FULLER H B CO
Form 10-Q
April 04, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 3, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-09225

H.B. FULLER COMPANY

(Exact name of registrant as specified in its charter)

Minnesota	**41-0268370**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1200 Willow Lake Boulevard, St. Paul, Minnesota	**55110-5101**
(Address of principal executive offices)	(Zip Code)

(651) 236-5900

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

The number of shares outstanding of the Registrant's Common Stock, par value $1.00 per share, was 50,553,159 as of March 29, 2018.

Table of Contents

H.B. Fuller Company

Quarterly Report on Form 10-Q

Table of Contents

		Page
PART 1. FINANCIAL INFORMATION		
ITEM 1.	FINANCIAL STATEMENTS (Unaudited)	3
	Condensed Consolidated Statements of Income for the three months ended March 3, 2018 and March 4, 2017	3
	Condensed Consolidated Statements of Comprehensive Income for the three months ended March 3, 2018 and March 4, 2017	4
	Condensed Consolidated Balance Sheets as of March 3, 2018 and December 2, 2017	5
	Condensed Consolidated Statements of Total Equity as of March 3, 2018 and December 2, 2017	6
	Condensed Consolidated Statements of Cash Flows for the three months ended March 3, 2018 and March 4, 2017	7
	Notes to Condensed Consolidated Financial Statements	8
ITEM 2.	MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	29
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	39
ITEM 4.	CONTROLS AND PROCEDURES	40
PART II. OTHER INFORMATION		41
ITEM 1.	LEGAL PROCEEDINGS	41
ITEM 1A.	RISK FACTORS	42
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	43
ITEM 6.	EXHIBITS	44

SIGNATURES 45

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

H.B. FULLER COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 3, 2018	**March 4, 2017**
Net revenue	**$*713,079***	$*503,323*
Cost of sales	***(525,374)***	*(364,327)*
Gross profit	***187,705***	*138,996*
Selling, general and administrative expenses	***(151,020)***	*(112,915)*
Other income (expense), net	***4,074***	*621*
Interest expense	***(27,545)***	*(8,380)*
Income before income taxes and income from equity method investments	***13,214***	*18,322*
Income taxes	***32,632***	*(5,765)*
Income from equity method investments	***1,821***	*2,274*
Net income including non-controlling interests	***47,667***	*14,831*
Net income (loss) attributable to non-controlling interests	***15***	*(36)*
Net income attributable to H.B. Fuller	**$*47,682***	$*14,795*
Earnings per share attributable to H.B. Fuller common stockholders:		
Basic	*0.94*	*0.29*
Diluted	*0.92*	*0.29*
Weighted-average common shares outstanding:		
Basic	***50,471***	*50,243*
Diluted	***51,898***	*51,460*
Dividends declared per common share	**$*0.15***	$*0.14*

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

3

Table of Contents

H.B. FULLER COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three Months Ended	
	March 3, 2018	**March 4, 2017**
Net income including non-controlling interests	**$47,667**	$14,831
Other comprehensive income (loss)		
Foreign currency translation	**21,455**	(10,519)
Defined benefit pension plans adjustment, net of tax	**1,660**	1,590
Interest rate swaps, net of tax	**15,952**	10
Cash-flow hedges, net of tax	**(6,841)**	129
Other comprehensive income (loss)	**32,226**	(8,790)
Comprehensive income	**79,893**	6,041
Less: Comprehensive (loss) income attributable to non-controlling interests	**(28)**	31
Comprehensive income attributable to H.B. Fuller	**$79,921**	$6,010

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

H.B. FULLER COMPANY AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	(Unaudited)	
	March 3, 2018	December 2, 2017
Assets		
Current assets:		
Cash and cash equivalents	***$ 132,478***	*$ 194,398*
Trade receivables (net of allowances of $13,101 and $11,670, as of March 3, 2018 and December 2, 2017, respectively)	***466,876***	*473,700*
Inventories	***410,205***	*359,505*
Other current assets	***107,922***	*117,389*
Total current assets	***1,117,481***	*1,144,992*
Property, plant and equipment	***1,316,084***	*1,288,287*
Accumulated depreciation	***(640,708)***	*(618,093)*
Property, plant and equipment, net	***675,376***	*670,194*
Goodwill	***1,361,331***	*1,336,684*
Other intangibles, net	***982,889***	*1,001,792*
Other assets	***236,976***	*206,984*
Total assets	***$ 4,374,053***	*$ 4,360,646*
Liabilities, non-controlling interest and total equity		
Current liabilities:		
Notes payable	***$ 31,167***	*$ 31,468*
Current maturities of long-term debt	***81,220***	*21,515*
Trade payables	***257,417***	*268,467*
Accrued compensation	***64,121***	*84,903*
Income taxes payable	***15,299***	*14,335*
Other accrued expenses	***73,603***	*84,225*
Total current liabilities	***522,827***	*504,913*
Long-term debt, excluding current maturities	***2,328,819***	*2,398,927*
Accrued pension liabilities	***78,346***	*71,205*

Other liabilities	***323,673***	*341,581*
Total liabilities	***3,253,665***	***3,316,626***
Commitments and contingencies (Note 16)		
Equity:		
H.B. Fuller stockholders' equity:		
Preferred stock (no shares outstanding) shares authorized – 10,045,900	**-**	-
Common stock, par value $1.00 per share, shares authorized – 160,000,000, shares outstanding – 50,533,050 and 50,388,839, as of March 3, 2018 and December 2, 2017, respectively	***50,533***	*50,389*
Additional paid-in capital	***78,642***	*74,662*
Retained earnings	***1,177,605***	*1,119,231*
Accumulated other comprehensive loss	***(186,757***)	*(200,655*)
Total H.B. Fuller stockholders' equity	***1,120,023***	*1,043,627*
Non-controlling interest	***365***	*393*
Total equity	***1,120,388***	*1,044,020*
Total liabilities, non-controlling interest and total equity	**$*4,374,053***	$*4,360,646*

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

5

Table of Contents

H.B. FULLER COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Total Equity
(In thousands)
(Unaudited)

	H.B. Fuller Company Shareholders					
	Common Stock	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Non-Controlling Interests**	**Total**
Balance at December 3, 2016	$ *50,141*	$ *59,564*	$ *1,090,900*	$ *(262,729)*	$ *393*	$ *938,269*
Comprehensive income	-	-	*58,242*	*62,074*	*39*	*120,355*
Dividends	-	-	*(29,911)*	-	-	*(29,911)*
Stock option exercises	*514*	*17,191*	-	-	-	*17,705*
Share-based compensation plans other, net	*165*	*17,203*	-	-	-	*17,368*
Tax benefit on share-based compensation plans	-	*2,010*	-	-	-	*2,010*
Repurchases of common stock	*(431)*	*(21,400)*	-	-	-	*(21,831)*
Purchase of redeemable non-controlling interest	-	*94*	-	-	-	*94*
Redeemable non-controlling interest	-	-	-	-	*(39)*	*(39)*
Balance at December 2, 2017	*50,389*	*74,662*	*1,119,231*	*(200,655)*	*393*	*1,044,020*
Comprehensive income (loss)	-	-	*47,682*	*32,239*	*(28)*	*79,893*
Dividends	-	-	*(7,649)*	-	-	*(7,649)*
Stock option exercises	*27*	*735*	-	-	-	*762*
Share-based compensation plans other, net	*180*	*6,450*	-	-	-	*6,630*
Repurchases of common stock	*(63)*	*(3,205)*	-	-	-	*(3,268)*
Reclassification of AOCI tax effects	-	-	*18,341*	*(18,341)*	-	-
Balance at March 3, 2018	**$ *50,533***	**$ *78,642***	**$ *1,177,605***	**$ *(186,757)***	**$ *365***	**$ *1,120,388***

Table of Contents

H.B. FULLER COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended	
	March 3, 2018	**March 4, 2017**
Cash flows from operating activities:		
Net income including non-controlling interests	**$*47,667***	$*14,831*
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation	***17,422***	*11,945*
Amortization	***19,243***	*7,355*
Deferred income taxes	***(50,613)***	*(246)*
Income from equity method investments, net of dividends received	***(1,821)***	*(2,274)*
Gain on sale of assets	***(2,098)***	*(95)*
Share-based compensation	***5,651***	*5,032*
Excess tax benefit from share-based compensation	***-***	*(1,053)*
Loss on mark to market adjustment related to contingent consideration liability	***48***	*37*
Non-cash charge for sale of inventories revalued at acquisition	***-***	*193*
Change in assets and liabilities, net of effects of acquisitions:		
Trade receivables, net	***16,613***	*4,884*
Inventories	***(46,713)***	*(32,597)*
Other assets	***(38,137)***	*3,960*
Trade payables	***(5,016)***	*23,989*
Accrued compensation	***(22,211)***	*(7,540)*
Other accrued expenses	***(10,465)***	*(8,089)*
Income taxes payable	***8,733***	*(1,109)*
Accrued / prepaid pensions	***(2,218)***	*(1,361)*
Other liabilities	***29,897***	*1,754*
Other	***1,939***	*(3,157)*
Net cash (used in) provided by operating activities	***(32,079)***	*16,459*
Cash flows from investing activities:		
Purchased property, plant and equipment	***(18,555)***	*(19,899)*
Purchased businesses, net of cash acquired	***-***	*(123,305)*
Purchased investments	***-***	*(1,250)*
Proceeds from sale of property, plant and equipment	***1,367***	*109*

Net cash used in investing activities	***(17,188)***	*(144,345)*
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	***-***	*453,000*
Repayment of long-term debt and payment of debt issuance costs	***(5,375)***	*(356,610)*
Net proceeds from notes payable	***231***	*8,438*
Dividends paid	***(7,642)***	*(7,048)*
Purchase of redeemable non-controlling interest	***-***	*(3,127)*
Proceeds from stock options exercised	***762***	*8,549*
Excess tax benefit from share-based compensation	***-***	*1,053*
Repurchases of common stock	***(3,268)***	*(2,430)*
Net cash (used in) provided by financing activities	***(15,292)***	*101,825*
Effect of exchange rate changes on cash and cash equivalents	***2,639***	*334*
Net change in cash and cash equivalents	***(61,920)***	*(25,727)*
Cash and cash equivalents at beginning of period	***194,398***	*142,245*
Cash and cash equivalents at end of period	**$*132,478***	$*116,518*
Supplemental disclosure of cash flow information:		
Dividends paid with company stock	**$*7***	$*2*
Cash paid for interest, net of amount capitalized of $66 and $23 for the periods ended March 3, 2018 and March 4, 2017, respectively	**$*29,701***	$*6,979*
Cash paid for income taxes, net of refunds	**$*9,797***	$*6,539*

7

H.B. FULLER COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Amounts in thousands, except share and per share amounts)

(Unaudited)

Note *1*: Basis of Presentation

The accompanying unaudited interim Condensed Consolidated Financial Statements of H.B. Fuller Company and Subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form *10*-Q and Article *10* of Regulation S-*X.* Accordingly, they do *not* include all of the information necessary for a fair presentation of results of operations, comprehensive income, financial position, and cash flows in conformity with U.S. generally accepted accounting principles. In our opinion, the unaudited interim Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature considered necessary for the fair presentation of the results for the periods presented. Operating results for interim periods are *not* necessarily indicative of results that *may* be expected for the fiscal year as a whole.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. These unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form *10*-K for the year ended *December 2, 2017* as filed with the Securities and Exchange Commission.

New Accounting Pronouncements

In *February 2018,* the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The ASU addresses the stranded income tax effects in accumulated other comprehensive income resulting from the "Tax Cuts and Jobs Act", hereafter referred to as "U.S. Tax Reform". In accordance with ASC Topic *740,* the effect of the reduced corporate income tax rate on deferred tax assets and liabilities is included in income from continuing operations during the *three* months ended *March 3, 2018.* Tax effects on items within accumulated other comprehensive income were left stranded at the historical tax rate. This guidance allows entities to reclassify the stranded income tax effects from accumulated other comprehensive income to retained earnings. Our effective date for adoption of ASU *No. 2018-02* is our fiscal year beginning *December 1,*

2019, with early adoption permitted. We elected to early adopt the guidance during the *three* months ended *March 3, 2018* using the security-by-security approach. The adoption of this ASU resulted in an *$18,341* reclassification from accumulated other comprehensive income (loss) to retained earnings due to the change in the federal corporate tax rate.

In *May 2017,* the FASB issued ASU *No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*. The ASU was issued to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Our effective date for adoption of this guidance is our fiscal year beginning *December 2, 2018* with early adoption permitted. We will apply this guidance to applicable transactions after the adoption date.

