GRIFFON CORP
Form 424B5
June 11, 2018

This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. Neither this prospectus supplement nor the accompanying prospectus is an offer to sell these securities, and we and the selling stockholder are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated June 11, 2018

Filed Pursuant to Rule 424(b)(5)

File No. 333-224727

PROSPECTUS SUPPLEMENT
(to Prospectus dated May 7, 2018)

8,083,375 Shares

GRIFFON CORPORATION

Common Stock

We are offering 2,500,000 shares of our common stock, and the selling stockholder identified in this prospectus supplement is offering 5,583,375 shares of our common stock. We will not receive any proceeds from the sale of any shares by the selling stockholder. Immediately after completion of this offering, we expect that the selling stockholder will no longer own any of our issued and outstanding common shares.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol GFF. On June 8, 2018, the last reported sale price of our common stock on the NYSE was $22.75 per share.

	Per share	**Total**
Public offering price	$	$
Underwriting discounts and commissions[(1)]	$	$
Proceeds to us before expenses	$	$
Proceeds to the selling stockholder before expenses[(2)]	$	$

(1) See Underwriting (Conflicts of Interest)
(2) We have agreed to pay certain expenses of the selling stockholder incurred in connection with the sale of the shares offered hereby.

We have granted the underwriters an option for a period of 30 days to purchase an additional 1,212,506 shares of our common stock from us at the initial price to the public less the underwriting discount. If the underwriters exercise their option in full, the total underwriting discounts and commissions payable by us will be $, and the total proceeds to us, before expenses, will be $.

INVESTING IN OUR SECURITIES INVOLVES RISK. SEE RISK FACTORS BEGINNING ON PAGE S-18 OF THIS PROSPECTUS SUPPLEMENT AND IN THE DOCUMENTS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS BEFORE DECIDING TO INVEST IN ANY OF OUR SECURITIES.

Neither the Securities and Exchange Commission, or the SEC, nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Delivery of the shares of common stock is expected to be made on or about , 2018.

Joint Book-Running Managers

J.P. Morgan Goldman Sachs & Co. LLC

Baird Deutsche Bank Securities Wells Fargo Securities

Co-Managers

CJS Securities Sidoti & Company, LLC

The date of this prospectus supplement is , 2018.

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PROSPECTUS SUPPLEMENT

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is comprised of two parts: a prospectus supplement and an accompanying prospectus dated May 7, 2018. This prospectus supplement is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission, or the SEC, as a well-known seasoned issuer as defined in Rule 405 under the Securities Act utilizing a shelf registration process.

This prospectus supplement, which describes certain matters relating to us and the specific terms of this offering of shares of our common stock, adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference herein. Generally, when we refer to this document, we are referring to both parts of this document combined. Both this prospectus supplement and the accompanying prospectus include important information about us, our common stock and other information you should know before investing in our common stock. The accompanying prospectus gives more general information, some of which may not apply to the shares of common stock offered by this prospectus supplement. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus, you should rely on the information contained in this prospectus supplement.

The rules of the SEC allow us to incorporate by reference information into this prospectus supplement. This information incorporated, or deemed to be incorporated, by reference is considered to be a part of this prospectus supplement, and information that we file later with the SEC, to the extent incorporated, or deemed to be incorporated, by reference will automatically update and supersede this information. If the information contained in this prospectus supplement differs or varies from the information contained in a document we have incorporated by reference, you should rely on the information in the more recent document. You should read both this prospectus supplement and the accompanying prospectus together with any information incorporated by reference herein before investing in our common stock. See Where You Can Find More Information.

We are responsible for the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and in any related free writing prospectus we prepare or authorize. None of us, the selling stockholder or the underwriters have authorized anyone to give you any other information, and we and the underwriters take no responsibility for any other information that others may give you. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. You should not assume that the information contained in this prospectus supplement and the accompanying prospectus or any free writing prospectus prepared by us is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus supplement and the accompanying prospectus are delivered or shares of common stock are sold on a later date. Our business, financial condition, results of operations and prospects may have changed materially since those dates.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. None of us, the selling stockholder or the underwriters are making an offer of the common stock in any jurisdiction where the offer is not permitted. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. We encourage you to consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding the purchase of the common stock offered by this prospectus supplement. None of us, the selling stockholder or the underwriters are making any representation to you regarding the legality of an investment in the common stock by you under applicable investment or similar laws.

As used in this prospectus supplement, Griffon, we, our and us refer to Griffon Corporation and its subsidiaries, un stated otherwise or the context requires otherwise.

INDUSTRY AND MARKET DATA

We obtained the market and competitive position data included in this prospectus supplement and the documents incorporated by reference in this prospectus supplement from our own research, surveys or studies conducted by third parties and industry or general publications. Industry publications and third-party surveys and studies generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. While we believe that each of these surveys, studies and publications is reliable, we have not independently verified such data and we do not make any representation as to the accuracy of such information. Similarly, we believe our internal research is reliable, but it has not been verified by any independent sources.

