

2021 ANNUAL REPORT



MASCO

MASCO CORPORATION  
IS A GLOBAL LEADER  
IN THE DESIGN,  
MANUFACTURE AND  
DISTRIBUTION OF  
BRANDED HOME  
IMPROVEMENT AND  
BUILDING PRODUCTS.  
OUR PORTFOLIO OF  
PRODUCTS ENHANCES  
THE WAY CONSUMERS  
ALL OVER THE WORLD  
EXPERIENCE AND ENJOY  
THEIR LIVING SPACES.

**On the cover:** In homage to a true luminary, the Frank Lloyd Wright® Bath Collection by Brizo® pays tribute to Wright's enduring influence. This exclusive collection channels his unrelenting artistry, and each element draws from Wright's philosophy of organic architecture, beginning with the careful selection of materials down to the meticulous construction of every fine detail. Lavish in form and function, the raincan showerhead showcases the distinctive rush of the canopy spray, which activates a light powered by a built-in hydrogenerator.

# OUR SEGMENTS

## PLUMBING PRODUCTS

We are a leading provider of decorative and functional plumbing products with broad distribution channels worldwide. Through our premier brands, we offer an array of products, including faucets, showerheads and handheld showers, plumbing fittings and valves, bath hardware and accessories, bathing units, shower bases and enclosures, shower drains, steam shower systems, water handling systems, sinks, kitchen accessories, toilets, spas, exercise pools and fitness systems.

### KEY STRENGTHS

- Strong brands with industry-leading positions
- Broad product range with design and innovation leadership
- Solid track record of execution



## DECORATIVE ARCHITECTURAL PRODUCTS

We are one of the largest suppliers of architectural coatings and exterior wood care products to the United States and Canadian Do-It-Yourself channels. This segment primarily includes paints, primers, specialty coatings, stains and waterproofing products, as well as paint applicators and accessories. This segment also includes glass shower doors, shower accessories, decorative and outdoor lighting, cabinet and door hardware, and functional hardware.

### KEY STRENGTHS

- Behr Paint Company is a market leader with a long record of innovation
- Comprehensive product and service offerings for Professional and Do-It-Yourself painters
- Finish, design and category management expertise in decorative and functional hardware and lighting





# TO OUR SHAREHOLDERS:

2021 was another year filled with challenges, uncertainties and change. At Masco, we continued to successfully navigate the dynamics of a global pandemic while achieving our number one priority of keeping our employees safe. I want to thank our 20,000 employees across the globe for their hard work and commitment that enabled us to deliver outstanding results in another challenging year.

The Masco team delivered a strong financial performance in 2021 as sales and operating profit increased 17 percent and 8 percent, respectively. While these achievements were outstanding on their own, they were even more significant given that we accomplished them against the backdrop of workplace restrictions and labor challenges as a result of the global pandemic, substantial disruptions in the supply of raw materials and other supply chain constraints, and increasing costs for commodities and transportation.

**“ WE STAYED FOCUSED ON OUR STRATEGY TO DRIVE THE FULL POTENTIAL OF OUR CORE BUSINESSES AND LEVERAGE OUR ASSETS AND CAPABILITIES TO DRIVE NEW ORGANIC AND INORGANIC GROWTH OPPORTUNITIES. ”**

Despite these headwinds, we made progress. We stayed focused on our strategy to drive the full potential of our core businesses and leverage our assets and capabilities to drive new organic and inorganic growth opportunities. Adhering to the principles of our Masco Operating System, we addressed our most critical initiatives and directly improved our overall effectiveness and execution. We maintained our strong reputation for ethical business practices and remained mindful of our environmental impact. In our communities, we provided support for both the short- and long-term recovery of those most affected by the pandemic through food, shelter, health and human services and financial assistance programs. By doing all of this, we strengthened our business, helped support the communities where we are located and delivered value to our shareholders.

In our Plumbing Products segment, we executed well and delivered significant sales and profit growth in 2021. This performance was led by Delta Faucet Company’s (DFC) continued growth across all of its product categories and channels. DFC continued to launch new kitchen and bath collections and in 2021 entered the kitchen sink market, a new product category for Masco. Watkins Wellness was also a significant contributor to our growth as it continued to experience strong demand in 2021 for its outdoor, wellness-oriented products. In addition, Hansgrohe drove robust growth as demand improved in many of its key markets, including Germany, France, China and the UK.

To further enhance the offerings in our Plumbing Products segment, in early 2021, Hansgrohe acquired an over 75% interest in Easy Sanitary Solutions B.V. (ESS), a Netherlands-based developer

AXOR®

BEHR®

BRAINERD®

BrassCraft®

BRISTAN  
TAPS & SHOWERS

BRIZO®

CADENCE®

CalderaSpas

COBRA®

DELTA

élan.



ENDLESS POOLS®  
FITNESS SYSTEMS

ESS

and manufacturer of high-style, linear drain solutions. ESS shares Hansgrohe's focus on innovation and design and further expanded our strong presence in the shower space.

Later in 2021, we acquired Steamist, Inc., a leading manufacturer of residential steam bath products. Steamist now operates as an affiliate of DFC, further enhancing DFC's strong product portfolio and leveraging its existing go-to-market strategies.

Our Plumbing Products segment is well positioned to continue to outperform the market with its leading brands, new product introductions and operational excellence, and enters 2022 with healthy orders.

In our Decorative Architectural Products segment, our team effectively managed through numerous supply chain disruptions and challenges and gained share in both the Pro and Do-It-Yourself (DIY) paint markets. DIY paint demand remains strong, and we are positioned to capitalize on this strength with our leading brands, innovative products and market position. Our Pro paint business grew over 30 percent in 2021 driven by robust demand and our operational execution, and it now accounts for approximately 30 percent of our paint business. We expect Pro paint to remain strong as contractors continue to see a



growing demand for their services. We also anticipate increasing our penetration with the Pro painter by continuing to invest in new services and programs to retain and grow with them.

Our paint business is entering 2022 with a lot of momentum. Our relationship with our channel partner, The Home Depot, is extremely strong, and we are committed to mutual growth. Our Behr brand was recently named the most trusted paint brand by an independent, third-party market research firm. We continue to bring to market new product innovations, such as the recently launched BEHR DYNASTY® interior paint, our most durable, stain-repellent, scuff-resistant, one-coat paint. In 2021, we expanded into adjacent categories to paint such as applicators, aerosols, interior stains, and caulks and sealants, all of which will help drive growth in 2022, and further demonstrates the strength of our brand and partnership with our customers.