In *March 2017,* the FASB issued ASU *No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which requires employers to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses. The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in nonoperating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. Our effective date for adoption of this guidance is our fiscal year beginning *December 2, 2018* with early adoption permitted. We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In *February 2017,* the FASB issued ASU *No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.* The ASU was issued to clarify the scope of the previous standard and to add guidance for partial sales of nonfinancial assets. Our effective date for adoption of this guidance is our fiscal year beginning *December 2, 2018.* We have evaluated the effect that this guidance will have on our Consolidated Financial Statements and related disclosures and determined it will *not* have a material impact.

Table of Contents

In *January 2017,* the FASB issued ASU *No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,* which removes Step *2* of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, *not* to exceed the carrying amount of goodwill. Our effective date for prospective adoption of this guidance is our fiscal year beginning *November 29, 2020* with early adoption permitted. We will apply this guidance to applicable impairment tests after the adoption date.

In *November 2016,* the FASB issued ASU *No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).* This ASU requires that the reconciliation of the beginning-of-period and end-of-period amounts shown in the statement of cash flows include cash and restricted cash equivalents. Our effective date for adoption of this guidance is our fiscal year beginning *December 2, 2018.* We have evaluated the effect that this guidance will have on our Consolidated Financial Statements and related disclosures and determined it will *not* have a material impact.

In *October 2016,* the FASB issued ASU *No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.* This ASU changes the timing of income tax recognition for an intercompany sale of assets. The ASU requires the seller's tax effects and the buyer's deferred taxes to be recognized immediately upon the sale instead of deferring accounting for the income tax implications until the assets are sold to a *third* party or recovered through use. Our effective date for adoption of this guidance is our fiscal year beginning *December 2, 2018.* We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In *August 2016,* the FASB issued ASU *No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force).* This ASU requires changes in the presentation of certain items including but *not* limited to debt prepayment or debt extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies and distributions received from equity method investees. Our effective date for adoption of this guidance is our fiscal year beginning *December 2, 2018.* We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In *June 2016,* the FASB ASU *No. 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements.* This ASU requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Our effective date for adoption of this guidance is our fiscal year beginning *November 29, 2020.* We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In *March 2016,* the FASB issued ASU *No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting.* This ASU provides simplification in the accounting for share-based payment transactions including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. We adopted this guidance during the *three* months ended *March 3, 2018.* As a result of adoption, excess tax benefits/deficiencies are now recorded as income tax expense and are dependent upon market prices and the volume of stock option exercises and restricted stock vestings during the reporting period. Excess tax benefits of *$636* were recorded as a reduction to income tax expense within the Condensed Consolidated Statement of Income during the *three* months ended *March 3, 2018.* Excess tax benefits/deficiencies are now also classified as operating activities within the statement of cash flows and are excluded from the calculation of assumed proceeds available to repurchase shares under the treasury stock method. Cash payments to tax authorities for withheld shares in net-settlement features are classified as financing activities. These changes are applied prospectively, with the exception of the classification of cash payments to tax authorities in the statement of cash flows, which were already classified as financing activities. Therefore, *no* prior period adjustments were made as a result of the adoption of this guidance. We are continuing our existing practice of estimating the number of awards that will be forfeited in accordance with this ASU.

In *March 2016,* the FASB issued ASU *No. 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net).* This ASU provides guidance on recording revenue on a gross basis versus a net basis based on the determination of whether an entity is a principal or an agent when another party is involved in providing goods or services to a customer. The amendments in this ASU affect the guidance in ASU *No. 2014-09* and are effective in the same timeframe as ASU *No. 2014-09* as discussed below.

Table of Contents

In *February 2016,* the FASB issued ASU *No. 2016-02, Leases (Subtopic 842).* This guidance changes accounting for leases and requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet and requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. Our effective date for adoption of this guidance is our fiscal year beginning *December 1, 2019* with early adoption permitted. The new guidance must be adopted using a modified retrospective transition approach, and provides for certain practical expedients. We are currently evaluating the impact that the new guidance will have on our Consolidated Financial Statements.

In *January 2016,* the FASB issued ASU *No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are to be measured at fair value with changes in fair value recognized in net income. However, an entity *may* choose to measure equity investments that do *not* have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Furthermore, equity investments without readily determinable fair values are to be assessed for impairment using a quantitative approach. Our effective date for adoption of this guidance is our fiscal year beginning *December 2, 2018.* We have evaluated the effect that this guidance will have on our Consolidated Financial Statements and related disclosures and determined it will *not* have a material impact.

In *July 2015,* the FASB issued ASU *No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory*, which requires a company to measure inventory within the scope of this guidance (inventory measured using *first*-in, *first*-out (FIFO) or average cost) at the lower of cost and net realizable value methods. Subsequent measurement is unchanged for inventory measured using the last-in, *first*-out (LIFO) or retail inventory method. We adopted this guidance during the *three* months ended *March 3, 2018* on a prospective basis.

In *May 2014,* the FASB issued ASU *No. 2014-09, Revenue from Contracts with Customers (Topic 606),* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years and interim periods beginning after *December 15, 2017 (*as stated in ASU *No. 2015-14* which defers the effective date and was issued in *August 2015)* and is now effective for our fiscal year beginning *December 2, 2018.* Early application as of the original effective date is permitted under ASU *2015-14.* The standard permits the use of either the retrospective or cumulative effect transition method. We are continuing to evaluate the effect this guidance will have on our Consolidated Financial Statements, including potential impacts on the timing of revenue recognition and additional information that *may* be necessary for expanded disclosures regarding revenue. We have conducted initial analyses, developed project management relative to the process of adopting this ASU, and will be completing contract reviews to determine necessary adjustments to existing accounting policies and to support an evaluation of this ASU's impact on the Company's consolidated results of operations and financial condition. For the majority of our revenue arrangements, *no* significant impacts are expected as these transactions are *not* accounted for under industry-specific guidance that will be superseded by the ASU and generally consist of a single performance obligation to transfer promised goods or services. We have *not* concluded as to whether the new guidance will be adopted on a full or modified retrospective basis, but did *not* apply

the early adoption provisions of the new guidance.

Note *2:* Acquisitions

Adecol

On *November 1, 2017,* we acquired Adecol Industria Quimica, Limitada (“Adecol”), headquartered in Guarulhos, Brazil. Adecol works with customers to develop innovative, high-quality hot melt, reactive and polymer-based adhesive solutions in the packaging, converting and assembly markets. The acquisition is expected to enhance our business in Brazil by partnering with customers to produce new and better consumer and durable goods products in this region. The purchase price was *145.9* million Brazilian real, or approximately *$44,682,* and was funded through borrowings on our revolving credit facility and existing cash. Adecol is reported in our Americas Adhesives operating segment.

Table of Contents

The acquisition fair value measurement was preliminary as of *March 3, 2018,* subject to the completion of the valuation of Adecol and further management reviews and assessment of the preliminary fair values of the assets acquired and liabilities assumed. We expect the fair value measurement process to be completed when the final appraisals are available, but *no* later than *twelve* months from the acquisition date.

The following table summarizes the preliminary fair value measurement of the assets acquired and liabilities assumed as of the date of acquisition:

	December 2, 2017	**Adjustments**	**March 3, 2018**
Current assets	$ *17,877*	$ *(1,131*)	$ *16,746*
Property, plant and equipment	*7,308*	*302*	*7,610*
Goodwill	*23,282*	*651*	*23,933*
Other intangibles			
Customer relationships	*17,016*	*(383*)	*16,633*
Trademarks/trade names	*1,363*	*(65*)	*1,298*
Other assets	*4,811*	-	*4,811*
Current liabilities	*(12,765*)	*291*	*(12,474*)
Other liabilities	*(14,210*)	*335*	*(13,875*)
Total purchase price	$ *44,682*	$ -	$ *44,682*

The preliminary expected lives of the acquired intangible assets are *13* years for customer relationships and *five* years for trademarks/trade names.

Based on the preliminary fair value measurement of the assets acquired and liabilities assumed, we allocated *$23,933* to goodwill for the expected synergies from combining Adecol with our existing business. Such goodwill is *not* deductible for tax purposes. The goodwill was assigned to our Americas Adhesives operating segment.

Royal Adhesives

On *October 20, 2017,* we acquired Royal Adhesives and Sealants ("Royal Adhesives"), a manufacturer of high-value specialty adhesives and sealants. Royal Adhesives is a supplier of industrial adhesives in a diverse set of end markets, including aerospace, transportation, commercial roofing, insulating glass, solar, packaging and flooring applications and operates *19* manufacturing facilities in *five* countries. The acquisition is expected to expand our presence in North America, Europe and China and add new technology and packaging capabilities. The purchase price of *$1,622,728*

was funded through new debt financing. Royal Adhesives is included in multiple operating segments for the *three* months ended *March 3, 2018.* See Note *17* for further information on the change to our operating segments for the Royal acquisition.

The acquisition fair value measurement was preliminary as of *March 3, 2018,* subject to the completion of the valuation of Royal Adhesives and further management reviews and assessment of the preliminary fair values of the assets acquired and liabilities assumed. We expect the fair value measurement process to be completed when the final appraisals are available, but *no* later than *twelve* months from the acquisition date.

Table of Contents

The following table summarizes the preliminary fair value measurement of the assets acquired and liabilities assumed as of the date of acquisition:

	December 2, 2017	**Adjustments**	**March 3, 2018**
Accounts receivable	$*64,904*	$ *278*	$*65,182*
Inventory	*93,680*	-	*93,680*
Other current assets	*58,508*	*528*	*59,036*
Property, plant and equipment	*126,192*	-	*126,192*
Goodwill	*866,013*	*6,475*	*872,488*
Other intangibles			
Developed technology	*59,800*	*(300*)	*59,500*
Customer relationships	*645,300*	*(6,500*)	*638,800*
Trademarks/trade names	*53,600*	*(300*)	*53,300*
Other assets	*1,443*	-	*1,443*
Accounts payable	*(40,211*)	*1,477*	*(38,734*)
Other current liabilities	*(37,261*)	*(3,065*)	*(40,326*)
Other liabilities	*(269,240*)	*1,407*	*(267,833*)
Total purchase price	$*1,622,728*	$ -	$*1,622,728*

The preliminary expected lives of the acquired intangible assets are *15* years for developed technology, *18* years for customer relationships and *15* years for trademarks/trade names.

Based on the preliminary fair value measurement of the assets acquired and liabilities assumed, we allocated *$872,488* to goodwill for the expected synergies from combining Royal Adhesives with our existing business. The goodwill was assigned to multiple operating segments. The amount of goodwill that is deductible for tax purposes is *$38,275.* The remaining goodwill is *not* deductible for tax purposes.

Wisdom Adhesives

On *January 27, 2017,* we acquired substantially all of the assets of H.E. Wisdom & Sons, Inc. and its affiliate Wisdom Adhesives Southeast, L.L.C., ("Wisdom Adhesives") headquartered in Elgin, Illinois. Wisdom Adhesives is a provider of adhesives for the packaging, paper converting and durable assembly markets. The acquisition is expected to strengthen our position in the North America adhesives market. The purchase price of *$123,549* was financed through borrowings on our revolving credit facility and is reported in our Americas Adhesives operating segment. We incurred acquisition related costs of approximately *$547,* which were recorded as selling, general and administrative (SG&A) expenses in the Condensed Consolidated Statement of Income for the *three* months ended *March 4, 2017.*

The following table summarizes the final fair value measurement of the assets acquired and liabilities assumed as of the acquisition date:

	December 2, 2017
Current assets	$ *13,844*
Property, plant and equipment	*8,641*
Goodwill	*59,826*
Other intangibles	
Customer relationships	*45,300*
Trademarks/trade names	*4,400*
Current liabilities	*(8,462*)
Total purchase price	$ *123,549*

The expected lives of the acquired intangible assets are *15* years for customer relationships and *10* years for trademarks/trade names.

12

Table of Contents

Based on the fair value measurement of the assets acquired and liabilities assumed, we allocated *$59,826* to goodwill for the expected synergies from combining Wisdom Adhesives with our existing business. Such goodwill is deductible for tax purposes. The goodwill was assigned to our Americas Adhesives operating segment.

Note *3:* Restructuring Actions

During the *three* months ended *March 3, 2018,* we approved a restructuring plan consisting of consolidation plans, organizational changes and other actions related to the integration of the operations of Royal Adhesives with the operations of the Company. During the *three* months ended *March 4, 2017,* we approved a restructuring plan related to organizational changes and other actions to optimize operations. We recorded a pre-tax charge of *$1,829* and *$10,168* during the *three* months ended *March 3, 2018* and *March 4, 2017* respectively, related to these plans.