PRESENTATION OF FINANCIAL INFORMATION

The SEC has adopted rules to regulate the use in filings with the SEC and in public disclosures of non-GAAP financial measures. These measures are derived on the basis of methodologies other than generally accepted accounting principles in the United States, or GAAP. These rules govern the manner in which non-GAAP financial measures are publicly presented and require, among other things:

- a presentation with equal or greater prominence of the most comparable financial measure or measures calculated and presented in accordance with GAAP; and
- a statement disclosing the purposes for which the registrant s management uses the non-GAAP financial measure.

These rules prohibit, among other things:

- the exclusion of charges or liabilities that required, or will require, cash settlement, or would have required cash settlement absent an ability to settle in another manner; and
- the adjustment of a non-GAAP performance measure to eliminate or smooth items identified as nonrecurring, infrequent or unusual, when the nature of the charge or gain is such that it is reasonably likely to recur within two years or there was a similar charge or gain within the prior two years.

In this prospectus supplement, we disclose non-GAAP financial measures, including Segment Adjusted EBITDA. For a reconciliation of the non-GAAP financial measures presented herein to the most comparable GAAP measures, see Prospectus Supplement Summary Reconciliation of Non-GAAP Financial Measures. The non-GAAP financial measures described in this prospectus supplement are not a substitute for the GAAP measures of earnings or liquidity. We believe that the non-GAAP financial measures presented in this prospectus supplement reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results included or incorporated by reference into this prospectus supplement, provide a more complete understanding of factors and trends affecting our business. We believe that these non-GAAP financial measures are widely used by investors and are useful indicators to measure our performance. Because not all companies use identical calculations, our presentation of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus may contain, certain forward-looking statements within the meaning of the Securities Act of 1933, as amended, or the Securities Act, the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995. Such statements relate to, among other things, income (loss), earnings, cash flows, revenue, changes in operations, operating improvements, industries in which Griffon operates and the United States and global economies. Statements in this prospectus supplement and the accompanying prospectus that are not historical are hereby identified as forward-looking statements and may be indicated by words or phrases such as anticipates, supports, plans, projects, expects, b should, would, could, hope, forecast, management is of the opinion, may, will, estimates, intends, opportunities, the negative of these expressions, use of the future tense and similar words or phrases. Such forward-looking statements are subject to inherent risks and uncertainties that could cause actual results to differ materially from those expressed in any forward-looking statements. These risks and uncertainties include, among others:

current economic conditions and uncertainties in the housing, credit and capital markets;
Griffon s ability to achieve expected savings from cost control, restructuring, integration and disposal initiatives;
the ability to identify and successfully consummate and integrate value-adding acquisition opportunities;
increasing competition and pricing pressures in the markets served by Griffon s operating companies;
the ability of Griffon s operating companies to expand into new geographic and product markets and to anticipate and meet customer demands for new products and product enhancements and innovations;
reduced military spending by the government on projects for which Griffon s Telephonics Corporation supplies products, including as a result of defense budget cuts or other government actions;
the ability of the federal government to fund and conduct its operations;
increases in the cost of raw materials such as resin, wood and steel;
changes in customer demand or loss of a material customer at one of Griffon s operating companies;
the potential impact of seasonal variations and uncertain weather patterns on certain of Griffon s businesses;
political events that could impact the worldwide economy;
a downgrade in Griffon s credit ratings;
changes in international economic conditions, including interest rate and currency exchange fluctuations;
the reliance by certain of Griffon s businesses on particular third party suppliers and manufacturers to meet customer demands;
the relative mix of products and services offered by Griffon s businesses, which impacts margins and operating efficiencies;
short-term capacity constraints or prolonged excess capacity;
unforeseen developments in contingencies, such as litigation, regulatory and environmental matters;
unfavorable results of government agency contract audits of Griffon s Telephonics Corporation;

- Griffon s ability to adequately protect and maintain the validity of patent and other intellectual property rights;
- the cyclical nature of the businesses of certain of Griffon s operating companies;
- possible terrorist threats and actions and their impact on the global economy.
- the volatility of the share price of Griffon s common stock;
- the future dilution of shares of common stock issued pursuant to this offering;
- the future sales of a substantial number of shares of Griffon s common stock in the public market and any corresponding decrease in Griffon s share price;
- Griffon s use of net proceeds from this offering;
- the prevention or delay in a change of control of Griffon as a result of anti-takeover provisions in Griffon s restated certificate of incorporation, amended and restated bylaws and certain provisions of Delaware law;
- the future issuance of shares of additional common stock or preferred stock of Griffon;
- the payment of cash dividends on Griffon s, which is subject to the discretion of Griffon s Board of Directors;
- the integration of the companies Griffon acquires, including CornellCookson, Inc.;
- Griffon s substantial indebtedness; and
- the impact of recent and future legislative and regulatory changes, including, without limitation, the Tax Cuts and Jobs Act of 2017.