Over the course of the year, we executed on our commitment to return capital to shareholders, with over \$1.2 billion returned in dividends and share repurchases. Our balance sheet remains strong, and we ended the year with approximately \$926 million in cash. In early February 2022, our Board of Directors declared a quarterly dividend of \$0.28 per share, a 19 percent increase, payable in the first quarter of 2022. This dividend increase underscores



the strength of our financial position; our ability to generate consistent, strong free cash flow; and the Board's confidence in our future.

The demand for our industry-leading brands remains robust as we enter 2022. With homes now serving multiple functions – including home offices and recreation spaces – our brands are the trusted choice for many consumers seeking home improvements. The widespread availability of our products in both brick-and-mortar and online retailers enables consumers to find us wherever they shop.

**“ OUR PORTFOLIO OF LOW-TICKET REPAIR AND REMODEL PRODUCTS WITH MARKET-LEADING BRANDS AND PRODUCT AND GEOGRAPHIC DIVERSIFICATION PROVIDES GROWTH AND STABILITY THROUGH ECONOMIC CYCLES. ”**



We remain optimistic about the outlook for our business for 2022 and beyond. Our portfolio of low-ticket repair and remodel products with market-leading brands and product and geographic diversification provides growth and stability through economic cycles. In addition, the repair and remodel industry has favorable long-term fundamentals. Strong home price appreciation and existing home turnover, as well as structural factors such as demographics and the aging housing stock, ensure strong demand for our products for years to come.

While 2021 was another challenging year, we once again demonstrated the strength and resilience of Masco and that our business is built on a strong foundation. The scale we have in our categories generates operating efficiency, our robust innovation capabilities strengthen demand for our brands, and our Masco Operating System and culture of continuous improvement provide a competitive advantage. I am confident that these factors position us well for continued growth and to deliver our collective purpose – to bring better living possibilities to our shareholders, employees, channel partners, communities and consumers.

**KEITH J. ALLMAN**

President and Chief Executive Officer

# LEADERSHIP TEAM

## BOARD OF DIRECTORS



**Lisa A. Payne<sup>3</sup>**  
Chair of the Board,  
Masco Corporation  
Former Vice Chairman  
and Chief Financial  
Officer, Taubman  
Centers, Inc.



**Mark R. Alexander<sup>1,2</sup>**  
Chief Executive Officer,  
Icelandic Provisions,  
Inc.



**Keith J. Allman**  
President and Chief  
Executive Officer,  
Masco Corporation



**Marie A. Ffolkes<sup>2,3</sup>**  
Former Chief Executive  
Officer, TriMark USA, LLC



**Christopher A. O'Herlihy<sup>2</sup>**  
Vice Chairman,  
Illinois Tool Works Inc.



**Donald R. Parfet<sup>2,3</sup>**  
Managing Director,  
Apjohn Group, LLC  
General Partner,  
Apjohn Ventures Fund,  
Limited Partnership



**John C. Plant<sup>1,3</sup>**  
Chairman of the Board  
and Chief Executive Officer,  
Howmet Aerospace Inc.



**Charles K. Stevens, III<sup>1</sup>**  
Retired Executive Vice  
President and Chief  
Financial Officer,  
General Motors Company



**Reginald M. Turner, Jr.<sup>1,2</sup>**  
Attorney and Member,  
Clark Hill PLC

<sup>1</sup> Member, Audit Committee   <sup>2</sup> Member, Organization and Compensation Committee  
<sup>3</sup> Member, Corporate Governance and Nominating Committee

## CORPORATE OFFICERS



**Keith J. Allman**  
President and  
Chief Executive Officer



**David A. Chaika**  
Vice President,  
Treasurer and Investor  
Relations



**Kenneth G. Cole**  
Vice President,  
General Counsel and  
Secretary



**John P. Lindow**  
Vice President, Controller  
and Chief Accounting  
Officer  
(through February 13, 2022)



**Richard A. Marshall**  
Vice President, Masco  
Operating System



**Richard A. O'Reagan**  
Group President



**Jai Shah**  
Group President



**Renee Straber**  
Vice President, Chief  
Human Resource  
Officer



**John G. Sznwajcs**  
Vice President,  
Chief Financial Officer

## BUSINESS UNIT EXECUTIVES

**Imran Ahmad**  
Masco Canada

**Thomas S. Assante**  
BrassCraft Manufacturing Company

**Jeffrey J. Burnett**  
Mercury Plastics LLC

**Jeffrey D. Filley**  
Behr Paint Company

**John V. Halso**  
Brasstech Inc.

**Steven M. Hammock**  
Watkins Wellness

**David B. Humenik**  
Vapor Technologies

**Hans-Jürgen Kalmbach**  
Hansgrohe SE

**Martin J. Mongan**  
Bristan Group

**Kenneth W. Roberts**  
Delta Faucet Company

**Vijay L. Shankar**  
Kichler Lighting LLC

**Mark A. Stull**  
Liberty Hardware Manufacturing

## **FORWARD-LOOKING STATEMENTS**

This Annual Report contains statements that reflect our views about our future performance and constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “outlook,” “believe,” “anticipate,” “appear,” “may,” “will,” “should,” “intend,” “plan,” “estimate,” “expect,” “assume,” “seek,” “forecast,” and similar references to future periods. Our views about future performance involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against relying on any of these forward-looking statements.

Our future performance may be affected by the levels of residential repair and remodel activity, and to a lesser extent, new home construction, our ability to maintain our strong brands and reputation and to develop innovative products, our ability to maintain our competitive position in our industries, our reliance on key customers, the duration of the ongoing COVID-19 pandemic, including its impact on domestic and international economic activity, consumer discretionary spending, our employees and our supply chain, the cost and availability of materials, our dependence on third-party suppliers and service providers, extreme weather events and changes in climate, risks associated with our international operations and global strategies, our ability to achieve the anticipated benefits of our strategic initiatives, our ability to successfully execute our acquisition strategy and integrate businesses that we have and may acquire, our ability to attract, develop and retain talented and diverse personnel, risks associated with our reliance on information systems and technology and risks associated with cybersecurity vulnerabilities, threats and attacks. These and other factors are discussed in detail in our most recent Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and in other filings we make with the Securities and Exchange Commission. Any forward-looking statement made by us speaks only as of the date on which it was made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2021

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: 1-5794

MASCO CORPORATION

(Exact name of Registrant as Specified in its Charter)

Delaware

(State of Incorporation)

38-1794485

(I.R.S. Employer Identification No.)

17450 College Parkway, Livonia, Michigan

48152

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (313) 274-7400

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange On Which Registered
Common Stock, \$1.00 par value	MAS	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on June 30, 2021 (based on the closing sale price of \$58.91 of the Registrant's Common Stock, as reported by the New York Stock Exchange on such date) was approximately \$14,501,171,300.