The following table summarizes the pre-tax distribution of charges under these restructuring plans by income statement classification:

	Three Months Ended March 3, 2018	**Three Months Ended March 4, 2017**
Cost of sales	$ *232*	$ *3,647*
Selling, general and administrative	*1,597*	*6,521*
	$ *1,829*	$ *10,168*

The following table summarizes the pre-tax impact of restructuring charges by segment:

	Three Months Ended	**Three Months Ended**

	March 3, 2018	March 4, 2017
Americas Adhesives	$ *803*	$ *1,978*
EIMEA	*(42*)	*4,628*
Asia Pacific	*3*	*1,679*
Construction Adhesives	*809*	*1,262*
Engineering Adhesives	*256*	*621*
	$ *1,829*	$ *10,168*

A summary of the restructuring liability is presented below:

	Employee-Related	Asset-Related	Other	Total
Balance at December 3, 2016	$ -	$ -	$ -	$ -
Expenses incurred	*10,266*	*5,394*	*2,371*	*18,031*
Non-cash charges	-	*(4,291*)	-	*(4,291*)
Cash payments	*(9,210*)	*(1,103*)	*(2,351*)	*(12,664*)
Foreign currency translation	*430*	-	-	*430*
Balance at December 2, 2017	$ *1,486*	$ -	$ *20*	$ *1,506*
Expenses incurred	*1,528*	*147*	*154*	*1,829*
Cash payments	*(598*)	*(147*)	*(139*)	*(884*)
Foreign currency translation	*37*	-	-	*37*
Balance at March 3, 2018	$ *2,453*	$ -	$ *35*	$ *2,488*

Non-cash charges for the year ended *December 2, 2017* include accelerated depreciation resulting from the cessation of use of certain long-lived assets and the recording of a provision related to the discontinuance of certain retail and wholesale products. Restructuring liabilities have been classified as a component of other accrued expenses on the Condensed Consolidated Balance Sheets.

Table of Contents

Note *4:* Inventories

The composition of inventories is as follows:

	March 3, 2018	**December 2, 2017**
Raw materials	**$*198,992***	$ *174,325*
Finished goods	***224,306***	*198,273*
LIFO reserve	***(13,093***)	*(13,093*)
Total inventories	**$*410,205***	$ *359,505*

Note *5*: Goodwill and Other Intangible Assets

The goodwill activity for the *three* months ended *March 3, 2018* is presented below:

	Americas Adhesives	**EIMEA**	**Asia Pacific**	**Construction Adhesives**	**Engineering Adhesives**	**Total**
Balance at December 2, 2017	$ *373,328*	$ *177,464*	$ *21,514*	$ *324,860*	$ *439,518*	$ *1,336,684*
Acquisitions [1]	*2,382*	*518*	*25*	*2,258*	*1,943*	*7,126*
Currency impact	*3,045*	*8,588*	*92*	*(166*)	*5,962*	*17,521*
Balance at March 3, 2018	$ *378,755*	$ *186,570*	$ *21,631*	$ *326,952*	$ *447,423*	$ *1,361,331*

1 Adjustments to preliminary goodwill for Royal Adhesives and Adecol as of *March 3, 2018.*

As discussed in Note *17,* as of the beginning of the *three* months ended *March 3, 2018,* we modified our operating segment structure by allocating the Royal Adhesives segment into each of the *five* other segments. This resulted in a change in our reporting units. We allocated goodwill to our reporting units using the relative fair value approach.

Balances of amortizable identifiable intangible assets,

excluding
goodwill and
other
non-amortizable
intangible assets,
are as follows:

	March 3, 2018			
Amortizable Intangible Assets	**Purchased Technology & Patents**	**Customer Relationships**	**All Other**	**Total**
Original cost	**$*132,528***	**$ *968,303***	**$*110,604***	**$*1,211,435***
Accumulated amortization	***(29,998*** **)**	***(158,256*** **)**	***(40,848*** **)**	***(229,102*** **)**
Net identifiable intangibles	**$*102,530***	**$ *810,047***	**$*69,756***	**$*982,333***

	December 2, 2017			
Amortizable Intangible Assets	**Purchased Technology & Patents**	**Customer Relationships**	**All Other**	**Total**
Original cost	$*132,495*	$ *968,060*	$*110,576*	$*1,211,131*
Accumulated amortization	*(27,478*)	*(144,964*)	*(37,417*)	*(209,859*)
Net identifiable intangibles	$*105,017*	$ *823,096*	$*73,159*	$*1,001,272*

Amortization expense with respect to amortizable intangible assets was *$19,243* and *$7,355* for the *three* months ended *March 3, 2018* and *March 4, 2017,* respectively.

Table of Contents

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets for the next *five* fiscal years are as follows:

Fiscal Year	**Remainder of 2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Amortization Expense	$ *57,416*	$*75,846*	$*73,309*	$*71,767*	$*69,193*	$ *634,802*

Non-amortizable intangible assets as of *March 3, 2018* and *December 2. 2017* are *$556* and *$520,* respectively and are related to trademarks and trade names.

Note *6:* Long-Term Debt

On *February 27, 2018* we entered into an interest rate swap agreement to convert *$200,000* of our Term Loan B Credit Agreement ("Term Loan B") issued on *October 20, 2017* to a fixed interest rate of *4.839* percent. See Note *13* for further discussion of the issuance of these interest rate swaps.

Subsequent to *March, 3, 2018,* we entered into interest rate swap agreements to convert *$300,000* of our Term Loan B Credit Agreement to a fixed interest rate of *4.5305* percent.

Note *7:* Redeemable Non-Controlling Interest

Prior to the end of the *first* quarter of *2017,* we had a non-controlling interest in H.B. Fuller Kimya Sanayi Ticaret A.S. (“HBF Kimya”) which was accounted for as a redeemable non-controlling interest because both the non-controlling shareholder and H.B. Fuller had an option, exercisable beginning *August 1, 2018,* to require the redemption of the shares owned by the non-controlling shareholder at a price determined by a formula based on *24* months trailing EBITDA. Since the option made the redemption of the non-controlling ownership shares of HBF Kimya outside of our control, these shares were classified as a redeemable non-controlling interest in temporary equity in the Consolidated Balance Sheets. The non-controlling shareholder was entitled to increase his ownership by *1* percent per year for *5* years up to a maximum of *13* percent ownership based on the achievement of profitability targets in each year. The option was subject to a minimum price of *€3,500.*

The results of operations for the HBF Kimya non-controlling interest were consolidated in our financial statements. Both the non-controlling interest and the accretion adjustment to redemption value were included in net income attributable to non-controlling interests in the Consolidated Statements of Income for the *three* months ended *March 4, 2017.*

During the *three* months ended *March 4, 2017,* we purchased the remaining shares from the non-controlling shareholder for *€4,206.* The difference between the non-controlling interest balance and the purchase price was recorded in additional paid-in capital for the *three* months ended *March 4, 2017.*

Note *8:* Accounting for Share-Based Compensation

Overview

We have various share-based compensation programs, which provide for equity awards including non-qualified stock options, restricted stock shares, restricted stock units, performance awards and deferred compensation. These equity awards fall under several plans and are described in detail in our Annual Report on Form *10*-K for the year ended *December 2, 2017.*

During the *three* months ended *March 3, 2018,* we adopted ASU *No. 2016-09, Improvements to Employee Share-Based Payment Accounting*. The adoption is required to be implemented prospectively. See Note *1* for additional information regarding ASU *No. 2016-09.*

Table of Contents

Grant-Date Fair Value

We use the Black-Scholes option pricing model to calculate the grant-date fair value of an award. The fair value of options granted during the *three* months ended *March 3, 2018* and *March 4, 2017* was calculated using the following weighted average assumptions:

	Three Months Ended					
	March 3, 2018			**March 4, 2017**		
Expected life (in years)		*4.75*			*4.75*	
Weighted-average expected volatility		*23.26%*			*24.87%*	
Expected volatility	*23.18%*	-	*23.26%*	*24.84%*	-	*24.88%*
Risk-free interest rate	*2.38%*	-	*2.53%*		*1.89%*	
Expected dividend yield		*1.12%*			*1.12%*	
Weighted-average fair value of grants		*$11.37*			*$10.81*	

Expected life – We use historical employee exercise and option expiration data to estimate the expected life assumption for the Black-Scholes grant-date valuation. We believe that this historical data is currently the best estimate of the expected term of a new option. We use a weighted-average expected life for all awards.

Expected volatility – Volatility is calculated using our stock's historical volatility for the same period of time as the expected life. We have *no* reason to believe that our future volatility will differ materially from historical volatility.

Risk-free interest rate – The rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the same period of time as the expected life.

Expected dividend yield – The calculation is based on the total expected annual dividend payout divided by the average stock price.

Expense

We use the straight-line attribution method to recognize share-based compensation expense for option awards, restricted stock shares and restricted stock units with graded and cliff vesting. Incentive stock options and performance awards are based on certain performance-based metrics and the expense is adjusted quarterly, based on

our projections of the achievement of those metrics. The amount of share-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. The expense is recognized over the requisite service period, which for us is the period between the grant-date and the earlier of the award's stated vesting term or the date the employee is eligible for early vesting based on the terms of the plans.

Total share-based compensation expense of *$5,651* and *$5,032* was included in our Condensed Consolidated Statements of Income for the *three* months ended *March 3, 2018* and *March 4, 2017,* respectively. All share-based compensation expense was recorded as SG&A expense. Beginning with the *three* months ended *March 3, 2018,* excess tax benefits are recorded as income tax expense in accordance with ASU *No. 2016-09.* For the *three* months ended *March 4, 2017,* there was *$1,053* of excess tax benefit recognized in additional paid-in capital.

As of *March 3, 2018,* there was *$19,196* of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of *1.8* years. Unrecognized compensation costs related to unvested restricted stock units was *$16,181,* which is expected to be recognized over a weighted-average period of *1.6* years.

Table of Contents

Stock Option Activity

The stock option activity for the *three* months ended *March 3, 2018* is presented below:

	Options	Average Exercise Price
Outstanding at December 2, 2017	*3,860,764*	$ *42.28*
Granted	*672,373*	*53.40*
Exercised	*(26,616*)	*28.65*
Forfeited or cancelled	*(1,821*)	*43.58*
Outstanding at March 3, 2018	*4,504,700*	$ *41.73*

The fair value of options granted during the *three* months ended *March 3, 2018* and *March 4, 2017* was *$7,645* and *$7,384,* respectively. Total intrinsic value of options exercised during the *three* months ended *March 3, 2018* and *March 4, 2017* was *$638* and *$4,420,* respectively. Intrinsic value is the difference between our closing stock price on the respective trading day and the exercise price, multiplied by the number of options exercised. Proceeds received from option exercises during the *three* months ended *March 3, 2018* and *March 4, 2017* were *$762* and *$8,549,* respectively.

Restricted Stock Activity

The nonvested restricted stock activity for the *three* months ended *March 3, 2018* is presented below:

	Units	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (in Years)
Nonvested at December 2, 2017	*462,241*	$ *44.80*	*1.0*
Granted	*132,634*	*53.56*	*2.9*
Vested	*(167,419*)	*42.45*	-
Forfeited	*(848*)	*45.34*	*1.6*
Nonvested at March 3, 2018	*426,608*	$ *47.63*	*1.6*

Total fair value of restricted stock vested during the *three* months ended *March 3, 2018* and *March 4, 2017* was *$7,900* and *$6,941,* respectively. The total fair value of nonvested restricted stock at *March 3, 2018* was *$20,320.*

We repurchased *63,540* and *50,687* restricted stock shares during the *three* months ended *March 3, 2018* and *March 4, 2017,* respectively. The repurchases relate to statutory minimum tax withholding.

Table of Contents

Deferred Compensation Activity

We have a Directors' Deferred Compensation plan that allows non-employee directors to defer all or a portion of their directors' compensation in a number of investment choices, including units representing shares of our common stock. We also have a Key Employee Deferred Compensation Plan that allows key employees to defer a portion of their eligible compensation in a number of investment choices, including units, representing shares of our common stock. We provide a *10* percent match on deferred compensation invested into units, representing shares of our common stock. The deferred compensation unit activity for the *three* months ended *March 3, 2018* is presented below:

	Non-employee Directors	**Employees**	**Total**
Units outstanding December 2, 2017	*443,570*	*31,606*	*475,176*
Participant contributions	*4,041*	*2,891*	*6,932*
Company match contributions	*404*	*289*	*693*
Payouts	-	*(3,532*)	*(3,532*)
Units outstanding March 3, 2018	*448,015*	*31,254*	*479,269*

Deferred compensation units are fully vested at the date of contribution.

