



MASCO CORPORATION BUSINESS AND FINANCIAL HIGHLIGHTS

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company has accounted for the 2003 dispositions (Baldwin Hardware, Weiser Lock and The Marvel Group) and the 2004 planned dispositions of certain European businesses as discontinued operations.

First Quarter 2004

- Net sales from continuing operations for the quarter increased 19 percent with North American sales increasing 18 percent and International sales increasing 26 percent. In local currencies, International sales increased nine percent compared with the first quarter of 2003. The Company's 19 percent organic sales growth benefited from market share gains, new products and positive economic conditions impacting new home construction and home improvement markets.
- All of the Company's business segments, including its European operations, experienced strong sales growth. Sales of assembled cabinets, paints and stains, installation services, windows and faucets were particularly strong.
- Income from continuing operations for the quarter was \$241 million compared with \$158 million for the first quarter of 2003.
- Earnings from continuing operations increased to a first quarter record of \$.52 per common share (exceeding the Company's recently increased guidance of \$.42 to \$.44 per common share) compared with \$.30 per common share for the 2003 first quarter.
- First quarter 2004 and 2003 results include pre-tax income of \$21 million (\$.03 per common share, after tax) and \$13 million (\$.02 per common share, after tax), respectively, related to adjustments of the Behr litigation accrual. Results for first quarter 2004 also include \$36 million of pre-tax income (\$.05 per common share, after tax) from financial investments compared with \$14 million (\$.02 per common share, after tax) in the 2003 first quarter.
- The Company previously announced the planned disposition of several European businesses that are not core to the Company's long-term growth strategy. These businesses had combined 2003 net sales in excess of \$350 million and the Company expects net proceeds from the dispositions to exceed \$300 million.

The dispositions are expected to be completed within the next twelve months. First quarter 2004 results include an after-tax charge aggregating \$76 million (\$.16 per common share) to reflect those businesses that are expected to be divested at a loss, and after-tax income from their operations of approximately \$4 million, both of which are included in discontinued operations. Any gains resulting from the disposition of individual businesses, which are expected later this year, will be recognized as such transactions are completed and are expected to substantially offset the first quarter 2004 charge. Including these discontinued operations and the anticipated loss on the disposition of certain of these businesses, net income for the quarter increased to \$168 million compared with \$166 million for the 2003 first quarter; earnings increased to \$.36 per common share compared with \$.32 per common share for the 2003 first quarter.

- 2003 results were negatively affected by adverse weather conditions (particularly impacting new residential construction and retail sales in certain parts of the country) that reduced first quarter 2003 results. First quarter 2003 earnings were also adversely affected by the expense resulting from the accelerated vesting of deferred compensation due to the unexpected passing of Masco's President, which reduced earnings by approximately \$.03 per common share, after tax.
- Key retailer sales in the quarter, from continuing operations, increased 20 percent compared with a five percent increase in the first quarter of 2003. Combined sales to Home Depot, Lowe's and Wal-Mart in the first quarter of 2004 increased 21 percent compared with a four percent increase in the 2003 first quarter.
- Sales by segment in the 2004 first quarter versus the 2003 first quarter were:
 - Cabinets and Related Products sales increased 18 percent;
 - Plumbing Products sales increased 19 percent;
 - Installation and Other Services sales increased 16 percent;
 - Decorative Architectural Products sales increased 28 percent; and
 - Other Specialty Products sales increased 20 percent.