Additional important factors that could cause the statements made in this prospectus supplement and the accompanying prospectus or actual results of operations or financial condition of Griffon to differ are discussed under the caption Item 1A. Risk Factors and Special Notes Regarding Forward Looking Statements in our Annual Report on Form 10-K for the year ended September 30, 2017 or in our subsequent filings with the SEC incorporated by reference herein.

Readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date made. Griffon undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus and in the documents we incorporate by reference. This summary does not contain all of the information that you should consider before deciding to invest in our common stock. You should read this entire prospectus supplement and the accompanying prospectus carefully, including our consolidated financial statements and the related notes and the other documents incorporated by reference herein, before making an investment in our common stock.

Our Company

Griffon Corporation (NYSE:GFF) is a diversified management and holding company, which conducts business through wholly-owned subsidiaries with leading market shares across a variety of industries. We actively oversee the operations of these subsidiaries, providing them with a variety of services including the allocation of our resources and the management of their budgeting, liquidity and capital spending. Additionally, we provide direction and assistance in connection with operational initiatives, acquisitions, divestitures and other growth opportunities for each of our subsidiaries. We currently conduct our operations through two reportable segments: Home & Building Products, or HBP, and Defense Electronics through Telephonics Corporation, or Telephonics.

Our management team has decades of diverse industry experience with focused competencies in product development and innovation, customer and channel management and growth strategy, both organically and through acquisitions. Under the leadership of our CEO, Ronald J. Kramer, and our senior management team, we are constantly focused on improving and growing our business through implementation of best practices across our portfolio and geographies, strategic complementary acquisitions and select portfolio pruning. Our recent acquisitions of ClosetMaid LLC, or ClosetMaid, Kelkay Limited, or Kelkay, and CornellCookson, LLC., or CornellCookson, as well as the divestiture of our Clopay Plastics business, are strong evidence of our ability to transform and enhance our business.

For the twelve months ended March 31, 2018, assuming ClosetMaid, Kelkay and CornellCookson had been included in our results for the full period, we would have had revenue of $2.1 billion and Pro Forma Segment Adjusted EBITDA (as defined below) of $208.3 million*.

GRIFFON CORPORATION BUSINESS OVERVIEW

* Trailing twelve months revenue and Segment Adjusted EBITDA as of March 31, 2018 are calculated pro forma for ClosetMaid, Kelkay and CornellCookson acquisitions. Griffon evaluates performance and allocates resources based on each segment s operating results before interest income and expense, income taxes, depreciation and amortization, unallocated amounts (mainly corporate overhead), restructuring charges, loss on debt extinguishment and acquisition related expenses, as well as other items that may affect comparability, as applicable (Segment Adjusted EBITDA). The financial results for ClosetMaid, Kelkay and CornellCookson used to derive the pro forma revenue and Segment Adjusted EBITDA for the twelve months ended March 31, 2018 were compiled in the same manner. The financial results for ClosetMaid and Kelkay do not include any adjustments to remove items that may affect comparability. The financial results for CornellCookson include adjustments of $7.2 million to remove the impact of costs primarily related to plant consolidations, product discontinuations and the associated impact of certain management compensation costs. For a reconciliation of the non-GAAP financial measures presented herein to the most comparable GAAP measures, see Reconciliation of Non-GAAP Financial Measures below.

HOME & BUILDING PRODUCTS

Over the past five years, our ability to cultivate relationships and to team with strategic partners has enabled us to source and execute ten acquisitions, creating a broad portfolio of brands covering a large spectrum of home and building products. Our highly respected and recognized brands hold leading market positions in the United States, Canada, Australasia and the United Kingdom, and our most recent acquisitions of ClosetMaid and CornellCookson create cross-selling opportunities across our HBP segment. Our broad product line offering gives us a competitive advantage over other HBP suppliers by enabling us to provide our customers, which include home-centers and other mass merchandisers, with a differentiated value proposition to meet their customers needs.

AMES

The AMES Companies, Inc., or AMES, founded in 1774 and acquired by us in 2010, is the leading U.S. manufacturer and a global provider of long-handled tools and landscaping products that make work easier for homeowners and professionals. AMES manufactures and markets a broad portfolio of long-handled tools and landscaping products. This portfolio consists of iconic brands and is anchored by four core product categories: long-handled tools, wheelbarrows, snow tools, and decorative planters and landscaping accessories. As a result of brand portfolio recognition, high product quality, industry leading service and strong customer relationships, AMES has earned market-leading positions in its four core product categories.