Note *9:* Components of Net Periodic Cost (Benefit) related to Pension and Other Postretirement Benefit Plans

	Three Months Ended March 3, 2018 and March 4, 2017					
	Pension Benefits				**Other Postretirement Benefits**	
	U.S. Plans		**Non-U.S. Plans**			
Net periodic cost (benefit):	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Service cost	**$*14***	$*28*	**$*598***	$*508*	**$*43***	$*52*
Interest cost	***3,419***	*3,603*	***1,204***	*1,144*	***371***	*398*
Expected return on assets	***(6,541*)**	*(6,364*)	***(2,864*)**	*(2,391*)	***(1,724*)**	*(1,447*)
Amortization:						

Prior service cost	***7***	*7*	***(1)***	*(1)*	***-***	*-*
Actuarial loss	***1,475***	*1,307*	***749***	*842*	***15***	*253*
Net periodic (benefit) cost	**$*(1,626)***	$*(1,419)*	**$*(314)***	$*102*	**$*(1,295)***	$*(744)*

18

Table of Contents

Note *10:* Accumulated Other Comprehensive Income (Loss)

The following table provides details of total comprehensive income (loss):

	Three Months Ended March 3, 2018				Three Months Ended March 4, 2017			
	H.B. Fuller Stockholders			Non-controlling Interests	H.B. Fuller Stockholders			Non-controlling Interests
	Pre-tax	Tax	Net	Net	Pre-tax	Tax	Net	Net
Net income including non-controlling interests	-	-	$47,682	$ (15)	-	-	$14,795	$ 36
Foreign currency translation adjustment[1]	$21,468	-	21,468	(13)	$(10,514)	-	(10,514)	(5)
Reclassification to earnings:								
Defined benefit pension plans adjustment[2]	2,238	$(578)	1,660	-	2,408	$(818)	1,590	-
Interest rate swap[3]	20,727	(4,775)	15,952	-	16	(6)	10	-
Cash-flow hedges[3]	(4,563)	(2,278)	(6,841)	-	209	(80)	129	-
Other comprehensive income (loss)	$39,870	$(7,631)	32,239	(13)	$(7,881)	$(904)	(8,785)	(5)
Comprehensive income (loss)			$79,921	$ (28)			$6,010	$ 31

[1] Income taxes are *not* provided for foreign currency translation relating to permanent investments in international subsidiaries. The foreign currency translation adjustment for the *three* months ended *March 4, 2017* includes *$11,317* related to the impact of the change in functional currency for our subsidiaries in Latin America.

[2] Loss reclassified from accumulated other comprehensive income ("AOCI") into earnings as part of net periodic cost related to pension and other postretirement benefit plans is reported in cost of sales and SG&A expense.

[3] Income (loss) reclassified from AOCI into earnings is reported in other income (expense), net.

The components of accumulated other comprehensive loss is as follows:

	March 3, 2018		
	Total	H.B. Fuller Stockholders	Non-controlling Interests
Foreign currency translation adjustment	$(34,704)	$ (34,616)	$ (88)

Defined benefit pension plans adjustment, net of taxes of $73,804	***(139,511)***	***(139,511)***	**-**
Interest rate swap, net of taxes of ($5,958)	***17,874***	***17,874***	**-**
Cash-flow hedges, net of taxes of $998	***(12,163)***	***(12,163)***	**-**
Reclassification of AOCI tax effects	***(18,341)***	***(18,341)***	
Accumulated other comprehensive loss	**$*(186,845)***	**$ *(186,757)***	**$ *(88)***

19

	December 2, 2017		
	Total	H.B. Fuller Stockholders	Non-controlling Interests
Foreign currency translation adjustment	$*(56,159*)	$ *(56,084*)	$ *(75*)
Defined benefit pension plans adjustment, net of taxes of $74,382	*(141,171*)	*(141,171*)	-
Interest rate swap, net of taxes of ($1,183)	*1,922*	*1,922*	-
Cash-flow hedges, net of taxes of $3,276	*(5,322*)	*(5,322*)	-
Accumulated other comprehensive loss	$*(200,730*)	$ *(200,655*)	$ *(75*)

Note *11*: Income Taxes

On *December 22, 2017,* the President of the United States signed into law U.S. Tax Reform. U.S. Tax Reform includes a number of provisions, including the lowering of the U.S. corporate tax rate from *35* percent to *21* percent, effective *January 1, 2018,* which results in a blended federal tax rate for fiscal year *2018.* U.S. Tax Reform also includes international provisions, which generally establish a territorial-style system for taxing foreign-source income of domestic multinational corporations and imposes a *one*-time transition tax on deemed repatriated accumulated foreign earnings as of *December 31, 2017.*

During the *three* months ended *March 3, 2018,* we recorded a provisional *$35.6* million income tax benefit related to U.S. Tax Reform. This provisional amount includes a *$76.4* million benefit for the remeasurement of deferred tax assets and liabilities due to the decreased tax rate net of income tax expense for the transition tax. The *$40.8* million transition tax is based on certain foreign earnings and profits for which earnings had been previously indefinitely reinvested, as well as estimates of assets and liabilities at future dates. The provisional amounts are subject to adjustment during the measurement period of *one* year following the enactment of U.S. Tax Reform. Our estimates are subject to change as we review the data available and any additional guidance, and will be evaluated throughout the measurement period, as permitted by Staff Accounting Bulletin *No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act*.

As of *March 3, 2018,* we had a liability of *$9,116* recorded under ASC *740, Income Taxes*, for gross unrecognized tax benefits (excluding interest), compared to *$8,887* as of *December 2, 2017.* As of *March 3, 2018,* we had accrued *$638* of gross interest relating to unrecognized tax benefits. For the *three* months ended *March 3, 2018,* our recorded liability for gross unrecognized tax benefits increased by *$229.*

Note *12:* Earnings Per Share

A reconciliation of the common share components for the basic and diluted earnings per share calculations is as follows:

	Three Months Ended	
(Shares in thousands)	**March 3, 2018**	**March 4, 2017**
Weighted-average common shares - basic	***50,471***	*50,243*
Equivalent shares from share-based compensations plans	***1,427***	*1,217*
Weighted-average common and common equivalent shares - diluted	***51,898***	*51,460*

Basic earnings per share is calculated by dividing net income attributable to H.B. Fuller by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per share is based upon the weighted-average number of common and common equivalent shares outstanding during the applicable period. The difference between basic and diluted earnings per share is attributable to share-based compensation awards. We use the treasury stock method to calculate the effect of outstanding shares, which computes total employee proceeds as the sum of (a) the amount the employee must pay upon exercise of the award, (b) the amount of unearned share-based compensation costs attributed to future services and (c) the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the award. Share-based compensation awards for which total employee proceeds exceed the average market price over the applicable period have an antidilutive effect on earnings per share, and accordingly, are excluded from the calculation of diluted earnings per share.

Share-based compensation awards for *2,226,893* and *632,720* shares for the *three* months ended *March 3, 2018* and *March 4, 2017,* respectively, were excluded from the diluted earnings per share calculations because they were antidilutive.

Note *13:* Financial Instruments

Overview

As a result of being a global enterprise, our earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables and payables.

We use foreign currency forward contracts, cross-currency swaps, and interest rate swaps to manage risks associated with foreign currency exchange rates and interest rates. We do *not* hold derivative financial instruments of a speculative nature or for trading purposes. We record derivatives as assets and liabilities on the balance sheet at fair value. Changes in fair value are recognized immediately in earnings unless the derivative qualifies and is designated as a hedge. Cash flows from derivatives are classified in the statement of cash flows in the same category as the cash flows from the items subject to designated hedge or undesignated (economic) hedge relationships. The company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is *no* longer expected to be effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings.

We are exposed to credit risk in the event of nonperformance of counterparties for foreign currency forward exchange contracts and interest rate swap agreements. We select investment-grade multinational banks and financial institutions as counterparties for derivative transactions and monitor the credit quality of each of these banks on a periodic basis as warranted. We do *not* anticipate nonperformance by any of these counterparties, and valuation allowances, if any, are de minimis.

Cash Flow Hedges

Effective *October 20, 2017,* we entered into *six* cross-currency swap agreements to convert a notional amount of *$401,200* of foreign currency denominated intercompany loans into U.S. dollars. The swaps mature in *2021* and *2022.*

Effective *February 24, 2017,* we entered into a cross-currency swap agreement to convert a notional amount of *$42,600* of foreign currency denominated intercompany loans into U.S. dollars. The swap matures in *2020.*

Effective *October 7, 2015,* we entered into *three* cross-currency swap agreements to convert a notional amount of *$134,736* of foreign currency denominated intercompany loans into US dollars. The *first* swap matured in *2017,* the *second* swap matures in *2018* and the *third* swap matures in *2019.*

As of *March 3, 2018,* the combined fair value of the swaps was a liability of *$46,195* and was included in other liabilities in the Consolidated Balance Sheets. The swaps were designated as cash-flow hedges for accounting treatment. The lesser amount between the cumulative change in the fair value of the actual swaps and the cumulative change in the fair value of hypothetical swaps is recorded in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets. The difference between the cumulative change in the fair value of the actual swaps and the cumulative change in the fair value of hypothetical swaps are recorded as other income (expense), net in the Condensed Consolidated Statements of Income. In a perfectly effective hedge relationship, the *two* fair value calculations would exactly offset each other. Any difference in the calculation represents hedge ineffectiveness. The amount in accumulated other comprehensive income (loss) related to cross-currency swaps was a loss of *$12,163* as of *March 3, 2018.* The estimated net amount of the existing loss that is reported in accumulated other comprehensive income (loss) as of *March 3, 2018* that is expected to be reclassified into earnings within the next *twelve* months is *$2,050.* As of *March 3, 2018,* we do *not* believe any gains or losses will be reclassified into earnings as a result of the discontinuance of these cash flow hedges because the original forecasted transaction will *not* occur.

Table of Contents

The following table summarizes the cross-currency swaps outstanding as of *March 3, 2018:*

	Fiscal Year of Expiration	Interest Rate	Notional Value	Fair Value
Pay EUR	2018	*3.45%*	$*44,912*	$*(4,908*)
Receive USD		*4.5374%*		
Pay EUR	2019	*3.80%*	$*44,912*	$*(5,943*)
Receive USD		*5.0530%*		
Pay EUR	2020	*1.95%*	$*42,600*	$*(7,820*)
Receive USD		*4.3038%*		
Pay EUR	2018	*2.75%*	$*133,340*	$*(8,930*)
Receive USD		*4.9330%*		
Pay EUR	2019	*3.00%*	$*267,860*	$*(18,594*)
Receive USD		*5.1803%*		
Total			$*533,624*	$*(46,195*)

On *February 27, 2018,* we entered into an interest rate swap agreement to convert *$200,000* of our *$2,150,000* Term Loan B to a fixed interest rate of *4.839* percent. On *October 20, 2017* we entered into interest rate swap agreements to convert *$1,050,000* of our *$2,150,000* Term Loan B issued on *October 20, 2017* to a fixed interest rate of *4.2775* percent. The combined fair value of the interest rate swaps in total was an asset of *$23,997* at *March 3, 2018* and was included in other assets in the Consolidated Balance Sheets. The swaps were designated for hedge accounting treatment as cash flow hedges. We are applying the shortcut method in accounting for these interest rate swaps as we expect changes in the cash flows of the interest rate swap to offset the changes in cash flows (i.e. changes in interest rate payments) attributable to fluctuations in LIBOR rates on the interest payments associated with the *first $1,250,000* tranche of the variable rate Term Loan B, resulting in *no* ineffectiveness.

Subsequent to *March, 3, 2018,* we entered into interest rate swap agreements to convert *$300,000* of our *$2,150,000* Term Loan B to a fixed interest rate of *4.5305* percent.

The location in the Condensed Consolidated Statements of Income and Comprehensive Income and amounts of gains (losses) related to derivative instruments designated as cash flow hedges are as follows:

Derivatives in Cash Flow Hedging Relationships	March 3, 2018 Pretax Gain(Loss) Recognized in other Comprehensive Income Amount	March 4, 2017 Pretax Gain(Loss) Recognized in other Comprehensive Income Amount
Cross-currency swap contracts	$ *(4,563)*	$ *209*
Interest rate swap contracts	*20,727*	*16*

Table of Contents

Fair Value Hedges

During the *three* months ended *March 4, 2017,* we entered into interest rate swap agreements to convert *$150,000* of our *$300,000* Public Notes that were issued on *February 14, 2017* to a variable interest rate of *1*-month LIBOR plus *1.86* percent. The combined fair value of the interest rate swaps in total was a liability of *$8,024* at *March 3, 2018* and was included in other liabilities in the Consolidated Balance Sheets. The swaps were designated for hedge accounting treatment as fair value hedges. We are applying the shortcut method in accounting for these interest rate swaps as we expect that the changes in the fair value of the swap will offset the changes in the fair value of the Public Notes resulting in *no* ineffectiveness. As a result of applying the shortcut method, the change in the fair value of the interest rate swap and an equivalent amount for the change in the fair value of the debt will be reflected in other income (expense), net and *no* ineffectiveness will be recognized in our Consolidated Statements of Income.

Derivatives Not Designated As Hedging Instruments

The company uses foreign currency forward contracts to offset its exposure to the change in value of certain foreign currency denominated assets and liabilities held at foreign subsidiaries that are remeasured at the end of each period. Although the contracts are effective economic hedges, they are *not* designated as accounting hedges. Foreign currency forward contracts are recorded as assets and liabilities on the balance sheet at fair value. Changes in the value of these derivatives are recognized immediately in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities.