Number of shares outstanding of the Registrant's Common Stock at January 31, 2022:

239,926,257 shares of Common Stock, par value \$1.00 per share

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed for its 2022 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

**Masco Corporation**  
**2021 Annual Report on Form 10-K**

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## Cautionary Statement Concerning Forward-Looking Statements

*This Report contains statements that reflect our views about our future performance and constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "outlook," "believe," "anticipate," "appear," "may," "will," "should," "intend," "plan," "estimate," "expect," "assume," "seek," "forecast," and similar references to future periods. Our views about future performance involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against relying on any of these forward-looking statements.*

*Our future performance may be affected by the levels of residential repair and remodel activity, and to a lesser extent, new home construction, our ability to maintain our strong brands and reputation and to develop innovative products, our ability to maintain our competitive position in our industries, our reliance on key customers, the duration of the ongoing COVID-19 pandemic, including its impact on domestic and international economic activity, consumer discretionary spending, our employees and our supply chain, the cost and availability of materials, our dependence on third-party suppliers and service providers, extreme weather events and changes in climate, risks associated with our international operations and global strategies, our ability to achieve the anticipated benefits of our strategic initiatives, our ability to successfully execute our acquisition strategy and integrate businesses that we have and may acquire, our ability to attract, develop and retain talented and diverse personnel, risks associated with our reliance on information systems and technology and risks associated with cybersecurity vulnerabilities, threats and attacks.*

*These and other factors are discussed in detail in Item 1A. "Risk Factors" of this Report. Any forward-looking statement made by us speaks only as of the date on which it was made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise.*

## PART I

### Item 1. Business.

Masco Corporation and its subsidiaries (the "Company") is a global leader in the design, manufacture and distribution of branded home improvement and building products. Our portfolio of industry-leading brands includes BEHR® paint; DELTA® and HANSGROHE® faucets, bath and shower fixtures; KICHLER® decorative and outdoor lighting; LIBERTY® branded decorative and functional hardware; and HOT SPRING® spas. We leverage our powerful brands across product categories, sales channels and geographies to create value for our customers and shareholders.

We believe that our solid results of operations and financial position for 2021 resulted from strong consumer demand for our lower ticket, repair and remodel-oriented products along with our continued focus on our three strategic pillars:

- drive the full potential of our core businesses;
- leverage opportunities across our enterprise; and
- actively manage our portfolio.

In 2021, we completed the divestiture of our Hüppe GmbH ("Hüppe") business. We also completed the purchase of a 75.1 percent equity interest in Easy Sanitary Solutions B.V. ("ESS") and all of the share capital of Steamist, Inc. ("Steamist"). Additionally, we continued to return value to our shareholders by repurchasing approximately 17.6 million shares of our common stock and increasing our quarterly dividend by approximately 68 percent.

## Our Business Segments

We report our financial results in two segments, our Plumbing Products segment and our Decorative Architectural Products segment, which are aggregated by product similarity. Our Decorative Architectural Products segment is impacted by seasonality and normally experiences stronger sales during the second and third calendar quarters, corresponding with the peak season for repair and remodel activity.

### *Plumbing Products*

The businesses in our Plumbing Products segment sell a wide variety of products that are manufactured or sourced by us.

- Our plumbing products include faucets, showerheads, handheld showers, valves, bath hardware and accessories, bathing units, shower bases and enclosures, shower drains, steam shower systems, sinks, kitchen accessories and toilets. We primarily sell these products to home center retailers, online retailers, mass merchandisers, wholesalers and distributors that, in turn, sell them to plumbers, building contractors, remodelers, smaller retailers and consumers. The majority of our faucet, bathing and showering products are sold primarily in North America, Europe and China under the brand names DELTA<sup>®</sup>, BRIZO<sup>®</sup>, PEERLESS<sup>®</sup>, HANSGROHE<sup>®</sup>, AXOR<sup>®</sup>, KRAUS<sup>®</sup>, EASY DRAIN<sup>®</sup>, STEAMIST<sup>®</sup>, ELITESTEAM<sup>®</sup>, GINGER<sup>®</sup>, NEWPORT BRASS<sup>®</sup>, BRASSTECH<sup>®</sup> and WALTEC<sup>®</sup>. Our BRISTAN<sup>™</sup> and HERITAGE<sup>™</sup> products are sold primarily in the United Kingdom.
- We manufacture acrylic tubs, bath and shower enclosure units, and shower bases and trays. Our DELTA, PEERLESS and MIROLIN<sup>®</sup> products are sold primarily to home center retailers in North America. Our MIROLIN products are also sold to wholesalers and distributors in Canada.
- Our spas, exercise pools and fitness systems are manufactured and sold under our HOT SPRING<sup>®</sup>, CALDERA<sup>®</sup>, FREEFLOW SPAS<sup>®</sup>, FANTASY SPAS<sup>®</sup> and ENDLESS POOLS<sup>®</sup> brands, as well as under other trademarks. Our spa and exercise pools are sold worldwide to independent specialty retailers and distributors and to online mass merchant retailers. Certain exercise pools are also available on a consumer-direct basis in North America and Europe, while our fitness systems are sold through independent specialty retailers as well as on a consumer-direct basis in some areas.
- Included in our Plumbing Products segment are brass, copper and composite plumbing system components and other non-decorative plumbing products that are sold to plumbing, heating and hardware wholesalers, home center and online retailers, hardware stores, building supply outlets and other mass merchandisers. These products are marketed primarily in North America under our BRASSCRAFT<sup>®</sup>, PLUMB SHOP<sup>®</sup>, COBRA<sup>®</sup>, COBRA PRO<sup>™</sup> and MASTER PLUMBER<sup>®</sup> brands and are also sold under private label.
- Within our Plumbing Products segment we develop connected water products that enhance the experience with water in homes and businesses. These systems include touchless activation, voice activation, controlled volume dispensing and provide for monitoring and controlling the temperature and flow of water and are compatible with a range of faucets, showerheads and other showering components.
- We also supply high-quality, custom thermoplastic solutions, extruded plastic profiles and specialized fabrications, as well as PEX tubing, to manufacturers, distributors and wholesalers for use in diverse applications that include faucets and plumbing supplies, appliances, oil and gas equipment, building products and medical equipment components.

We believe that our plumbing products are among the leaders in sales in North America and Europe. Competitors of the majority of our products in this segment include Dornbracht AG & Co. KG, Elkay Manufacturing Company, Fortune Brands Home & Security, Inc.'s Moen, Rohl and Riobel brands, Kohler Co., Lixil Group Corporation's American Standard and Grohe brands, Spectrum Brands Holdings, Inc.'s Pfister faucets and private label brands. Competitors of our spas and exercise pools and systems include Artesian Spas, Jacuzzi and Master Spas brands, among others. Foreign manufacturers competing with us are located primarily in Europe and China. Additionally, we face significant competition from private label products and digitally native brands. The businesses in our Plumbing Products segment manufacture products primarily in North America and Europe as well as in Asia and source products from Asia and other regions. Competition for our plumbing products is based largely on brand reputation, product features and innovation, product quality, customer service, breadth of product offering and price. Many of the faucet and showering products with which our products compete are manufactured by low-cost foreign manufacturers that contribute to price competition.