AMES sells products throughout North America, Australia, New Zealand and Europe through (1) retail centers, including home centers and mass merchandisers, such as The Home Depot, Inc., or Home Depot, Lowe s Companies Inc., or Lowe s, Wal-Mart Stores Inc., or Walmart, Canadian Tire Corporation, Limited, Costco Wholesale Corporation, Rona Inc., or Rona, Bunnings Warehouse, or Bunnings, and Woodies (with the average length of the relationship with these customers being approximately 30 years); (2) wholesale chains, including hardware stores and garden centers, such as Ace, Do-It-Best and True Value Company; and (3) industrial distributors, such as W.W. Grainger, Inc. and ORS Nasco.

AMES brands are among the most recognized across primary product categories in the North American, Australian and United Kingdom long-handled tools and landscaping product markets. Its brand portfolio includes AMES®, True Temper®, Garant®, Harper®, UnionTools® , Westmix™, Cyclone®, Southern Patio®, Northcote Pottery™, Nylex®, Hills®, Kelkay®, Tuscan Path®, La Hacienda®, Kelso™, and Dynamic Design™, as well as contractor-oriented brands including Razor-Back® Professional Tools and Jackson® Professional Tools. This strong portfolio of brands enables AMES to build and maintain long-standing relationships with leading retailers and distributors. In addition, given the breadth of its brand portfolio and product category depth, AMES is able to offer specific, differentiated branding strategies for key retail customers. These strategies have focused on enhancement of brand value, with the goal of de-commoditizing AMES products through the introduction of identity and functionality elements that will make each top brand unique, attractive and visually recognizable by the consumer. The visual brand transformation of the AMES® and Razor-Back® brands were completed in 2015, and the True Temper® line roll-out was completed in 2016. In addition to the brands listed, AMES also sells private label branded products, further differentiating AMES in its customer offerings.

ClosetMaid

ClosetMaid, founded in 1965 and acquired by us on October 2, 2017 for $165 million, net of post-closing adjustments and estimated tax benefits, is a leading North American manufacturer and marketer of closet organization, home storage and garage storage products, and sells to some of the largest home center retail chains, mass merchandisers and direct-to-builder professional installers in North America. ClosetMaid designs, manufactures and sells a comprehensive portfolio of wire and wood shelving, containers, storage cabinets and other closet and home organization accessories under the highly recognized ClosetMaid brand name and other private label brands.

ClosetMaid offers a diversified and well-balanced mix of wood and wire storage and organizational solutions. ClosetMaid s wood solutions include closet systems, cube storage, storage furniture and cabinets targeted at customers looking for functional storage with a strong aesthetic appeal and the look of quality furniture. Selected wood product brands include MasterSuite®, Suite Symphony™, Impressions™, ExpressShelf®, and SpaceCreations®. ClosetMaid s wire solutions include wire shelving and hardware, wire accessories and kitchen storage products that provide affordable, customizable, versatile and durable solutions for single and multi-family homes. Selected wire product brands include Maximum Load®, SuperSlide® and ShelfTrack®.

ClosetMaid s large customer base is diversified among various industries. Key retail customers of ClosetMaid include Home Depot, Target, Lowe s and Walmart (with the average length of the relationship with these customers being greater than 30 years). ClosetMaid also works with key builders such as D.R. Horton, KB Home, Lennar and NVR. Inc., or NVR.

Clopay Building Products

Founded in 1964 and acquired by us in 1986, Clopay Building Products Company, Inc., or CBP, has grown organically and through tuck-in acquisitions to become the leading manufacturer and marketer of residential sectional garage doors, and among the largest manufacturers of commercial sectional doors, in the United States. CBP manufactures a complete line of entry door systems uniquely designed to complement its popular residential garage door styles. The majority of CBP s sales come from home remodeling and renovation projects, with the balance from new residential housing construction and commercial building markets. Sales into the home remodeling market are driven by the aging of the housing stock, existing home sales activity, and the trends of improving both home appearance and energy efficiency.

On June 4, 2018, CBP acquired CornellCookson, a leading U.S. manufacturer and marketer of rolling steel door and grille products designed for commercial, industrial, institutional and retail use, for $180 million. After taking into account estimated tax benefits resulting from the transaction, the effective purchase price is expected to be $170 million, subject to certain adjustments. Cornell, founded in 1828, purchased Cookson, founded in 1938, in 2008. The acquisition of CornellCookson expands CBP s existing footprint in the commercial channel and strengthens our relationships with professional dealers and installers. CBP had previously partnered with CornellCookson on customer solutions over 8 years. Consolidating the companies allows us to broaden our existing portfolio of brands, products and customers to serve the market more efficiently with multiple types of doors and creates additional exposure to adjacent markets of wood and steel doors. Similar distribution and product composition allows for potential cost savings opportunities across distribution networks and commodity purchasing. See Recent Developments.

