ 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 $3.45 to $3.69 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).

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

FORTUNE BRANDS HOME & SECURITY, INC.

RECONCILIATION OF PERCENTAGE CHANGE IN TOTAL COMPANY NET SALES EXCLUDING ACQUISITIONS TO PERCENTAGE CHANGE IN NET SALES (GAAP)

(Unaudited)

	Three months ended March 31, 2019
	% change
TOTAL COMPANY	
Percentage change in Net Sales excluding acquisitions (organic)	**3%**
Acquisition Net Sales	3%
Percentage change in Net Sales (GAAP)	**6%**

Total Company net sales excluding acquisitions is Total Company net sales derived in accordance with GAAP excluding Fiberon net sales. 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 segment from period to period. This measure may be inconsistent with similar measures presented by other companies.

Definitions of Terms: Non-GAAP Measures

(a) 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 inventory obsolescence provisions and 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 for the twelve months ended December 31, 2018 of $11.3 million and 2012 of $8.9 million.

In our Plumbing segment, other charges also includes an acquisition-related inventory step-up expense classified in cost of products sold of $5.5 million for the twelve months ended December 31, 2018. In our Doors & Security segment, other charges also includes an acquisition-related inventory step-up expense classified in cost of products sold of $4.9 million for the 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 $8.1 million classified in selling, general and administrative expense for the 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. In our Doors & Security segment, other charges includes acquisition related inventory step-up estimate of $1.6 million for the twelve months ended December 31, 2019.

(b) 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 twelve months ended December 31, 2018.

(c) Asset impairment charges for the twelve months ended December 31, 2018 represent pre-tax impairment charge of $62.6 million related to two indefinite-lived tradenames within our Cabinets segment.

(d) 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 other income (expense) 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 other income (expense) 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 diluted EPS 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 diluted EPS as measured on a GAAP basis. We present this supplemental information because such actuarial gains or losses may create volatility in our diluted EPS 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, 2018*		*Year Ended December 31, 2012*	
	%	*$*	*%*	*$*
Actual return on plan assets	*(3.5)%*	*($30.7)*	*14.5%*	*$63.7*
Expected return on plan assets	*6.0%*	*41.0*	*7.8%*	*36.8*
Discount rate at December 31:				
Pension benefits	*4.4%*		*4.2%*	
Postretirement benefits	*4.2%*		*3.7%*	

(e) 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.

(f) EBITDA before charges/gains is income from continuing operations, net of tax, derived in accordance with GAAP excluding depreciation, amortization of intangible assets, interest expense, restructuring and other charges, a benefit from a change in inventory costing, asset impairment charges, the loss on sale of product line, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans 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.