Many of our plumbing products contain brass, the major components of which are copper and zinc. We have multiple sources, both domestic and foreign, for our raw materials used in this segment. We have encountered price volatility for brass, brass components and any components containing copper and zinc. To help reduce the impact of this volatility, from time to time we may enter into long-term agreements with certain significant suppliers. In addition, some of the products in this segment that we import have been and may in the future be subject to duties and tariffs.

#### *Decorative Architectural Products*

Our Decorative Architectural Products segment primarily includes architectural coatings, including paints, primers, specialty coatings, stains and waterproofing products, as well as paint applicators and accessories. These products are sold in North America, South America and China under the brand names BEHR<sup>®</sup>, KILZ<sup>®</sup>, WHIZZ<sup>®</sup>, Elder & Jenks<sup>®</sup> and other trademarks to "do-it-yourself" and professional customers through home center retailers and other retailers. Net sales of architectural coatings comprised approximately 30 percent, 33 percent and 31 percent of our consolidated net sales from our continuing operations in 2021, 2020, and 2019, respectively. Our BEHR products are sold through The Home Depot, our largest customer overall, as well as this segment's largest customer. Our Behr business grants Behr brand exclusivity in the retail sales channel in North America to The Home Depot. The granting of exclusivity affects our ability to sell those products and brands to other customers, and the loss of this segment's sales to The Home Depot would have a material adverse effect on this segment's business and on our consolidated business as a whole.

Our competitors in this segment include large national and international brands such as Benjamin Moore & Co., PPG Industries, Inc.'s Glidden, Olympic, Pittsburgh Paints and PPG brands, The Sherwin-Williams Company's Minwax, Sherwin-Williams, Thompson's Water Seal, Valspar and Purdy brands, RPM International, Inc.'s Rust-Oleum and Zinsser brands and the Wooster Brush Company, as well as many regional and other national brands. We believe that brand reputation is an important factor in consumer selection, and that competition in this industry is also based largely on product features and innovation, product quality, customer service, breadth of product offering and price.

Acrylic resins and titanium dioxide are principal raw materials in the manufacture of architectural coatings. The price of acrylic resins fluctuates based on the price of its components, which can have a material impact on our costs and results of operations in this segment. The price for titanium dioxide can fluctuate as a result of global supply and demand dynamics and production capacity limitations, which can have a material impact on our costs and results of operations in this segment. In addition, the prices of crude oil, natural gas, propylene, methyl methacrylate (MMA), zinc and certain petroleum by-products can impact our costs and results of operations in this segment. We have multiple sources, both domestic and foreign, for the raw materials used in this segment. We have encountered price volatility for propylene and MMA and, to a lesser extent, zinc. To help reduce the impact of this price volatility, we have and may in the future enter into long-term agreements with certain significant suppliers. We import certain materials and products for this segment that have been and may in the future be subject to duties and tariffs. We also have agreements with certain significant suppliers for this segment that are intended to help assure continued supply.

Our Decorative Architectural Products segment includes branded cabinet and door hardware, functional hardware, wall plates, hook and hook rail products, closet organization systems and picture hanging accessories, which are manufactured for us and sold to home center retailers, mass retailers, online retailers, other specialty retailers, original equipment manufacturers and wholesalers. These products are sold under the LIBERTY<sup>®</sup>, BRAINERD<sup>®</sup>, FRANKLIN BRASS<sup>®</sup> and other trademarks. Our key competitors in North America include Amerock Hardware, Richelieu Hardware Ltd., Top Knobs and private label brands. Decorative bath hardware, shower accessories, mirrors and shower doors are sold under the brand names DELTA<sup>®</sup> and FRANKLIN BRASS<sup>®</sup> and other trademarks to home center retailers, mass retailers, online retailers, other specialty retailers and wholesalers. Competitors for these products include Fortune Brands Home & Security, Inc.'s Moen brand, Gatco Fine Bathware, Kohler Co. and private label brands.

This segment also includes decorative indoor and outdoor lighting fixtures, ceiling fans, landscape lighting and LED lighting systems. These products are sold to home center retailers, online retailers, electrical distributors, landscape distributors and lighting showrooms under the brand names KICHLER<sup>®</sup> and ÉLAN<sup>®</sup> and under other trademarks. Competitors of these products include Acuity, FX Luminaire, Generation Brands, Hinkley Lighting, Inc., Hubbell Incorporated's Progress Lighting brand, Hunter Fan Company and private label brands.

## **Additional Information**

### *Intellectual Property*

We hold numerous U.S. and foreign patents, patent applications, licenses, trademarks, trade names, trade secrets and proprietary manufacturing processes. We view our trademarks and other intellectual property rights as important, but do not believe that there is any reasonable likelihood of a loss of such rights that would have a material adverse effect on our present business as a whole.

### *Laws and Regulations Affecting Our Business*

We are subject to federal, state, local and foreign government laws and regulations. For a more detailed description of the various laws and regulations that impact our business, see Item 1A. Risk Factors.

We monitor applicable laws and regulations and incur ongoing expense relating to compliance, however we do not expect that compliance with federal, state, local and foreign regulations, will result in material capital expenditures or have a material adverse effect on our results of operations and financial position.

### *Human Capital Management*

We believe the performance of our Company is impacted by our human capital management, and as a result we are focused on attracting, developing and retaining highly qualified, engaged and diverse employees. We have developed three strategic talent priorities: leadership, diversity, equity and inclusion, and future workforce. Our Chief Human Resources Officer is responsible for developing and executing our human capital strategy and provides regular updates to our Board of Directors' Organization and Compensation Committee on our progress toward the achievement of these strategic initiatives. We believe that our human capital initiatives work together to help our employees grow and thrive, cultivate a culture where our employees feel like they belong and keep our employees healthy and safe in the workplace.

### Leadership

We support and foster the growth of our employees by providing development opportunities and tools that build and strengthen leadership capabilities. We use our Leadership Framework, which is our internal leadership evaluation framework, to define the capabilities and attributes and behaviors that serve as the foundation for how we select, develop and measure the performance of our leaders.

To develop a sustainable pipeline of leaders, we have robust and proactive talent management and succession planning processes to support our businesses. In addition, our Board of Directors and executive management team regularly review our Company's critical leadership roles and succession plans.