CBP s market-leading brands include Clopay®, America s Favorite Garage Doors®, Holmes Garage Door Company® and IDEAL Door®, as well as the newly acquired Cornell® and Cookson® commercial door brands. Clopay has been the only residential garage door brand to hold the Good Housekeeping Seal of Approval. CBP distributes its products through a wide range of distribution channels, including a national network of 51 distribution centers. Additionally, products are sold to approximately 2,100 independent professional installing dealers and to major home center retail chains including Home Depot and Menards (with the average length of the relationship with these customers being greater than 25 years). CBP maintains strong relationships with its installing dealers and believes it is the largest supplier of residential garage doors to the retail and professional installing channels in North America.

DEFENSE ELECTRONICS

Telephonics Corporation

Telephonics, founded in 1933, is recognized globally as a leading provider of highly sophisticated intelligence, surveillance and communications solutions that are deployed across a wide range of land, sea and air applications. Telephonics designs, develops, manufactures and provides logistical support and lifecycle sustainment services to defense, aerospace and commercial customers worldwide. For the trailing twelve months ended March 31, 2018, approximately 61% of the segment s sales were to the U.S. government and agencies thereof, as a prime or subcontractor, 33% to international markets and 6% to commercial markets.

Telephonics is organized into four primary business lines: Radar Systems, Communications and Surveillance, Systems Engineering Commercial Products and Telephonics Large Scale Integration (TLSI). Radar Systems specializes in maritime surveillance, search and rescue, and weather surveillance solutions.

Communications and Surveillance Systems provides intercommunication systems with wireless extensions that distribute voice and data on a variety of platforms, Identification Friend or Foe (IFF) interrogators, border surveillance systems and Air Traffic Management (ATM) products. Telephonics Systems Engineering Group (SEG) provides highly technical threat and radar systems engineering as well as analytic support to a wide range of customers, including the United States Missile Defense Agency and Ballistic Missile Defense Program. Commercial Products specializes in commercial audio products. TLSI is a full-service designer and provider of high-voltage, high-temperature, low-power, mixed-signal System-on-Chip (SoC) and custom Application Specific Integrated Circuits (ASICs).

To meet the unique challenges of operating in an increasingly complex industry that is faced with continued economic and budgetary pressure on U.S. defense procurement, Telephonics has adapted its core surveillance and communications products, typically used by the U.S. government and its agencies, to meet the needs of international customers in both defense and commercial markets. Telephonics two largest product lines include maritime surveillance radar and aircraft intercommunication management systems and as Telephonics continues to concentrate on adjacent markets to grow these product lines both domestically and internationally, the company remains focused on delivering high-quality products and services that protect military personnel and civilian interests world-wide.

Based on long-established relationships supported by existing contractual arrangements, Telephonics is a first-tier supplier to prime contractors in the defense industry such as Lockheed Martin Corporation, or Lockheed Martin, The Boeing Company, or Boeing, Northrop Grumman Corporation, or Northrop Grumman, MacDonald Dettwiler and Associates Ltd., or MacDonald Dettwiler, Airbus Military, Airbus Helicopters, Leonardo (Agusta Westland) Helicopters, or Agusta Westland, and SAAB (with the average length of the relationship with these customers being greater than 20 years), and is a prime contractor to the U.S. Department of Defense, or the DoD. The significance of each of these customers to Telephonics revenue fluctuates on an annual basis, based on the timing and funding of the Original Equipment Manufacturers (OEM) contract award, and the technological scope of the work required. Key products include maritime radars, identification friend or foe systems, mobile surveillance and communication systems. The significant contraction and consolidation in the U.S. and international defense industry provides opportunities for established first-tier suppliers to capitalize on existing relationships with major prime contractors and to play a larger role in defense systems development and procurement for the foreseeable future. Contract backlog at March 31, 2018 increased to $358.0 million from $332.0 million at December 31, 2017, with 67% expected to be fulfilled in the next twelve months.

Our Industries

We operate in two industries: building products and aerospace and defense.

Home & Building Products Industry Overview

We operate in the building products sector where demand for our products is heavily influenced by the repairing and remodeling, or R&R, of existing homes, construction of new homes and commercial construction expenditures. We believe that a large portion of our HBP revenue is driven by the residential repair and remodel markets. Recent industry forecasts and market data suggest that recovery in the building products industry is ongoing.

We believe the long-term growth prospects for the industry remain positive. Despite continued positive momentum in the housing recovery, current seasonally-adjusted annualized housing starts are still well below the 50-year average. According to the National Association of Home Builders, or NAHB, annual rates for new single-unit housing starts were 0.78 million and 0.85 million units in 2016 and 2017, respectively, compared to the 50-year average of 1.03 million. Annual rates for U.S. total housing starts were 1.17 million and 1.2 million units in 2016 and 2017, respectively, compared to the 50-year average of 1.4 million. According to the U.S. Census Bureau of the Department of Commerce, seasonally adjusted annual construction spending was estimated to have reached $1.285 billion in March 2018, up 3.6% from the March 2017 estimate of $1.239 billion.