See Note *14* for fair value amounts of these derivative instruments.

As of *March 3, 2018,* we had forward foreign currency contracts maturing between *March 6, 2018* and *September 17, 2018.* The mark-to-market effect associated with these contracts was largely offset by the underlying transaction gains and losses resulting from the foreign currency exposures for which these contracts relate.

The location in the Consolidated Statements of Income and amounts of gains (losses) related to derivative instruments *not* designated as hedging instruments are as follows:

Derivatives Not Designated as Hedging Relationships	**Pretax Gain (Loss) Recognized in Income**		
		March 3, 2018	**Year Ended**

	Location	Amount	December 2, 2017 Amount
Foreign currency forward contracts	Other (expense) income, net	$ *(7,421*)	$ *(3,797*)

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities in the customer base and their dispersion across many different industries and countries. As of *March 3, 2018,* there were *no* significant concentrations of credit risk.

Table of Contents

Note *14:* Fair Value Measurements

Overview

Estimates of fair value for financial assets and liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into *three* broad levels. The following is a brief description of those *three* levels:

Level *1:* Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level *2:* Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are *not* active.

Level *3:* Unobservable inputs that reflect management's assumptions, and include situations where there is little, if any, market activity for the asset or liability.

Balances Measured at Fair Value on a Recurring Basis

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of *March 3, 2018* and *December 2, 2017,* and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	March 3,	**Fair Value Measurements Using:**		
Description	**2018**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Marketable securities	**$*5,973***	**$*5,973***	**$-**	**$-**

Foreign exchange contract assets	***1,180***	**-**	***1,180***	**-**
Interest rate swaps, cash flow hedges	***24,247***		***24,247***	
Liabilities:				
Foreign exchange contract liabilities	**$*8,600***	**$-**	**$*8,600***	**$-**
Interest rate swaps, cash flow hedges	***250***		***250***	
Interest rate swaps, fair value hedges	***8,024***	**-**	***8,024***	**-**
Cross-currency cash flow hedges	***46,195***	**-**	***46,195***	**-**
Contingent consideration liability	***566***	**-**	**-**	***566***

	December 2,	**Fair Value Measurements Using:**		
Description	**2017**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Marketable securities	$ *7,528*	$*7,528*	$-	$-
Foreign exchange contract assets	*600*	-	*600*	-
Interest rate swaps, cash flow hedges	*3,104*	-	*3,104*	-
Liabilities:				
Foreign exchange contract liabilities	$ *4,397*	$-	$*4,397*	$-
Interest rate swaps, fair value hedges	*2,121*	-	*2,121*	-
Cross-currency cash flow hedges	*20,136*	-	*20,136*	-
Contingent consideration liability	*496*	-	-	*496*

Long-term debt had an estimated fair value of *$2,399,063* and *$2,452,034* as of *March 3, 2018* and *December 2, 2017,* respectively. The fair value of long-term debt is based on quoted market prices for the same or similar issues or on the current rates offered for debt of similar maturities. The estimated fair value of these long-term obligations is *not* necessarily indicative of the amount that would be realized in a current market exchange.

Table of Contents

We use the income approach in calculating the fair value of our contingent consideration liability using a real option model with Level *3* inputs. The expected cash flows are affected by various significant judgments and assumptions, including revenue growth rates, profit margin percentages, volatility and discount rate, which are sensitive to change. Estimates of fair value are inherently uncertain and represent only management's reasonable expectation regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results.

The contingent consideration liability activity for the *three* months ended *March 3, 2018* is presented below:

	Amount
Balance at December 2, 2017	$ *496*
Mark to market adjustment	*48*
Foreign currency translation adjustment	*22*
Balance at March 3, 2018	$ *566*

Balances Measured at Fair Value on a Nonrecurring Basis

We measure certain assets and liabilities at fair value on a nonrecurring basis. These assets include tangible and intangible assets acquired and liabilities assumed in an acquisition, and cost basis investments that are written down to fair value when they are determined to be impaired.

Property, plant and equipment related to acquisitions – Property, plant and equipment acquired in connection with our acquisitions were measured using unobservable (Level *3*) inputs, using the cost approach. The cost approach computes the cost to replace the asset, less accrued depreciation resulting from physical deterioration, functional obsolescence and external obsolescence.

Intangible assets related to acquisitions – The identified intangible assets acquired in connection with our acquisitions were measured using unobservable (Level *3*) inputs. The fair value of the intangible assets was calculated using either the income approach or a discounted market-based methodology approach. Significant inputs include estimated revenue growth rates, gross margins, operating expenses, attrition rate, royalty rate and discount rate.

See Note *2* for further discussion regarding our acquisitions.

Note *15:* Share Repurchase Program

On *April 6, 2017,* the Board of Directors authorized a share repurchase program of up to *$200,000* of our outstanding common shares. Under the program, we are authorized to repurchase shares for cash on the open market, from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases is dependent on price, market conditions and applicable regulatory requirements. Upon repurchase of the shares, we reduce our common stock for the par value of the shares with the excess being applied against additional paid-in capital. This authorization replaces the *September 30, 2010* authorization to repurchase shares.

We did *not* repurchase any shares during the *three* months ended *March 3, 2018* and *March 4, 2017.*

Note *16:* Commitments and Contingencies

Environmental Matters

From time to time, we become aware of compliance matters relating to, or receive notices from, federal, state or local entities regarding possible or alleged violations of environmental, health or safety laws and regulations. We review the circumstances of each individual site, considering the number of parties involved, the level of potential liability or our contribution relative to the other parties, the nature and magnitude of the hazardous substances involved, the method and extent of remediation, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. Also, from time to time, we are identified as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act and/or similar state laws that impose liability for costs relating to the clean up of contamination resulting from past spills, disposal or other release of hazardous substances. We are also subject to similar laws in some of the countries where current and former facilities are located. Our environmental, health and safety department monitors compliance with applicable laws on a global basis. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish an undiscounted financial provision. We recorded liabilities of *$11,193* and *$11,380* as of *March 3, 2018* and *December 2, 2017,* respectively, for probable and reasonably estimable environmental remediation costs. The reserve for environmental matters is primarily related to our acquisitions of Royal Adhesives and Adecol during fiscal *2017.*

Table of Contents

Currently we are involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In particular, we are currently deemed a PRP in conjunction with numerous other parties, in a number of government enforcement actions associated with landfills and/or hazardous waste sites. As a PRP, we *may* be required to pay a share of the costs of investigation and clean up of these sites. In addition, we are engaged in environmental remediation and monitoring efforts at a number of current and former operating facilities. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will *not* have a material adverse effect on our results of operations, financial condition or cash flow.

Other Legal Proceedings

From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, environmental, health and safety, tax and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, including the asbestos litigation described in the following paragraphs, will *not* have a material adverse effect on our results of operations, financial condition or cash flow.

We have been named as a defendant in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than *30* years ago. The plaintiffs generally bring these lawsuits against multiple defendants and seek damages (both actual and punitive) in very large amounts. In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable injuries or that the injuries suffered were the result of exposure to products manufactured by us. We are typically dismissed as a defendant in such cases without payment. If the plaintiff presents evidence indicating that compensable injury occurred as a result of exposure to our products, the case is generally settled for an amount that reflects the seriousness of the injury, the length, intensity and character of exposure to products containing asbestos, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

A significant portion of the defense costs and settlements in asbestos-related litigation is paid by *third* parties, including indemnification pursuant to the provisions of a *1976* agreement under which we acquired a business from a *third* party. Currently, this *third* party is defending and paying settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the *third* party.

In addition to the indemnification arrangements with *third* parties, we have insurance policies that generally provide coverage for asbestos liabilities, including defense costs. Historically, insurers have paid a significant portion of our defense costs and settlements in asbestos-related litigation. However, certain of our insurers are insolvent. We have entered into cost-sharing agreements with our insurers that provide for the allocation of defense costs and settlements and judgments in asbestos-related lawsuits. These agreements require, among other things, that we fund a share of

settlements and judgments allocable to years in which the responsible insurer is insolvent.

A summary of the number of and settlement amounts for asbestos-related lawsuits and claims is as follows:

	Three Months Ended		**3 Years Ended**
	March 3, 2018	**March 4, 2017**	**December 2, 2017**
Lawsuits and claims settled	***2***	*3*	*9*
Settlement amounts	**$*185***	$ *833*	$ *1,673*
Insurance payments received or expected to be received	**$*171***	$ *685*	$ *1,365*

26

Table of Contents

We do *not* believe that it would be meaningful to disclose the aggregate number of asbestos-related lawsuits filed against us because relatively few of these lawsuits are known to involve exposure to asbestos-containing products that we manufactured. Rather, we believe it is more meaningful to disclose the number of lawsuits that are settled and result in a payment to the plaintiff. To the extent we can reasonably estimate the amount of our probable liabilities for pending asbestos-related claims, we establish a financial provision and a corresponding receivable for insurance recoveries.

Based on currently available information, we have concluded that the resolution of any pending matter, including asbestos-related litigation, individually or in the aggregate, will *not* have a material adverse effect on our results of operations, financial condition or cash flow.

We have retained legal counsel to conduct an internal investigation of possible resale of our products by certain customers to Iran contrary to U.S. law and regulations and our compliance policy. The sales to those particular customers being investigated represented less than *one* percent of our net revenue in each of our last *three* fiscal years. The investigation also includes a review of sales by our subsidiaries in *two* countries outside the United States in possible violation of the sanctions regulations of the Office of Foreign Assets Control (“OFAC”) and other applicable laws and regulations. In *January 2018,* we voluntarily contacted OFAC to advise it of this internal investigation and our intention to cooperate fully with OFAC. At this time, we cannot predict the outcome or effect of the investigation.

Note *17*: Operating Segments

We are required to report segment information in the same way that we internally organize our business for assessing performance and making decisions regarding allocation of resources. For segment evaluation by the chief operating decision maker, segment operating income is identified as gross profit less SG&A expenses. Corporate expenses are fully allocated to each operating segment. Corporate assets are *not* allocated to the operating segments. Inter-segment revenues are recorded at cost plus a markup for administrative costs. Operating results of each segment are regularly reviewed by our chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

As of *December 2, 2017,* we had *six* reportable segments: Americas Adhesives, EIMEA (Europe, India, Middle East and Africa), Asia Pacific, Construction Adhesives, Engineering Adhesives and Royal Adhesives. As of the beginning of the *three* months ended *March 3, 2018,* we modified our operating segment structure by allocating the Royal Adhesives segment into each of the *five* other segments. We now have *five* reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Adhesives and Engineering Adhesives.

The table below provides certain information regarding net revenue and segment operating income for each of our operating segments:

	Three Months Ended March 3, 2018			**March 4, 2017**		
	Trade Revenue	**Inter-Segment Revenue**	**Segment Operating Income (Loss)**	**Trade Revenue**	**Inter-Segment Revenue**	**Segment Operating Income (Loss)**
Americas Adhesives	***$261,331***	***$ 5,106***	***$ 17,511***	*$193,162*	*$ 3,860*	*$ 21,033*
EIMEA	***178,583***	***4,061***	***7,838***	*124,039*	*3,522*	*1,797*
Asia Pacific	***66,674***	***1,056***	***2,322***	*62,645*	*1,269*	*1,879*
Construction Adhesives	***97,245***	***(1)***	***1,265***	*57,046*	*162*	*(683)*
Engineering Adhesives	***109,246***	***-***	***7,749***	*66,431*	*-*	*2,055*
Total	***$713,079***		***$ 36,685***	*$503,323*		*$ 26,081*

Table of Contents

The table below provides a reconciliation of segment operating income to income before income taxes and income from equity method investments:

	Three Months Ended	
	March 3, 2018	**March 4, 2017**
Segment operating income	**$*36,685***	$*26,081*
Other income (expense), net	***4,074***	*621*
Interest expense	***(27,545*)**	*(8,380*)
Income before income taxes and income from equity method investments	**$*13,214***	$*18,322*

The table below provides total assets of each of our operating segments as of *December 2, 2017:*

Total assets	**December 2, 2017**
Americas Adhesives	$*1,179,762*
EIMEA	*837,313*
Asia Pacific	*289,191*
Construction Adhesives	*863,242*
Engineering Adhesives	*880,310*
Corporate	*310,828*
Total	$*4,360,646*

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the year ended December 2, 2017 for important background information related to our business.

For the year ended December 2, 2017, we had six reportable segments: Americas Adhesives, EIMEA (Europe, India, Middle East and Africa), Asia Pacific, Construction Adhesives, Engineering Adhesives and Royal Adhesives. As of the beginning of the quarter ended March 3, 2018, we modified our operating segment structure by allocating the Royal Adhesives segment into each of the five other segments. We now have five reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Adhesives and Engineering Adhesives.