We are focused on building a continuous learning culture by enabling frequent and candid feedback discussions about performance and development between employees and their managers, across peers, and within teams.

## Diversity, Equity and Inclusion ("DE&I")

We believe a workplace that encourages different voices, perspectives and backgrounds creates better teams, better solutions and more innovation. We strive to cultivate a sense of belonging for our employees. We are focused on the following three key areas:

- Our workplace: who we are and how it feels to work at Masco
- Our marketplace: how we deliver innovative solutions that meet the needs of all our consumers and customers
- Our communities: how we can help increase access, equity, and inclusion through strong community partners and business partnerships

Each strategic focus area has a series of enterprise-wide initiatives, and our businesses have aligned plans that are tailored to meet their specific needs. Our enterprise DE&I Council along with business unit councils and employee resource groups serve as advisors, ambassadors and change agents in implementing our enterprise-wide initiatives and their business unit plans.

Our workforce representation statistics are one indicator of our performance in advancing a diverse workforce. Following is our workforce representation statistics as of December 31, 2021:

- In the U.S., our leadership team is comprised of 31 percent women and 26 percent racially / ethnically diverse individuals, as compared to the EEO-1 benchmark of 24 percent and 20 percent, respectively. The EEO-1 leadership benchmark includes executive-level/senior-officials and managers, and first-level officials and managers.
- In the U.S., our salaried workforce is comprised of approximately 36 percent women and 29 percent racially / ethnically diverse individuals, as compared to the EEO-1 benchmark of 27 percent and 26 percent, respectively. The EEO-1 salaried employees benchmark includes leadership, professionals and technicians.
- In the U.S., our hourly workforce, which includes hourly and exception hourly, is comprised of 38 percent women and 53 percent racially / ethnically diverse individuals, as compared to the EEO-1 benchmark of 28 percent and 37 percent, respectively. The EEO-1 hourly employees benchmark includes all other EEO categories we did not include in the EEO-1 leadership and salaried benchmark.

We have established specific aspirational workforce representation goals for our U.S. workforce along with goals linked to employees' experiences related to inclusion and belonging. Progress towards these goals is measured on an annual basis and is reviewed by our Organization and Compensation Committee of our Board of Directors and executive management team. We describe those goals in our Corporate Social Responsibility report, which is not incorporated by reference into this Annual Report on Form 10-K.

## Future Workforce

There are critical capabilities that our employees and our organization need to help us achieve our businesses objectives. We leverage our Masco Operating System, our methodology to drive growth and productivity, to ensure that our businesses are focused on building these critical organizational capabilities by ensuring they have the right structure, talent, tools, and training in place.

## Employee Engagement

In order to engage and retain our employees, we listen to our employees to understand their perspectives, needs and ideas by leveraging various forums, tools, and methods including surveys to measure key insights related to employee engagement, inclusion, well-being, and leadership, among others.

## Employee Health and Safety

The safety of our employees is integral to our company. In support of our safety efforts, we identify, assess, and investigate incidents and injury data, and each year set a goal to improve key safety performance indicators. We communicate and train our workforce on the importance of safe work practices. We also regularly consult with our employees on safety-related improvements to our operations. Throughout 2021, our cross-functional Infectious Illness Response Team updated protocols and procedures to continue to help keep our employees safe during the ongoing COVID-19 pandemic. We continued to implement the best practices and recommendations from the World Health Organization, the Centers for Disease Control, and the Department of Labor (OSHA). We encouraged our employees to receive COVID-19 vaccinations across our organization through educational outreach, on-site vaccination clinics, and paid time off to receive the COVID-19 vaccine.

## Our Workforce

At December 31, 2021, we employed approximately 20,000 people.

## **Available Information**

Our website is [www.masco.com](http://www.masco.com). Our periodic reports and all amendments to those reports required to be filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). This Report is being posted on our website concurrently with its filing with the SEC. Material contained on our website is not incorporated by reference into this Report. Our reports filed with the SEC also may be found on the SEC's website at [www.sec.gov](http://www.sec.gov).

## **Item 1A. Risk Factors.**

There are a number of business risks and uncertainties that could affect our business. These risks and uncertainties could cause our actual results to differ from past performance or expected results. We consider the following risks and uncertainties to be most relevant to our specific business activities. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, also may adversely impact our business, results of operations and financial position.

### **Coronavirus Disease Risks**

***The ongoing COVID-19 pandemic has and may continue to impact our operations, which may impact our results and our financial condition.***

The spread of COVID-19 created a global health crisis that resulted in widespread disruption to economic activity, both in the U.S. and globally.

We operate facilities in the United States and around the world which have been and may continue to be adversely affected by this pandemic, including the closure or reduced capacity of certain of our facilities; delays or disruptions in our ability to source raw materials, components and products; constraints in shipping, transportation and logistics; and decreased employee availability. Due to the uncertain duration of the COVID-19 pandemic, we are unable to fully estimate the extent of the impact it may have on the markets in which we operate or our business. The extent of such impact will depend on a number of factors, including the duration of the COVID-19 pandemic, its effect on our customers, suppliers and employees, its effect on domestic and international economies and markets, including consumer discretionary spending, and the response of governmental authorities. A prolonged disruption of our operations or slowdown in domestic and international economic activity could materially and adversely affect our results of operations and financial condition.

To the extent COVID-19 continues to impact our business and our operations, it may also have the effect of heightening certain of the other risks described in this Annual Report on Form 10-K, such as those relating to our international operations and global strategies and our dependence on third-party suppliers.

### **Strategic Risks**

***Our business strategy is focused on residential repair and remodeling activity and, to a lesser extent, on new home construction activity, both of which are impacted by a number of economic factors and other factors.***

Our business relies on residential repair and remodeling activity and, to a lesser extent, on new home construction activity. A number of factors impact consumers' spending on home improvement projects as well as new home construction activity, including:

- consumer confidence levels;
- fluctuations in home prices;
- existing home sales;
- unemployment and underemployment levels;
- consumer income and debt levels;
- household formation;
- the availability of skilled tradespeople for repair and remodeling work;
- the availability of home equity loans and mortgages and the interest rates for and tax deductibility of such loans;
- trends in lifestyle and housing design; and
- natural disasters, terrorist acts, pandemics or other catastrophic events.

The fundamentals driving our business are impacted by economic cycles. Adverse changes or uncertainty involving the factors listed above, an economic contraction or inflationary pressures could result in a decline in residential repair and remodeling activity or in demand for new home construction, which could adversely affect our results of operations and financial position.