Residential Improvement Expenditures

Projected growth in R&R expenditures. According to the Leading Indicator of Remodeling Activity estimate issued by the Harvard University Joint Center for Housing Studies, the four-quarter moving average of homeowner improvement expenditures is expected to be $324.9 billion in the second quarter of 2018 and is expected to grow at or above 7% through the first quarter of 2019.

Aging of the Housing Stock. The Harvard University Joint Center for Housing Studies has indicated that low levels of new construction in recent years have pushed up the median age of owner occupied homes to nearly 40 years. There are currently over 74.4 million existing homeowners that will require regular investment to offset normal wear and keep these properties in working condition. The median estimated age of an owner-occupied home increased from 23 years in 1985 to 37 years in 2013, according to a 2013 American Housing Survey. We believe the aging housing stock will continue to drive demand for residential repair and remodeling projects.

Projected growth within existing home sales. Also known as resales, existing home sales represent the bulk of single-family housing transactions each year and are, therefore, one of the most important drivers. According to the National Association of Realtors, annualized, seasonally-adjusted existing home sales were 5.5 million in 2017, but are projected to grow to 5.7 million in 2019, a 1.3% compound annual growth rate.

Housing Starts. Average industry forecasts from leading associations (National Association of Homebuilders, National Association of Realtors, Mortgage Bankers Association and Fannie Mae) suggests total housing starts will grow from 1.203 million in 2017 to 1.390 million in 2019, representing a 7.5% compounded annual growth rate.

Energy efficiency. Interest in sustainable remodeling projects is increasing due to growing environmental awareness and concerns over high energy costs. We believe that consumers of environmental products will gravitate towards those building projects that offer environmental and, in turn, energy efficiency benefits.

Non-residential construction. The non-residential building products market contracted significantly during the economic downturn, but, as the economy continues to recover, this end market is expected to benefit from accompanying improvements in consumer confidence, increased consumer disposable income and greater access to financing. According to the American Institute of Architects, or AIA, inquiries for new projects accelerated in 2017, with the index rising to 62 from 58 in 2016. The Architecture Building Index, or ABI, reflected increasing demand for design services throughout most of 2017 and was 52 for the month of April, 2018 indicating that firms in aggregate were reporting an increase in activity. According to Dodge Data & Analytics, U.S. commercial & industrial construction spend is forecasted to increase by 3.3%, with volumes increasing by 2.8% in 2018 compared to 2017.

Other market considerations. Because AMES serves multiple categories of end-users ranging from individual consumers and households to industrial companies, and operates through retail and well as industrial distribution channels, it is uniquely positioned to benefit from improving conditions of consumers and their spending levels, as well as the improving conditions of industrial businesses. Additionally, a growing senior population is expected to boost spending within selected residential building products categories, particularly lawn and garden retail sales. With a large portion of the baby boomer population approaching retirement, the number of individuals with excess free time to spend on activities like home gardening is on the rise. Aging baby boomers are the fastest growing segment of the U.S. population and are driving a significant portion of the growth in the lawn and garden market. In addition, homeowners are increasingly looking at their gardens as a place of tranquility. We also believe U.S. consumers are interested in using the garden to increase their self-sufficiency and reduce grocery bills. Finally, rooftop, vertical and glasshouse gardens are expected to become part of the residential garden, particularly due to urbanization.

Aerospace and Defense Industry Overview

The defense environment has been significantly altered over the last few years through a fundamental shift in focus from a traditional threat-based model to one that emphasizes a broad range of capabilities needed to respond to all contingencies, with the overarching goal of full-spectrum dominance to defeat any adversary or control of any situation across the full range of military operations. This change has manifested itself through increased focus and budget allocations to develop capabilities in C4ISR (command, control, communications, computers and intelligence, surveillance and reconnaissance), unmanned systems and networked information technologies. The DoD s emphasis on systems interoperability, advances in intelligence gathering, and the provision of real-time relevant data to battle commanders, often referred to as the common operating picture, have increased the electronic content of nearly all major military procurement and research programs.

Tightening military budgets and the emergence of information-based, network-centric warfare have led militaries around the world to become increasingly reliant on information and communication technologies. These technologies provide critical advantages in battlefield, support and logistics operations. In particular, by enhancing situational awareness (knowledge of the location and strength of friendly and unfriendly forces during battle), militaries can significantly increase the likelihood of success during a conflict. We therefore believe that, in spite of the uncertainty regarding U.S. defense spending, there is significant opportunity for growth in the international defense market for information technologies and defense electronics, which Telephonics is well positioned to benefit from.

DoD funding of $209 billion was approved for fiscal year 2018 and $237 billion of funding is anticipated to be allocated toward fiscal year 2019 procurement and research, development, test and evaluation efforts, including C4ISR capabilities, to support DoD priority modernization initiatives.