Net revenue in the first quarter of 2018 increased 41.7 percent from the first quarter of 2017. Revenue increased 35.3 percent due to sales volume, including 34.4 percent from acquisitions, 1.8 percent due to favorable product pricing, and 0.4 percent due to favorable sales mix compared to the first quarter of 2017. A stronger Euro, Chinese renminbi, Mexican peso and Canadian dollar offset by a weaker Argentinian peso, Brazilian real and Turkish lira compared to the U.S. dollar for the first quarter of 2018 compared to the first quarter of 2017 were the main drivers of a positive 4.2 percent currency effect. Gross profit margin decreased 130 basis points primarily due to higher raw material and delivery costs.

Net income attributable to H.B. Fuller in the first quarter of 2018 was $47.7 million compared to $14.8 million in the first quarter of 2017. On a diluted earnings per share basis, the first quarter of 2018 was $0.92 per share compared to $0.29 per share for the first quarter of 2017.

Restructuring Plans

During the first quarter of 2018, we approved a restructuring plan consisting of consolidation plans, organizational changes and other actions related to the integration of the operations of Royal Adhesives with the operations of the Company. In implementing the plan, we expect to incur costs of approximately $20.0 million, which includes (i) cash expenditures of approximately $12.0 million for severance and related employee costs globally and (ii) other costs of

approximately $8.0 million related to the optimization of production facilities, streamlining of processes and accelerated depreciation of long-lived assets. Approximately $14.0 million of the costs are expected to be cash costs. The plan was implemented beginning in the quarter ended March 3, 2018 and is currently expected to be completed by the end of fiscal year 2020. This plan is in addition to the 2017 restructuring plan approved during the first quarter of 2017.

During the first quarter ended March 3, 2018 and March 4, 2017, we recorded pre-tax charges of $1.8 million and $10.2 million, respectively, related to the restructuring plans.

Results of Operations

Net revenue:

	Three Months Ended		
($ in millions)	**March 3, 2018**	**March 4, 2017**	**2018 vs 2017**
Net revenue	$713.1	$503.3	41.7%

Table of Contents

We review variances in net revenue in terms of changes related to sales volume, product pricing, sales mix, business acquisitions and changes in foreign currency exchange rates. The impact of sales volume, product pricing, sales mix and acquisitions are viewed as constant currency growth. The following table shows the net revenue variance analysis for the first quarter of 2018 compared to the same period in 2017:

	Three Months Ended March 3, 2018 vs March 4, 2017	
Constant currency	37.5	%
Currency	4.2	%
Total	41.7	%

Constant currency growth was 37.5 percent in the first quarter of 2018 compared to the first quarter of 2017. The 37.5 percent constant currency growth in the first quarter of 2018 was driven by a 69.5 percent growth in Construction Adhesives, 59.6 percent growth in Engineering Adhesives, 35.0 percent growth in Americas Adhesives, 33.2 percent growth in EIMEA and 1.2 percent growth in Asia Pacific. The growth is predominately driven by acquisitions. The positive 4.2 percent currency impact was primarily driven by a stronger Euro, Chinese renminbi, Mexican peso and Canadian dollar offset by a weaker Argentinian peso, Brazilian real and Turkish lira compared to the U.S. dollar.

Cost of sales:

	Three Months Ended		
($ in millions)	**March 3, 2018**	**March 4, 2017**	**2018 vs 2017**
Raw materials	$395.9	$273.4	44.8%
Other manufacturing costs	129.5	90.9	42.4%
Cost of sales	$525.4	$364.3	44.2%
Percent of net revenue	73.7 %	72.4 %	

Cost of sales in the first quarter of 2018 compared to the first quarter of 2017 increased 130 basis points as a percentage of net revenue. Raw material cost as a percentage of net revenue increased 120 basis points in the first quarter of 2018 compared to the first quarter of 2017 primarily due to higher raw material costs and the impact of acquired businesses. Other manufacturing costs as a percentage of revenue increased 10 basis points in the first quarter of 2018 compared to the first quarter of 2017.

Gross profit:

	Three Months Ended		
($ in millions)	March 3, 2018	March 4, 2017	2018 vs 2017
Gross profit	$187.7	$139.0	35.0%
Percent of net revenue	26.3 %	27.6 %	

Gross profit in the first quarter of 2018 increased 35.0 percent and gross profit margin decreased 130 basis points compared to the first quarter of 2017. The decrease in gross profit margin was primarily due to higher raw material costs and the impact of acquired businesses.

Selling, general and administrative (SG&A) expenses:

	Three Months Ended		
($ in millions)	March 3, 2018	March 4, 2017	2018 vs 2017
SG&A	$151.0	$112.9	33.7%
Percent of net revenue	21.2 %	22.4 %	

Table of Contents

SG&A expenses for the first quarter of 2018 increased $38.1 million, or 33.7 percent, compared to the first quarter of 2017. The increase is mainly due to the impact of acquired businesses, partially offset by the impact of the restructuring plan costs.

We make SG&A expense plans at the beginning of each fiscal year and barring significant changes in business conditions or our outlook for the future, we maintain these spending plans for the entire year. Management routinely monitors our SG&A spending relative to these fiscal year plans for each operating segment and for the company overall. We feel it is important to maintain a consistent spending program in this area as many of the activities within the SG&A category such as the sales force, technology development, and customer service are critical elements of our business strategy.

Other income (expense), net:

($ in millions)	**Three Months Ended March 3, 2018**	**March 4, 2017**	**2018 vs 2017**
Other income (expense), net	$4.0	$ 0.6	556.9%

Other income (expense), net in the first quarter of 2018 included $3.0 million of interest income and $2.0 million gain on sale of assets and $0.2 million other income offset by $1.2 million of currency transaction losses. Other income (expense), net in the first quarter of 2017 included $0.6 million of interest income.

Interest expense:

($ in millions)	**Three Months Ended March 3, 2018**	**March 4, 2017**	**2018 vs 2017**
Interest expense	$27.5	$ 8.4	227.9%

Interest expense in the first quarter of 2018 compared to the first quarter of 2017 was higher due to higher U.S. debt balances from the issuance of our Term Loan B Credit Agreement and Public Notes. We capitalized $0.1 million of interest expense in the first quarter of 2018 compared to less than $0.1 million in the same period last year.

Income taxes:

	Three Months Ended		
	March 3,	**March 4,**	**2018 vs**
($ in millions)	**2018**	**2017**	**2017**
Income taxes	$(32.6)	$ 5.8	NMP
Effective tax rate	(247.0%)	31.5 %	

NMP = Non-meaningful percentage

The income tax benefit of $32.6 million in the first quarter of 2018 includes $35.6 million of tax benefit related to the accounting for the tax effects of U.S. Tax Reform and $0.2 million of other discrete tax benefit. Excluding the discrete tax benefit of $35.8 million, the overall effective tax rate was 24.1 percent.

Table of Contents

Income from equity method investments:

	Three Months Ended		
($ in millions)	March 3, 2018	March 4, 2017	2018 vs 2017
Income from equity method investments	$1.8	$ 2.3	(19.9%)

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan. The lower income for the first quarter 2018 compared to the same period of 2017 relates to lower net income in our joint venture.

Net income attributable to H.B. Fuller:

	Three Months Ended		
($ in millions)	March 3, 2018	March 4, 2017	2018 vs 2017
Net income attributable to H.B. Fuller	$47.7	$ 14.8	222.2%
Percent of net revenue	6.7 %	2.9 %	

The net income attributable to H.B. Fuller for the first quarter of 2018 was $47.7 million compared to $14.8 million for the first quarter of 2017. The diluted earnings per share for the first quarter of 2018 was $0.92 per share as compared to $0.29 per share for the first quarter of 2017.

Operating Segment Results

For the year ended December 2, 2017, we had six reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Adhesives, Engineering Adhesives and Royal Adhesives. As of the beginning of the quarter ended March 3, 2018, we modified our operating segment structure by allocating the Royal Adhesives segment into each of

the five other segments. We now have five reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Adhesives and Engineering Adhesives.

Operating results of each of these segments are regularly reviewed by our chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

The tables below provide certain information regarding the net revenue and segment operating income of each of our operating segments. For segment evaluation by the chief operating decision maker, segment operating income is defined as gross profit less SG&A expenses. Inter-segment revenues are recorded at cost plus a markup for administrative costs. Corporate expenses are fully allocated to each operating segment.

Net Revenue by Segment:

	Three Months Ended			
	March 3, 2018		**March 4, 2017**	
($ in millions)	**Net Revenue**	**% of Total**	**Net Revenue**	**% of Total**
Americas Adhesives	$261.3	37 %	$193.2	38 %
EIMEA	178.6	25 %	124.0	25 %
Asia Pacific	66.7	9 %	62.6	13 %
Construction Adhesives	97.3	14 %	57.1	11 %
Engineering Adhesives	109.2	15 %	66.4	13 %
Total	$713.1	100 %	$503.3	100 %

Table of Contents

Segment Operating Income (Loss):

	Three Months Ended					
	March 3, 2018			March 4, 2017		
($ in millions)	Segment Operating Income (Loss)	% of Total		Segment Operating Income	% of Total	
Americas Adhesives	$17.5	48	%	$21.0	81	%
EIMEA	7.8	21	%	1.8	7	%
Asia Pacific	2.3	6	%	1.9	7	%
Construction Adhesives	1.3	4	%	(0.7)	(3%)	
Engineering Adhesives	7.8	21	%	2.1	8	%
Total	$36.7	100	%	$26.1	100	%

The following table provides a reconciliation of segment operating income to income before income taxes and income from equity method investments, as reported on the Condensed Consolidated Statements of Income:

Three Months Ended

($ in millions)	March 3, 2018	March 4, 2017
Segment operating income	$36.7	$ 26.1
Other income (expense), net	4.0	0.6
Interest expense	(27.5)	(8.4)
Income before income taxes and income from equity method investments	$13.2	$ 18.3

Americas Adhesives

	Three Months Ended		
($ in millions)	March 3, 2018	March 4, 2017	2018 vs 2017
Net revenue	$261.3	$193.2	35.3 %
Segment operating income	$17.5	$21.0	(16.7%)
Segment operating margin	6.7 %	10.9 %	

The following table provides details of the Americas Adhesives net revenue variances:

	Three Months Ended March 3, 2018 vs March 4, 2017
Constant currency growth	35.0 %
Currency	0.3 %
Total	35.3 %

33

Table of Contents

Net revenue increased 35.3 percent in the first quarter of 2018 compared to the first quarter of 2017. The 35.0 percent increase in constant currency growth was attributable to a 33.5 percent increase in sales volume, including a 31.7 percent increase due to the Royal, Adecol and Wisdom acquisitions, a 1.0 percent increase in product pricing and a favorable 0.5 percent increase in sales mix. The 0.3 percent positive currency effect was due to the stronger Mexican peso and Canadian dollar, offset by the weaker Argentinian peso and Brazilian real compared to the U.S. dollar. As a percentage of net revenue, raw material costs increased 250 basis points mainly due to higher raw material costs. Other manufacturing costs as a percentage of net revenue increased 180 basis points, primarily due to higher delivery costs and the impact of acquired businesses. Segment operating income decreased 16.7 percent and segment operating margin as a percentage of net revenue decreased 420 basis points compared to the first quarter of 2017.

EIMEA

	Three Months Ended		
($ in millions)	**March 3, 2018**	**March 4, 2017**	**2018 vs 2017**
Net revenue	$178.6	$124.0	44.0 %
Segment operating income	$7.8	$1.8	336.2%
Segment operating margin	4.4 %	1.4 %	

The following table provides details of the EIMEA net revenue variances:

	Three Months Ended March 3, 2018 vs March 4, 2017
Constant currency growth	33.2 %
Currency	10.8 %
Total	44.0 %

Net revenue increased 44.0 percent in the first quarter of 2018 compared to the first quarter of 2017. The 33.2 percent increase in constant currency growth was attributable to a 29.9 percent increase in sales volume, including a 29.4 percent increase due to the Royal acquisition, a 3.2 percent increase in product pricing and a 0.1 percent increase in favorable sales mix. The positive currency effect of 10.8 percent was primarily the result of a stronger Euro offset by a weaker Turkish lira compared to the U.S. dollar. Raw material cost as a percentage of net revenue increased 230

basis points in the first quarter of 2018 compared to the first quarter of 2017 primarily due to higher raw material costs and unfavorable sales mix. Other manufacturing costs as a percentage of net revenue were 240 basis points lower than the first quarter of 2017 primarily due to lower restructuring plan costs. SG&A expenses as a percentage of net revenue decreased 290 basis points due to lower restructuring plan costs. Segment operating income increased 336.2 percent and segment operating margin increased 300 basis points compared to the first quarter of 2017.