***We may not achieve all of the anticipated benefits of our strategic initiatives.***

We continue to pursue our strategic initiatives of investing in our brands, developing innovative products, and focusing on operational excellence through the Masco Operating System, our methodology to drive growth and productivity. These initiatives are designed to grow revenue, improve profitability and increase shareholder value over the mid- to long-term. Our business performance and results could be adversely affected if we are unable to successfully execute these initiatives or if we are unable to execute these initiatives in a timely and efficient manner. We could also be adversely affected if we have not appropriately prioritized and balanced our initiatives or if we are unable to effectively manage change throughout our organization.

***We may not be able to successfully execute our acquisition strategy or integrate businesses that we acquire.***

Pursuing the acquisition of businesses complementary to our portfolio is a component of our strategy for future growth. If we are not able to identify suitable acquisition candidates or consummate potential acquisitions within a desired time frame or at acceptable terms and prices, our long-term competitive positioning may be affected. Even if we are successful in acquiring businesses, the businesses we acquire may not be able to achieve the revenue, profitability or growth we anticipate, or we may experience challenges and risks in integrating these businesses into our existing business. Such risks include:

- difficulties realizing expected synergies and economies of scale;
- diversion of management attention and our resources;
- unforeseen liabilities;
- issues or conflicts with our new or existing customers or suppliers; and
- difficulties in retaining critical employees of the acquired businesses.

International acquisitions that we have made, and international acquisitions that we may make in the future may continue to increase our exposure to foreign currency risks and risks associated with interpretation and enforcement of foreign regulations. Our failure to address these risks could cause us to incur additional costs and fail to realize the anticipated benefits of our acquisitions and could adversely affect our results of operations and financial position.

**Business and Operational Risks**

***Variability in the cost and availability of our raw materials, component parts and finished goods could affect our results of operations and financial position.***

We purchase substantial amounts of raw materials, component parts and finished goods from outside sources, including international sources, and we manufacture certain of our products outside of the United States. Increases in the cost of the materials we purchase, including as a result of availability, tariffs and inflation, have in the past and may in the future increase the prices for our products. Further, our production could be affected if we or our suppliers are unable to procure our requirements for various commodities, including, among others, brass, resins, titanium dioxide and zinc, or if a shortage of these commodities results in significantly increased costs. Rising energy costs could also increase our production and transportation costs. In addition, water is a significant component of our architectural coatings products and may be subject to shortages and restrictions on supply in certain regions, due to climate-related and other influences. These factors could adversely affect our results of operations and financial position.

It can be difficult for us to pass on to customers our cost increases. Our existing arrangements with customers, competitive considerations and customer resistance to price increases may delay or make us unable to adjust selling prices. If we are not able to sufficiently increase the prices of our products or achieve cost savings to offset increased material and production costs, our results of operations and financial position could be adversely affected. Increased selling prices for our products have and may in the future lead to sales declines and loss of market share, particularly if those prices are not competitive. When our material costs decline, we have experienced and may in the future receive pressure from our customers to reduce our prices. Such reductions could adversely affect our results of operations and financial position.

From time to time we enter into long-term agreements with certain significant suppliers to help ensure continued availability of the commodities we require to produce our products and to establish firm pricing, but at times these contractual commitments may result in our paying above market prices for commodities during the term of the contract. Occasionally, we may also use derivative instruments, including commodity futures and swaps. This strategy increases the possibility that we may make commitments for these commodities at prices that subsequently exceed their market prices, which has occurred and could occur in the future and may adversely affect our results of operations and financial position.

***We are dependent on third-party suppliers and service providers.***

We are dependent on third parties for many of our products and components and for certain services. Our ability to offer a wide variety of products and provide high levels of service to our customers depend on our ability to obtain an adequate and timely supply of products and components. Failure of our suppliers to timely provide us quality products or services on commercially reasonable terms or to comply with applicable legal and regulatory requirements or our supplier business practices policies, could have a material adverse effect on our results of operations and financial position or could damage our reputation. The operations of the third parties we depend on could be impacted by changing laws, regulations and policies, including those related to climate change, labor availability and by adverse weather conditions, pandemics, and other force majeure events, any of which could result in disruptions to their operations and result in shortages of supply, assertion of force majeure contract provisions and increases in the prices they charge for the raw materials, components and products they produce. Sourcing these products and components from alternate suppliers, including suppliers from new geographic regions, or re-engineering our products as a result of supplier disruptions, is time-consuming and costly and could result in inefficiencies or delays in our business operations or could negatively impact the quality of our products. In addition, the loss of critical suppliers, or a substantial decrease in the availability of products or components from our suppliers, has and could continue to disrupt our business and may adversely affect our results of operations and financial position.

Many of the suppliers we rely upon are located in foreign countries, primarily China. The differences in business practices, shipping and delivery requirements, changes in economic conditions and trade policies and laws and regulations, together with the limited number of suppliers, have increased the complexity of our supply chain logistics and the potential for interruptions in our production scheduling. We have experienced and may continue to experience constraints on and disruptions to transporting our raw materials, components and products from our international suppliers and have had to pay higher transportation costs. If we are unable to effectively manage our supply chain or if we continue to experience such transportation constraints, disruptions and higher costs for timely delivery of our products or components, our results of operations and financial position could be adversely affected.

***There are risks associated with our international operations and global strategies.***

In 2021, 21 percent of our sales from continuing operations were made outside of North America (principally in Europe) and transacted in currencies other than the U.S. dollar. In addition to our European operations, we manufacture products in Asia and source products and components from third parties globally. Risks associated with our international operations include:

- differences in culture, economic and labor conditions and practices;
- the policies of the U.S. and foreign governments;
- disruptions in trade relations and economic instability;
- differences in enforcement of contract and intellectual property rights;
- timeliness of transportation and port congestion;
- social and political unrest; and
- natural disasters, terrorist attacks, pandemics or other catastrophic events.

We are also affected by domestic and international laws and regulations applicable to companies doing business abroad or importing and exporting goods and materials. These include tax laws, laws regulating competition, anti-bribery/anti-corruption and other business practices, and trade regulations, including duties and tariffs. Compliance with these laws is costly, and future changes to these laws may require significant management attention and disrupt our operations. Additionally, while it is difficult to assess what changes may occur and the relative effect on our international tax structure, significant changes in how U.S. and foreign jurisdictions tax cross-border transactions could adversely affect our results of operations and financial position.

Our results of operations and financial position are also impacted by changes in currency exchange rates. Unfavorable currency exchange rates, particularly the euro, the Chinese Yuan renminbi, the Canadian dollar and the British pound sterling, have in the past adversely affected us, and could adversely affect us in the future. Fluctuations in currency exchange rates may present challenges in comparing operating performance from period to period.

Additionally, as a result of the United Kingdom's exit from the European Union, we could experience volatility in the currency exchange rates or a change in the demand for our products and services, particularly in our U.K. and European markets, or there could be disruption of our operations and our customers' and suppliers' businesses.