Competitive Strengths

We believe our competitive strengths include:

Leading market positions across diverse product segments

We believe that we have established leading positions across many of our HBP categories. Based on revenue, we are the leading U.S. manufacturer and global provider of long-handled tools and landscaping products for homeowners and professionals; the leading North American manufacturer and distributer of wood and wire home storage and organization products; and the leading North American manufacturer and marketer of residential garage and commercial sectional doors, rolling steel doors and grille products designed for commercial, industrial and institutional retail use. We achieved this success by developing a broad offering of high quality products and providing superior service to our customers. Our broad product line offering gives us a competitive advantage over other HBP suppliers by enabling us to provide our customers, which include home-centers and other mass merchandisers, with a differentiated value proposition to meet their own customers needs.

Within our product lines, Telephonics is an important supplier to large prime contractors in the defense industry such as Lockheed Martin, Boeing, Northrop Grumman, MacDonald Dettwiler, Airbus, Agusta Westland, Sikorsky Aircraft and the DoD.

Our market leadership across our subsidiaries is driven by a reputation for product innovation, high quality, strong customer service, breadth of product portfolio, strong brands and ability to compete effectively in all relevant channels.

Portfolio of highly recognized, strong Home & Building Products brands

We manage a broad portfolio of over twenty widely recognized and respected brands covering a large spectrum of home and building products with strategic positions in the U.S., Canada, Australasia and the United Kingdom. Our brands have long histories with strong established relationships that provide momentum and a solid foundation for growth.

Our leading brands, such as Clopay®, CornellCookson, AMES®, True Temper®, and ClosetMaid®, are well recognized in their respective industries. Each of our division benefits from a broader portfolio of brands, notably:

AMES®, True Temper®, Garant®, Harper®, UnionTools®, Westmix™, Cyclone®, Southern Patio®, Northcote Pottery™, Nylex®, Hills®, Kelkay®, Tuscan Path®, La Hacienda®, Kelso™, Dynamic Design™, as well as contractor-oriented brands including Razor-Back® Professional Tools and Jackson® for the AMES division.
ClosetMaid®, MasterSuite®, Suite Symphony™, Impressions™, ExpressShelf®; SpaceCreations® for ClosetMaid s wood products; and Maximum Load®, SuperSlide® and ShelfTrack® for ClosetMaid s wire solutions.
Clopay®, America s Favorite Garage Doors®, Holmes Garage Door Company®, IDEAL Door® and the newly acquired Cornell® and Cookson® commercial door brands for the Clopay division.

This broad portfolio of brands enables us to offer specific, differentiated branding strategies for key customers. Our extensive product line breadth, industry-leading brands associated with premium quality products and global platform enable us to build and maintain long-standing relationships with leading retailers and distributors.

Attractive end-market outlook across our businesses

Our business segments participate in two distinct industries building products and aerospace and defense each with unique attributes and market drivers.

Comprising over 80% of our revenue, the HBP segment will lead our overall business in the near-term as the housing market continues to recover from its historic bottom. The Leading Indicator of Remodeling Activity estimate issued by the Harvard University Joint Center for Housing Studies calls for the four-quarter moving average of homeowner improvement expenditures to be $324.9 billion in the second quarter of 2018 and is expected to grow at or above 7% through the first quarter of 2019. We believe we will benefit from our exposure to the more resilient R&R market, which, according to IHS Economics, is forecast to experience a 2.0% compounded annual growth rate from 2017 to 2020E.

The remaining 20% of our revenue comes from the Defense Electronics industry through our subsidiary, Telephonics, which has historically been a consistent performer driven by our long-standing relationship with the U.S. government. The DoD budget is increasing from its low point of a few years ago and, as a result, we believe the defense electronics industry currently has a positive near term outlook. The annual budget of the DoD, our main customer in this segment representing over 60% of our revenue in our Telephonics division, increased by 5.4% from 2017 to 2018. Our funded backlog increased from $332.0 million at December 31, 2017 to $358.0 million at March 31, 2018, of which 67% is expected to be fulfilled in the next twelve months. This funded backlog represents unfilled firm orders for our products for which customer funding has been authorized and provides us with visibility into the segment s performance. We see significant opportunities from an expansion of the U.S. Navy fleet; international opportunities, particularly in the Middle East and Asia; and growing border and perimeter security markets, both in the U.S. and abroad. We are positioned to benefit from the expected increase in defense spending in the next few years.

Stable and diversified customer base with long-standing relationships

In our HBP segment, we have a multi-channel distribution network that serves both the new construction and home repair and remodeling end markets through our broad customer base of specialty and wholesale distributors, retail home centers, remodeling dealers and builders.

We have developed long-standing relationships with a large, blue chip and expansive customer base. We notably serve many of the industry s leading companies, including Home Depot, Lowe s, Menards, Walmart, Costco, Rona, Bunnings, Woodies, Ace, True Value Company, Grainger, ORS Nasco and Canadian Tire, with the average length of relationship with these customers being greater than 20 years. In many cases, we have grown along with these customers, often maintaining sales offices adjacent to the customer to ensure efficient product placement and timely service.