Asia Pacific

	Three Months Ended		
	March 3,	**March 4,**	**2018 vs**
($ in millions)	**2018**	**2017**	**2017**
Net revenue	$66.7	$62.6	6.4 %
Segment operating income	$2.3	$1.9	23.6%
Segment operating margin	3.5 %	3.0 %	

The following table provides details of the Asia Pacific net revenue variances:

	Three Months Ended March 3, 2018 vs March 4, 2017
Constant currency growth	1.2 %
Currency	5.2 %
Total	6.4 %

Table of Contents

Net revenue in the first quarter of 2018 increased 6.4 percent compared to the first quarter of 2017. The 1.2 percent increase in constant currency growth was attributable to a 0.4 percent increase in sales volume, including a 1.9 percent increase due to the Royal acquisition and a 0.8 percent increase in product pricing. Lower sales volume was primarily driven by weaker sales in Greater China. Positive currency effects of 5.2 percent compared to the first quarter of 2017 were primarily driven by the stronger Chinese renminbi and Australian dollar compared to the U.S. dollar. Raw material costs as a percentage of net revenue increased 60 basis points compared to the first quarter of 2017 primarily due to higher raw material costs. Other manufacturing costs as a percentage of net revenue decreased 140 basis points compared to the first quarter of 2017 primarily due to lower restructuring plan costs and the impact of the Royal acquisition. Segment operating income increased 23.6 percent and segment operating margin increased 50 basis points compared to the first quarter of 2017.

Construction Adhesives

	Three Months Ended		
($ in millions)	**March 3, 2018**	**March 4, 2017**	**2018 vs 2017**
Net revenue	$97.3	$57.1	70.5 %
Segment operating income	$1.3	$(0.7)	285.1%
Segment operating margin	1.3 %	(1.2%)	

The following tables provide details of the Construction Adhesives net revenue variances:

	Three Months Ended March 3, 2018 vs March 4, 2017
Constant currency growth	69.5 %
Currency	1.0 %
Total	70.5 %

Net revenue increased 70.5 percent in the first quarter of 2018 compared to the first quarter of 2017. The 69.5 percent increase in constant currency growth was driven by a 70.5 percent increase in sales volume, including a 74.5 percent increase due to the Royal acquisition, slightly offset by a 0.7 percent decrease due to an unfavorable sales mix, and a 0.3 percent decrease in product pricing. The positive currency effect of 1.0 percent was due to the stronger Canadian

dollar and Australian dollar compared to the U.S. dollar. Raw material cost as a percentage of net revenue was 100 basis points higher in the first quarter of 2018 compared to last year primarily due to unfavorable sales mix and higher raw material costs. Other manufacturing costs as a percentage of net revenue were 430 basis points lower in the first quarter of 2018 compared to the first quarter of 2017 primarily due to lower restructuring plan costs and the impact of the Royal acquisition. SG&A expenses as a percentage of net revenue increased 80 basis points due to higher restructuring plan costs and the impact of the Royal acquisition. Segment operating income increased 285.1 percent and segment operating margin increased 250 basis points compared to the first quarter of 2017.

Engineering Adhesives

	Three Months Ended		
($ in millions)	**March 3, 2018**	**March 4, 2017**	**2018 vs 2017**
Net revenue	$109.2	$66.4	64.5 %
Segment operating income	$7.8	$2.1	277.0%
Segment operating margin	7.1 %	3.1 %	

The following tables provide details of the Engineering Adhesives net revenue variances:

	Three Months Ended March 3, 2018 vs March 4, 2017
Constant currency growth	59.6 %
Currency	4.9 %
Total	64.5 %

35

Table of Contents

Net revenue increased 64.5 percent in the first quarter of 2018 compared to the first quarter of 2017. The 59.6 percent increase in constant currency growth was attributable to a 52.9 percent increase in sales volume, including a 47.1 percent increase due to the acquisition of Royal, a 4.5 percent increase in product pricing and a 2.2 percent increase due to favorable sales mix. Sales volume growth was primarily driven by strong performance in the Tonsan and automotive markets. Positive currency effects of 4.9 percent compared to the first quarter of 2017 were primarily driven by the stronger Chinese renminbi and Euro compared to the U.S. dollar. Raw material cost as a percentage of net revenue was 80 basis points lower in the first quarter of 2018 compared to the first quarter of 2017 due to favorable sales mix, partially offset by higher raw material costs. Other manufacturing costs as a percentage of net revenue were 260 basis points higher in the first quarter of 2018 compared to the first quarter of 2017 due to higher sales volume. SG&A expenses as a percentage of net revenue decreased 580 basis points due to higher sales volume and the impact of the Royal acquisition. Segment operating income increased 277.0 percent and segment operating margin increased 400 basis points compared to the first quarter of 2017.

Financial Condition, Liquidity and Capital Resources

Total cash and cash equivalents as of March 3, 2018 were $132.5 million compared to $194.4 million as of December 2, 2017 and $116.5 million as of March 4, 2017. The majority of the $132.5 million in cash and cash equivalents as of March 3, 2018 was held outside the United States. Total long and short-term debt was $2,441.2 million as of March 3, 2018, $2,451.9 million as of December 2, 2017 and $804.8 million as of March 4, 2017. The total debt to total capital ratio as measured by Total Debt divided by (Total Debt plus Total Stockholders’ Equity) was 68.5 percent as of March 3, 2018 as compared to 70.1 percent as of December 2, 2017 and 45.9 percent as of March 4, 2017.

We believe that cash flows from operating activities will be adequate to meet our ongoing liquidity and capital expenditure needs. In addition, we believe we have the ability to obtain both short-term and long-term debt to meet our financing needs for the foreseeable future. Cash available in the United States has historically been sufficient and we expect it will continue to be sufficient to fund U.S. operations and U.S. capital spending and U.S. pension and other postretirement benefit contributions in addition to funding U.S. acquisitions, dividend payments, debt service and share repurchases as needed. For those international earnings considered to be reinvested indefinitely, we currently have no intention to, and plans do not indicate a need to, repatriate these funds for U.S. operations.

Our credit agreements include restrictive covenants that, if not met, could lead to a renegotiation of our credit lines and a significant increase in our cost of financing. At March 3, 2018, we were in compliance with all covenants of our contractual obligations as shown in the following table:

Covenant	**Debt Instrument**	**Measurement**	**Result as of March 3,**

			2018
Total Indebtedness / TTM EBITDA	Revolving Credit Agreement and Term Loan Credit Agreement	Not greater than 6.5	5.2

TTM = Trailing 12 months

EBITDA for covenant purposes is defined as consolidated net income, plus interest expense, expense for taxes paid or accrued, depreciation and amortization, certain non-cash impairment losses, extraordinary non-cash losses incurred other than in the ordinary course of business, nonrecurring extraordinary non-cash restructuring charges and the non-cash impact of purchase accounting, expenses related to the Royal Adhesives acquisition not to exceed $40.0 million, one-time costs incurred in connection with prepayment premiums and make-whole amounts under certain agreements, certain "run rate" cost savings and synergies in connection with the Royal Adhesives acquisition not to exceed 15% of Consolidated EBITDA, expenses relating to the integration of Royal Adhesives during the fiscal years ending in 2017, 2018 and 2019 not exceeding $30 million in aggregate, restructuring expenses that began prior to the Royal Adhesives acquisition incurred in fiscal years ending in 2017 and 2018 not exceeding $28 million in aggregate, and non-capitalized charges relating to the SAP implementation during fiscal years ending in 2017 through 2021 not exceeding $13 million in any single fiscal year, minus extraordinary non-cash gains. For the Total Indebtedness / TTM EBITDA ratio, TTM EBITDA is adjusted for the pro forma results from Material Acquisitions and Material Divestitures as if the acquisition or divestiture occurred at the beginning of the calculation period. The full definition is set forth in the Term Loan B Credit Agreement and the Amended Revolving Credit Agreement, and can be found in the Company's 8-K filings dated October 20, 2017 and 8-K dated November 17, 2017, respectively.

Table of Contents

We believe we have the ability to meet all of our contractual obligations and commitments in fiscal 2018.

Selected Metrics of Liquidity

Key metrics we monitor are net working capital as a percent of annualized net revenue, trade accounts receivable days sales outstanding ("DSO"), inventory days on hand, free cash flow and debt capitalization ratio.

	March 3, 2018	March 4, 2017
Net working capital as a percentage of annualized net revenue[1]	21.6 %	23.0 %
Accounts receivable DSO[2]	54 Days	60 Days
Inventory days on hand[3]	68 Days	70 Days
Free cash flow[4]	$(58.3)	$(10.5)
Total debt to total capital ratio[5]	68.5 %	45.9 %

[1] Current quarter net working capital (trade receivables, net of allowance for doubtful accounts plus inventory minus trade payables) divided by annualized net revenue (current quarter multiplied by four).

[2] Trade receivables net of the allowance for doubtful accounts at the balance sheet date multiplied by 56 (8 weeks) and divided by the net revenue for the last 2 months of the quarter.

[3] Total inventory multiplied by 56 and divided by cost of sales (excluding delivery costs) for the last 2 months of the quarter.

[4] Year-to-date net cash provided by operating activities, less purchased property, plant and equipment and dividends paid.

[5] Total debt divided by (total debt plus total stockholders' equity).

Summary of Cash Flows

Cash Flows from Operating Activities:

($ in millions)	Three Months Ended March 3, 2018	March 4, 2017
Net cash (used in) provided by operating activities	$(32.1)	$ 16.5

Net income including non-controlling interests was $47.7 million in the first three months of 2018 compared to $14.8 million in the first three months of 2017. Depreciation and amortization expense totaled $36.7 million in the first three months of 2018 compared to $19.3 million in the first three months of 2017. Accrued compensation was a use of cash of $22.2 million in 2018 compared to $7.5 million last year related to higher accruals for our employee incentive plans. Other assets was a use of cash of $38.1 million in the three months ending March 3, 2018 compared to a source of cash of $4.0 million in the same period last year. Other liabilities was a source of cash of $29.9 million in the first three months of 2018 compared to $1.8 million in the first three months of 2017.

Changes in net working capital (trade receivables, inventory and trade payables) accounted for a use of cash of $35.1 million compared to a use of cash of $3.7 million last year. The table below provides the cash flow impact due to changes in the components of net working capital:

($ in millions)	Three Months Ended March 3, 2018	March 4, 2017
Trade receivables, net	$16.6	$4.9
Inventory	(46.7)	(32.6)
Trade payables	(5.0)	24.0
Total cash flow impact	$(35.1)	$(3.7)

Table of Contents

Trade Receivables, net – Trade Receivables, net was a source of cash of $16.6 million and $4.9 million in 2018 and 2017, respectively. The higher source of cash in 2018 compared 2017 was due to a decrease in trade receivables in the current year compared to the prior year. The DSO were 54 days at March 3, 2018 and 60 days at March 4, 2017.

Inventory – Inventory was a use of cash of $46.7 million and $32.6 million in 2018 and 2017, respectively. The higher use of cash in 2018 is due to higher raw material costs and increasing inventory levels to maintain service levels while integrating our acquisitions. Inventory days on hand were 68 days as of March 3, 2018 and 70 days as of March 4, 2017.

Trade Payables – For the first three months of 2018, trade payables was a use of cash of $5.0 million compared to a source of cash of $24.0 million in 2017. The source of cash in 2017 compared to the use of cash in 2018 is primarily related to higher purchases of inventory somewhat offset by lower purchases of property, plant and equipment.

Cash Flows from Investing Activities:

	Three Months Ended	
($ in millions)	**March 3, 2018**	**March 4, 2017**
Net cash used in investing activities	$(17.2)	$(144.3)

Purchases of property, plant and equipment were $18.6 million during the three months ended March 3, 2018 as compared to $19.9 million for the same period of 2017. In the first quarter of 2017, we acquired Wisdom Adhesives for $123.3 million.

Cash Flows from Financing Activities:

	Three Months Ended	
($ in millions)	**March 3, 2018**	**March 4, 2017**
Net cash provided by (used in) financing activities	$(15.3)	$101.8

We did not have any proceeds from the issuance of long-term debt in the first three months ended March 3, 2018 as compared to $453.0 million of proceeds from the issuance of long-term debt in the same period of 2017, which consisted primarily of $300.0 million of proceeds from the issuance of the 4.000% Notes and $153.0 million of proceeds from our revolving credit facility. Proceeds from our revolving credit facility were drawn in conjunction

with the acquisition of Wisdom Adhesives. Repayments of long-term debt were $5.4 million in the first three months ended March 3, 2018 and $354.2 million in the first three months ended March 4, 2017. We also paid $2.4 million in debt issuance costs associated with the issuance of the 4.000% Notes in the first three months of 2017. Net proceeds of notes payable were $0.2 million in 2018 compared to net proceeds of $8.4 million in 2017. Cash dividends paid were $7.6 million in 2018 compared to $7.0 million in 2017. Repurchases of common stock were $3.2 million in the three months ended March 3, 2018 compared to $2.4 million in the same period of 2017.