***The long-term performance of our businesses relies on our ability to attract, develop and retain talented and diverse personnel.***

To be successful, we must invest significant resources to attract, develop and retain highly qualified, talented and diverse employees at all levels, who have the experience, knowledge and expertise to implement our strategic and business initiatives. We compete for employees with a broad range of employers in many different industries, including large multinational firms, and we may fail in recruiting, developing, motivating and retaining them, particularly when there are low unemployment levels. We have been and continue to be affected by a shortage of qualified personnel in certain geographic areas. Our growth, competitive position, results of operations and financial position could be adversely affected by our failure to attract, develop and retain key employees and diverse talent, to build strong leadership teams, to successfully implement our talent strategies or to develop effective succession planning to assure smooth transitions of those employees and the knowledge and expertise they possess.

***Extreme weather events and changes in climate could adversely impact our results of operations and financial position.***

Extreme weather events, such as severe winter and other storms, hurricanes, fires, floods, tornados and droughts, as a result of climate change or other factors, have negatively impacted and may continue to negatively impact our business. These types of events can be disruptive to our operations and may impact consumer spending. In addition, we have certain suppliers located in areas that have experienced extreme weather events which have impacted and may continue to impact the availability and cost of some of our raw materials, components and products from time to time. If the frequency or severity of extreme weather increases, we may experience interruptions to our operations, further impact on our supply chain, increased operating costs or loss or damage to our property or inventory, which could adversely affect our results of operations and financial position.

***Restrictive covenants in our credit agreement could limit our financial flexibility.***

We must comply with both financial and nonfinancial covenants in our credit agreement, and in order to borrow under it, we cannot be in default with any of those provisions. Our ability to borrow under the credit agreement could be affected if our earnings significantly decline to a level where we are not in compliance with the financial covenants or if we default on any nonfinancial covenants. In the past, we have been able to amend the covenants in our credit agreement, but there can be no assurance that in the future we would be able to further amend them. If we were unable to borrow under our credit agreement, our financial flexibility could be restricted.

## **Competitive Risks**

***We could lose market share if we do not maintain our strong brands, develop innovative products or respond to changing purchasing practices and consumer preferences or if our reputation is damaged.***

Our competitive advantage is due, in part, to our ability to maintain our strong brands and to develop and introduce innovative new and improved products. Our initiatives to invest in brand building, brand awareness and product innovation may not be successful. The uncertainties associated with developing and introducing innovative and improved products, such as gauging changing consumer demands and preferences and successfully developing, manufacturing, marketing, selling and servicing these products, may impact the success of our product introductions. If the products we introduce do not gain widespread acceptance or if our competitors improve their products more rapidly or effectively than we do, we could lose market share or be required to reduce our prices, which could adversely impact our results of operations and financial position.

In recent years, consumer purchasing practices and preferences have shifted and our customers' business models and strategies have changed. As our customers execute their strategies to reach end consumers through multiple channels, they rely on us to support their efforts with our infrastructure, including maintaining robust and user-friendly websites with sufficient content for consumer research and providing comprehensive supply chain solutions and differentiated product development. If we are unable to successfully provide this support to our customers or if our customers are unable to successfully execute their strategies, our brands may lose market share.

If we do not timely and effectively identify and respond to changing consumer preferences, including, among others, a continued shift in consumer purchasing practices toward e-commerce and increased consumer demand for products with potential desired attributes, such as connected products and sustainable products, our relationships with our customers and with consumers could be harmed, our ability to retain our customers and consumers may be negatively impacted, the demand for our brands and products could be reduced and our results of operations and financial position could be adversely affected.

Our public image and reputation are important to maintaining our strong brands and could be adversely affected by various factors, including product quality and service, claims and comments in social media or the press, or a negative perception regarding our company practices, positions or public statements, including regarding disputes or legal action against us, even if unfounded. Damage to our public image or reputation could adversely affect our results of operations and financial position.

***We face significant competition and operate in an evolving competitive landscape.***

Our products face significant competition. We believe that brand reputation is an important factor affecting product selection and that we compete on the basis of product features, innovation, quality, customer service, warranty and price. We sell many of our products through home center retailers, online retailers, distributors and independent dealers and rely on these customers to market and promote our products to consumers. Our success with our customers is dependent on our ability to provide quality products and timely delivery. In addition, home center retailers, which have historically concentrated their sales efforts on retail consumers and remodelers, are increasingly selling directly to professional contractors and installers. This shift may adversely affect our margins on our products that contractors and installers would otherwise buy through our dealers and wholesalers, and as home center retailers develop customer experience programs to attract and retain contractors and installers, they may rely on us to support their efforts, which may affect our growth and operating results.

Certain of our customers are selling products sourced from low-cost foreign manufacturers under their own private label brands, which directly compete with our brands. As a result of this trend, we have and we may in the future experience lower demand for our products or a shift in the mix of some products we sell toward more value-priced or opening price point products, which may affect our operating results.

In addition, we face competitive pricing pressure in the marketplace, including sales promotion programs, that could affect our market share or result in price reductions, which could adversely impact our results of operations and financial position.

Further, the growing e-commerce channel brings an increased number of competitors and greater pricing transparency for consumers, as well as conflicts between our existing distribution channels and a need for different distribution methods. These factors could affect our results of operations and financial position. In addition, our relationships with our customers, including our home center customers, may be affected if we increase the amount of business we transact in the e-commerce channel.

***If we are unable to maintain our competitive position in our industries, our results of operations and financial position could be adversely affected.***

Our sales are concentrated with three significant customers and this concentration may continue to increase. In 2021, our net sales from our continuing operations to The Home Depot were \$3.0 billion (approximately 36 percent of our consolidated net sales), and our net sales from our continuing operations to Ferguson and Lowe's were each less than 10 percent of our consolidated net sales. These customers can significantly affect the prices we receive for our products and the terms and conditions on which we do business with them. Additionally, these customers have in the past and may in the future reduce the number of vendors from which they purchase and could make significant changes in their volume of purchases from us. Although other retailers, dealers, distributors and homebuilders represent other channels of distribution for our products and services, we might not be able to quickly replace, if at all, the loss of a substantial portion of our sales to The Home Depot or the loss of all of our sales to either Ferguson or Lowe's, and any such loss would have a material adverse effect on our business, results of operations and financial position.

In addition, our Behr business grants Behr brand exclusivity in the retail sales channel in North America to The Home Depot, and from time to time, certain of our other businesses grant product and/or brand exclusivity to our customers. The granting of exclusivity affects our ability to sell those products and brands to other customers and can increase the complexity of our product offerings and can increase our costs.