We work closely with numerous mass merchants, clubs, regional retailers, co-ops and approximately 2,100 independent installing dealers. We are especially proud to be the exclusive supplier of residential garage doors for Home Depot and Menards. CBP distributes its garage doors directly to its customers from its manufacturing facilities and through its distribution centers located throughout the U.S. and Canada. ClosetMaid s large customer base is diversified among various industries and includes key retail customers such as Home Depot, Target, Lowe s and Walmart and key building customers such as D.R. Horton, KB Home, Lennar and NVR.

The success of our Telephonics segment has been driven by our strategic nexus with the U.S. government and its agencies, which represents over 60% of our segment s revenues and which we have served for over 30 years. Additionally, we have been a major supplier of information and communications technologies to many of the world s most prestigious aerospace and defense firms, including Boeing, Northrop Grumman, General Dynamics, Lockheed Martin and Airbus.

Throughout our history, we have earned a leading position with our customers by leveraging our innovative products, customer service and scale to successfully meet our partners product and logistical goals. We understand the strategic importance of these relationships and are highly focused on building these relationships into the future.

Track record of integrating and improving acquired businesses

Over the past five years, our ability to cultivate relationships and team with strategic partners has enabled us to source and execute ten acquisitions, creating a broad portfolio of brands covering a large spectrum of home and building products. We acquire businesses that have durable competitive strengths within their respective markets at sensible prices that have the potential for attractive long-term returns.

Our acquisition of ClosetMaid, which is in the process of being combined with our AMES business, has been immediately accretive to cash flow and earnings. We expect to leverage our distribution, manufacturing and dealer network to create cross-selling opportunities and take advantage of available cost savings opportunities across our commodity purchasing and back office operations.

The acquisition of CornellCookson expands our footprint in the commercial channel and strengthens our relationships with professional dealers and installers. CBP had previously partnered with CornellCookson on customer solutions. This consolidation of the companies allows us to broaden our existing portfolio of brands, products and customers to serve the market more efficiently with multiple types of rolling steel and sectional product offerings, and create additional exposure to adjacent markets. We believe that the similar distribution and product composition of these brands will allow us to realize savings in warehousing, distribution, manufacturing, and sourcing.

We view our ability to identify, execute and integrate acquisitions as one of our core strengths and expect that this offering will improve our financial position and flexibility, enabling us to more effectively service our customers.

Strategic actions driving margin and free cash flow improvement

From 2014 through 2017, we implemented a series of strategic actions within the HBP segment, resulting in the improvement of the Segment Adjusted EBITDA margin of HBP by 350 basis points, from 7.9% to 11.4%.

- From January 2013 through the first quarter of 2015, we improved manufacturing and distribution efficiency within AMES by closing certain U.S. manufacturing facilities and consolidating operations into our Camp Hill and Carlisle locations. In addition, we implemented a more consistent product visual brand language to reinforce our brand identity and reduce product stock keeping units, or SKUs, and further streamlined our product offerings. We estimate that these initiatives by AMES resulted in annual cash savings exceeding $10.0 million.
- In Australia, we consolidated the acquisitions of Cyclone and Northcote Pottery with our AMES business in Australia, which were initially located at 15 legacy distribution sites into 6 sites, and we integrated their operations under a unified management organization. The subsequent Australian acquisitions of Nylex, Hills and Tuscan Path have been integrated into these current sites.
- Beginning in October 2015, CBP invested in a 250,000 square foot expansion of its state-of-the-art Troy, Ohio manufacturing facility to address increased customer demand, particularly for the newer and more innovative garage door products. This allowed HBP to better address customer demand for products yielding improved mix.

In February 2018, we completed the sale of our Clopay Plastics segment to Berry Global Group, Inc. for $475.0 million. In addition to providing liquidity for subsequent acquisitions that were strategic to our HBP segment, this divestiture reduced our capital expenditure requirements as a percentage of 2017 sales, from 3.3% for Griffon, including Clopay Plastics, to 2.4% for Griffon, excluding Clopay Plastics, resulting in stronger free cash flow conversion. We expect stable cash flow generation from our operations to continue.

Strong and highly experienced management team

Our management team has decades of diverse industry experience with focused competencies in operational excellence, product development and innovation, customer and channel management and growth strategy, both organically and through acquisitions. We have a highly experienced management team with a successful track record of profitable growth and demonstrated leadership in cyclical markets, including an ability to reduce costs, improve operational efficiencies and successfully introduce new products. Griffon s senior management team has an average of 30 years of professional experience and average of 10 years with Griffon. Our recent acquisitions of ClosetMaid and CornellCookson, as well as the strategic repositioning of our portfolio through the divestiture of our Clopay Plastics business, are strong evidence of our ability to transform and enhance our business. Our management holds, and will continue to hold, a significant equity interest in our company reflecting their confidence in, and ongoing commitment to, the future growth and success of our businesses.

Business Strategy

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