Forward-Looking Statements and Risk Factors

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of words like "plan," "expect," "aim," "believe," "project," "anticipate," "intend," "estimate," "will," "should," "could" (including the negative or variations thereof) and other expressions that indicate future events and trends. These plans and expectations are based upon certain underlying assumptions, including those mentioned with the specific statements. Such assumptions are in turn based upon internal estimates and analyses of current market conditions and trends, our plans and strategies, economic conditions and other factors. These plans and expectations and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. In addition to the factors described in this report, Item 1A. Risk Factors identifies some of the important factors that could cause our actual results to differ materially from those in any such forward-looking statements. In order to comply with the terms of the safe harbor, we have identified these important factors which could affect our financial performance and could cause our actual results for future periods to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. These factors should be considered, together with any similar risk factors or other cautionary language that may be made elsewhere in this Quarterly Report on Form 10-Q.

Table of Contents

The list of important factors in Item 1A. Risk Factors does not necessarily present the risk factors in order of importance. This disclosure, including that under Forward-Looking Statements and Risk Factors, and other forward-looking statements and related disclosures made by us in this report and elsewhere from time to time, represents our best judgment as of the date the information is given. We do not undertake responsibility for updating any of such information, whether as a result of new information, future events, or otherwise, except as required by law. Investors are advised, however, to consult any further public company disclosures (such as in filings with the SEC or in our press releases) on related subjects.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

We are exposed to various market risks, including changes in interest rates, foreign currency rates and prices of raw materials. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates.

Our financial performance may be negatively affected by unfavorable economic conditions. Recessionary economic conditions may have an adverse impact on our sales volumes, pricing levels and profitability. As domestic and international economic conditions change, trends in discretionary consumer spending also become unpredictable and subject to reductions due to uncertainties about the future. A general reduction in consumer discretionary spending due to a recession in the domestic and international economies, or uncertainties regarding future economic prospects, could have a material adverse effect on our results of operations.

Interest Rate Risk

Exposure to changes in interest rates results primarily from borrowing activities used to fund operations. Committed floating rate credit facilities are used to fund a portion of operations. We believe that probable near-term changes in interest rates would not materially affect financial condition, results of operations or cash flows. The annual impact on interest expense of a one-percentage point interest rate change on the outstanding balance of our variable rate debt as of March 3, 2018 would have resulted in a change in net income of approximately $7.9 million or $0.15 per diluted share.

Foreign Exchange Risk

As a result of being a global enterprise, there is exposure to market risks from changes in foreign currency exchange rates. Our operating results and financial condition are subject to both currency transaction and currency translation risk. Approximately 55 percent of net revenue was generated outside of the United States for the first quarter of 2018. Principal foreign currency exposures relate to the Euro, British pound sterling, Canadian dollar, Chinese renminbi, Japanese yen, Australian dollar, Argentine peso, Brazilian real, Colombian peso, Mexican peso, Turkish lira, Egyptian pound, Indian rupee, Indonesian rupiah and Malaysian ringgit.

We enter into cross border transactions through importing and exporting goods to and from different countries and locations. These transactions generate foreign exchange risk as they create assets, liabilities and cash flows in currencies other than their functional currency. This also applies to services provided and other cross border agreements among subsidiaries. Our objective is to balance, where possible, non-functional currency denominated assets to non-functional currency denominated liabilities to have a natural hedge and minimize foreign exchange impacts.

In the event a natural hedge is not available, we take steps to minimize risks from foreign currency exchange rate fluctuations through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments. We do not enter into any speculative positions with regard to derivative instruments.

Table of Contents

Based on financial results for the first quarter of 2018, a hypothetical one percent change in our cost of sales due to foreign currency rate changes would have resulted in a change in net income attributable to H.B. Fuller of approximately $2.1 million or $0.04 per diluted share. Based on financial results and foreign currency balance sheet positions as of March 3, 2018, a hypothetical overall 10 percent change in the U.S. dollar would have resulted in a change in net income of approximately $2.6 million or $0.05 per diluted share.

Raw Materials

The principal raw materials used to manufacture products include resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. We generally avoid sole source supplier arrangements for raw materials. While alternate supplies of most key raw materials are available, unplanned supplier production outages may lead to strained supply-demand situations for several key raw materials such as ethylene and propylene, several polymers and other petroleum derivatives such as waxes.

The purchase of raw materials is our largest expenditure. Our objective is to purchase raw materials that meet both our quality standards and production needs at the lowest total cost. Most raw materials are purchased on the open market or under contracts that limit the frequency but not the magnitude of price increases. In some cases, however, the risk of raw material price changes is managed by strategic sourcing agreements which limit price increases to increases in supplier feedstock costs, while requiring decreases as feedstock costs decline. The leverage of having substitute raw materials approved for use wherever possible is used to minimize the impact of possible price increases. Based on financial results for the first quarter of 2018, a hypothetical one percent change in our raw material costs would have resulted in a change in net income of approximately $3.0 million or $0.06 per diluted share.

Recently Issued Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for information concerning new accounting standards and the impact of the implementation of these standards on our financial statements.

Item 4. Controls and Procedures

Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of our president and chief executive officer and executive vice president, chief financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of March 3, 2018. Based on this evaluation, our president and chief executive officer and executive vice president, chief financial officer concluded that, as of March 3, 2018, our disclosure controls and procedures were effective. We acquired Adecol on November 1, 2017 and Royal Adhesives on October 20, 2017 and have not yet included Adecol and Royal Adhesives in our assessment of the effectiveness of our internal control over financial reporting. Accordingly, pursuant to the Securities and Exchange Commission's general guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment in the year of acquisition, the scope of our assessment of the effectiveness of disclosure controls and procedures does not include internal control over financial reporting related to Adecol and Royal Adhesives. For the three months ended March 3, 2018, Adecol and Royal Adhesives accounted for $161.8 million of our total net revenue, and as of March 3, 2018 had total assets of $2,854.4 million.

For purposes of Rule 13a-15(e), the term *disclosure controls and procedures* means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its president and chief executive officer and executive vice president, chief financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Environmental Matters

From time to time, we become aware of compliance matters relating to, or receive notices from, federal, state or local entities regarding possible or alleged violations of environmental, health or safety laws and regulations. We review the circumstances of each individual site, considering the number of parties involved, the level of potential liability or our contribution relative to the other parties, the nature and magnitude of the hazardous substances involved, the method and extent of remediation, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. Also, from time to time, we are identified as a potentially responsible party (“PRP”) under the Comprehensive Environmental Response, Compensation and Liability Act and/or similar state laws that impose liability for costs relating to the clean up of contamination resulting from past spills, disposal or other release of hazardous substances. We are also subject to similar laws in some of the countries where current and former facilities are located. Our environmental, health and safety department monitors compliance with applicable laws on a global basis. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish a financial provision.

Currently, we are involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In particular, we are currently deemed a PRP in conjunction with numerous other parties, in a number of government enforcement actions associated with landfills and/or hazardous waste sites. As a PRP, we may be required to pay a share of the costs of investigation and clean up of these sites.

We are engaged in environmental remediation and monitoring efforts at a number of current and former operating facilities. As of March 3, 2018, we had reserved $11.2 million, which represents our best estimate of probable liabilities with respect to environmental matters. It is reasonably possible that we may have additional liabilities related to these known environmental matters. However, the full extent of our future liability for environmental

matters is difficult to predict because of uncertainty as to the cost of investigation and clean up of the sites, our responsibility for such hazardous substances and the number of and financial condition of other potentially responsible parties.

While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

Other Legal Proceedings

From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, environmental, health and safety, tax and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, including the asbestos litigation described in the following paragraphs, will not have a material adverse effect on our results of operations, financial condition or cash flow.

We have been named as a defendant in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 30 years ago. The plaintiffs generally bring these lawsuits against multiple defendants and seek damages (both actual and punitive) in very large amounts. In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable injuries or that the injuries suffered were the result of exposure to products manufactured by us. We are typically dismissed as a defendant in such cases without payment. If the plaintiff presents evidence indicating that compensable injury occurred as a result of exposure to our products, the case is generally settled for an amount that reflects the seriousness of the injury, the length, intensity and character of exposure to products containing asbestos, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

Table of Contents

A significant portion of the defense costs and settlements in asbestos-related litigation is paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which we acquired a business from a third party. Currently, this third party is defending and paying settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the third party.

In addition to the indemnification arrangements with third parties, we have insurance policies that generally provide coverage for asbestos liabilities (including defense costs). Historically, insurers have paid a significant portion of our defense costs and settlements in asbestos-related litigation. However, certain of our insurers are insolvent. We have entered into cost-sharing agreements with our insurers that provide for the allocation of defense costs and settlements and judgments in asbestos-related lawsuits. These agreements require, among other things, that we fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent.

A summary of the number of and settlement amounts for asbestos-related lawsuits and claims is as follows:

	Three Months Ended		**3 Years Ended**
($ in millions)	**March 3, 2018**	**March 4, 2017**	**December 2, 2017**
Lawsuits and claims settled	2	3	9
Settlement amounts	$0.2	$ 0.8	$ 1.7
Insurance payments received or expected to be received	$0.2	$ 0.7	$ 1.4

We do not believe that it would be meaningful to disclose the aggregate number of asbestos-related lawsuits filed against us because relatively few of these lawsuits are known to involve exposure to asbestos-containing products that we manufactured. Rather, we believe it is more meaningful to disclose the number of lawsuits that are settled and result in a payment to the plaintiff. To the extent we can reasonably estimate the amount of our probable liabilities for pending asbestos-related claims, we establish a financial provision and a corresponding receivable for insurance recoveries.

Based on currently available information, we have concluded that the resolution of any pending matter, including asbestos-related litigation, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

We have retained legal counsel to conduct an internal investigation of possible resale of our products by certain customers to Iran contrary to U.S. law and regulations and our compliance policy. The sales to those particular customers being investigated represented less than one percent of our net revenue in each of our last three fiscal years. The investigation also includes a review of sales by our subsidiaries in two countries outside the United States in possible violation of the sanctions regulations of the Office of Foreign Assets Control ("OFAC") and other applicable laws and regulations. In January 2018, we voluntarily contacted OFAC to advise it of this internal investigation and our intention to cooperate fully with OFAC. At this time, we cannot predict the outcome or effect of the investigation.

Item 1A. Risk Factors

This Form 10-Q contains forward-looking statements concerning our future programs, products, expenses, revenue, liquidity and cash needs as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause actual results to differ significantly from the results described in these forward-looking statements, including the risk factors identified under Part I, Item 1A. Risk Factors contained in our Annual Report on Form 10-K for the fiscal year ended December 2, 2017. There have been no material changes in the risk factors disclosed by us under Part I, Item 1A. Risk Factors contained in the Annual Report on Form 10-K for the fiscal year ended December 2, 2017.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Information on our purchases of equity securities during the first quarter ended March 3, 2018 is as follows:

Period	**(a) Total Number of Shares Purchased[1]**	**(b) Average Price Paid per Share**	**(d) Maximum Approximate Dollar Value of Shares that may yet be Purchased Under the Plan or Program (millions)**
December 3, 2017 - January 6, 2018	-	$ -	$ 187,170
January 7, 2018 - February 3, 2018	-	$ -	$ 187,170
February 4, 2018 - March 3, 2018	63,388	$ 51.35	$ 187,170

[1] The total number of shares purchased include shares withheld to satisfy the employees' withholding taxes upon vesting of restricted stock.

Repurchases of common stock are made to support our stock-based employee compensation plans and for other corporate purposes. Upon vesting of restricted stock awarded to employees, shares are withheld to cover the employees' minimum withholding taxes.

On April 6, 2017, the Board of Directors authorized a new share repurchase program of up to $200.0 million of our outstanding common shares. Under the program, we are authorized to repurchase shares for cash on the open market, from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases is dependent on price, market conditions and applicable regulatory requirements. Upon repurchase of the shares, we reduced our common stock for the par value of the shares with the excess being applied against additional paid-in capital. This authorization replaces the September 30, 2010 authorization to repurchase shares.

Table of Contents

Item 6. Exhibits

31.1	Form of 302 Certification –James J. Owens
31.2	Form of 302 Certification –John J. Corkrean
32.1	Form of 906 Certification –James J. Owens
32.2	Form of 906 Certification –John J. Corkrean
101	The following materials from the H.B. Fuller Company Quarterly Report on Form 10-Q for the quarter ended March 3, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Total Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H.B. Fuller Company

Dated: April 4, 2018 /s/ John J. Corkrean
John J. Corkrean
Executive Vice President,
Chief Financial Officer

Table of Contents

Exhibit Index

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