- Gross margins were 30.3 percent in the 2004 first quarter compared with 30.1 percent in the first quarter of 2003.
- Operating profit margins as reported were 13.8 percent in the first quarter of 2004 compared with 12.8 percent in the first quarter of 2003. Excluding the income regarding the litigation settlement of \$21 million and \$13 million in 2004 and 2003, respectively, and the accelerated benefit expense of \$21 million in 2003, operating profit margins were 13.0 percent for the first quarter of 2004 compared with 13.1 percent for the first quarter of 2003.
- Results in the first quarter of 2004 include the effect of previously communicated increases in certain operating expenses, including certain materials, energy, freight, insurance, promotional and other costs, which partially offset the positive impact of higher sales volume.
- SG&A expenses as a percent of sales, including general corporate expense, were 17.3 percent for the first quarter 2004 compared with 17.9 percent in the 2003 first quarter.
- General corporate expense was 1.3 percent of sales in the first quarter of 2004 compared with 1.2 percent in the comparable period of 2003. The increase is primarily attributable to costs and expenses associated with complying with the new requirements of the Sarbanes-Oxley legislation.
- Inventory days were 49 days at March 31, 2004 compared with 58 days at March 31, 2003.
- Accounts receivable days at the end of the first quarter were 53 days compared with 55 days a year ago.
- Accounts payable days at the end of the first quarter improved to 36 days from 34 days a year ago, as the Company continues to negotiate more favorable supplier terms.
- Working capital at March 31, 2004 (defined as accounts receivable and inventories less accounts payable) improved to 18.5 percent of the last twelve months of sales from 21.9 percent a year earlier.
- The Company's tax rate was 36.3 percent for the first quarter of 2004 compared with 34.4 percent for the comparable period of the prior year. The increase in the tax rate was due principally to a change in the mix of foreign earnings to countries with higher tax rates and an increase in domestic earnings (relative to total earnings), which are taxed at a higher rate than earnings from the Company's foreign operations. The Company anticipates that its tax rate for 2004 will approximate 36 percent.
- At the end of the quarter, the Company had a strong balance sheet, with \$1.2 billion in cash and marketable securities and \$2.0 billion in unused bank lines.
- Debt as a percent of total capitalization was 47 percent at both March 31, 2004 and 2003. The Company issued \$300 million of three-year notes (floating rate, based on LIBOR plus .25 percent) in the first quarter of 2004, the proceeds of which will be used to retire \$261 million of debt due in early May 2004.
- For the twelve months ended March 31, 2004 and March 31, 2003, return on invested capital (as reported) was 11.5 percent and 10.7 percent, respectively. For the twelve months ended March 31, 2004 and March 31, 2003, return on invested capital (as reconciled) was 11.6 percent and 11.5 percent, respectively. The Company continues to believe that it will achieve its 15 percent return on invested capital goal by 2008.
- The Company repurchased approximately 15 million common shares during the quarter and had 33 million common shares remaining under the December 2003 Board of Directors repurchase authorization at March 31, 2004.
- Over the past five quarters, the Company has returned in excess of \$1.5 billion to shareholders through share repurchases (50 million shares) and dividends.
- The Company's diluted common shares for purposes of calculating earnings per common share were 468 million for the first quarter of 2004 compared with 520 million for the first quarter of 2003.

**MASCO CORPORATION
BUSINESS AND FINANCIAL HIGHLIGHTS**

Full-Year Outlook

- Based on the current market price for the Company's common stock, diluted common shares for the computation of earnings per common share at April 1, 2004 are 461 million; this excludes the impact of any repurchases of common stock subsequent to March 31, 2004.

- The Company continues to experience better than expected sales performance thus far in 2004, and, based on current business trends, believes that it will achieve record sales and earnings for 2004 with full-year earnings from continuing operations in a range of \$2.00 to \$2.10 per common share. The new earnings guidance represents an increase from the previous guidance of \$1.80 to \$1.90 per common share.
- The new full-year 2004 guidance assumes that housing starts will remain flat to a decline of five percent compared with 2003. The Company's previous guidance assumed that housing starts would decline five to ten percent compared with 2003. The Company estimates that a one percent change in housing starts equates to approximately a \$.02 impact on earnings per common share. Earnings guidance for 2004 also includes a reduction of approximately \$.05 per common share resulting from the absence of earnings related to the European businesses to be divested. These businesses have been treated as discontinued operations effective in the first quarter of 2004, which includes the reclassification of their prior period results to discontinued operations. This year's earnings guidance also reflects increases in certain operating expenses, including such items as energy, insurance and certain material and freight costs, and excludes income related to the Behr litigation and the charge for businesses to be divested. Also, the guidance does not include any additional share repurchases subsequent to March 31, 2004.
- Based on current business trends, the Company anticipates that second quarter 2004 earnings from continuing operations will be in a range of \$.50 to \$.53 per common share compared with second quarter 2003 earnings of \$.44 per common share.

MASCO CORPORATION BUSINESS AND FINANCIAL HIGHLIGHTS

Statements contained herein may include certain forward-looking statements regarding Masco's future sales, earnings growth potential and other developments. Actual results may vary materially because of external factors such as interest rate fluctuations, changes in consumer spending and other factors over which management has no control. The Company believes that certain non-GAAP performance measures and ratios, used in managing the business, may provide users of this financial information with additional meaningful comparisons between current results and results in prior periods. Non-GAAP performance measures and ratios should be viewed in addition to, and not as an alternative for, the Company's reported results under accounting principles generally accepted in the United States. Additional information about our products, markets and conditions, which could affect our future performance, is contained in the Company's filings with the Securities and Exchange Commission and is available on Masco's website at www.masco.com. Masco undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

[Click here for financial information.](#)