#### **Technology and Intellectual Property Risks**

***We rely on information systems and technology, and a breakdown of these systems or interruptions resulting from our implementation of new systems could adversely affect our results of operations and financial position.***

We rely on many information systems and technology to process, transmit, store and manage information to support our business activities. We may be adversely affected if our information systems breakdown, fail, or are no longer supported. In addition to the consequences that may occur from interruptions in our current systems, we continue to invest in new technology systems throughout our company, including implementations of and upgrades to Enterprise Resource Planning ("ERP") systems at our business units. ERP implementations and upgrades are complex and require significant management oversight, and we have experienced, and may continue to experience, unanticipated expenses and interruptions to our operations during these implementations. Our results of operations and financial position, as well as the effectiveness of our internal controls over financial reporting, could be adversely affected if we do not appropriately select, implement, maintain and upgrade our technology systems in a timely manner or if we experience significant unanticipated expenses or disruptions in connection with the implementation and upgrade of ERP systems.

***We have been and may continue to be subject to cybersecurity attacks, which could adversely affect our results of operations and financial position.***

Global cybersecurity vulnerabilities, threats and more frequent, sophisticated and targeted attacks pose a risk to our information technology systems. We have implemented security policies, processes and layers of defense designed to help identify and protect against intentional and unintentional misappropriation or corruption of our systems and information and disruption of our operations. Despite these efforts, our systems have been and may in the future be damaged, disrupted, or shut down due to cybersecurity attacks by unauthorized access, malware, ransomware, undetected intrusion, hardware failures, or other events, and in these circumstances our disaster recovery plans may be ineffective or inadequate. These breaches or intrusions have led and could in the future lead to business interruption, production or operational downtime, product shipment delays, exposure or loss of proprietary confidential or financial information or the personal information of our employees or customers, data corruption, an inability to report our financial results in a timely manner, damage to the reputation of our brands, damage to our relationships with our customers and suppliers, exposure to litigation, and increased costs associated with the remediation and mitigation of such attacks. In addition, we could be adversely affected if any of our significant customers, third-party suppliers or service providers experiences any similar events that disrupt their business operations or damage their reputation. Such events could adversely affect our results of operations and financial position.

***We may not be able to adequately protect or prevent the unauthorized use of our intellectual property.***

Protecting our intellectual property is important to our growth and innovation efforts. We own a number of patents, trade names, brand names and other forms of intellectual property in our products and manufacturing processes throughout the world. There can be no assurance that our efforts to protect our intellectual property rights will prevent violations. Our intellectual property has been and may again be challenged or infringed upon by third parties, particularly in countries where property rights are not highly developed or protected. In addition, the global nature of our business increases the risk that we may be unable to obtain or maintain our intellectual property rights on reasonable terms. Furthermore, others may assert intellectual property infringement claims against us. Current and former employees, contractors, customers or suppliers have or may have had access to proprietary or confidential information regarding our business operations that could harm us if used by them, or disclosed to others, including our competitors. Protecting and preventing the unauthorized use of our intellectual property could be costly, time consuming and require significant resources. If we are not able to protect our existing intellectual property rights, or prevent unauthorized use of our intellectual property, sales of our products may be affected and we may experience reputational damage to our brand names, increased litigation costs and adverse impact to our competitive position, which could adversely affect our results of operations and financial position.

### **Litigation and Regulatory Risks**

***Claims and litigation could be costly.***

We are involved in various claims and litigation, including class actions, mass torts and regulatory proceedings, that arise in the ordinary course of our business and that could have a material adverse effect on us. The types of matters may include, among others: competition, product liability, employment, warranty, advertising, contract, personal injury, environmental, intellectual property, product compliance and insurance coverage. The outcome and effect of these matters are inherently unpredictable, and defending and resolving them can be costly and can divert management's attention. We have and may continue to incur significant costs as a result of claims and litigation.

We are also subject to product safety regulations, product recalls and direct claims for product liability that can result in significant costs and, regardless of the ultimate outcome, create adverse publicity and damage the reputation of our brands and business. Also, we rely on third-party suppliers to provide products or components for products that we sell. Due to the difficulty of controlling the quality of products and components we source from these suppliers, we are exposed to risks relating to the quality of such products and to limitations on our recourse against such suppliers.

We maintain insurance against some, but not all, of the risks of loss resulting from claims and litigation. The levels of insurance we maintain may not be adequate to fully cover our losses or liabilities. If any significant accident, judgment, claim or other event is not fully insured or indemnified against, it could adversely affect our results of operations and financial position.

Refer to Note U to the consolidated financial statements included in Item 8 of this Report for additional information about litigation involving our businesses.

***Our failure to comply with laws, government regulations and other requirements could adversely affect our results of operations and financial position.***

We are subject to a wide variety of federal, state, local and foreign laws and regulations pertaining to:

- securities matters;
- taxation;
- anti-bribery/anti-corruption;
- employment and labor matters;
- wage and hour matters;
- environment, health and safety matters;
- the protection of employees and consumers;
- product safety and performance;
- competition practices;
- trade, including duties and tariffs;
- data privacy and the collection and storage of information; and
- climate change and protection of the environment.

In addition to complying with current requirements and known future requirements, we will be subject to new or more stringent requirements in the future.

As we sell new types of products or existing products in new geographic areas or channels or for new applications, we are subject to the requirements applicable to those sales. Additionally, some of our products must be certified by industry organizations. Compliance with new or changed laws, regulations and other requirements, including as a part of government or industry response to climate change, may require us to alter our product designs, our manufacturing processes, our packaging or our sourcing. These compliance activities are costly and require significant management attention and resources. If we do not effectively and timely comply with such regulations and other requirements, our results of operations and financial position could be adversely affected.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

The table below lists principal North American properties as of December 31, 2021.

Business Segment	Manufacturing	Warehouse and Distribution
Plumbing Products	22	11
Decorative Architectural Products	8	19
Totals	30	30

Most of our North American facilities range from single warehouse buildings to complex manufacturing facilities. We own most of our North American manufacturing facilities, none of which is subject to significant encumbrances. A substantial number of our warehouse and distribution facilities are leased.

The table below lists principal properties outside of North America as of December 31, 2021.

<b>Business Segment</b>	<b>Manufacturing</b>	<b>Warehouse and Distribution</b>
Plumbing Products	10	17
Decorative Architectural Products	—	—
<b>Totals</b>	<b>10</b>	<b>17</b>

Most of our international facilities are in China, Germany and the United Kingdom. We own most of our international manufacturing facilities, none of which is subject to significant encumbrances. A substantial number of our international warehouse and distribution facilities are leased.

We lease our corporate headquarters in Livonia, Michigan, and we own a building in Taylor, Michigan that is used by our Masco Technical Services (research and development) department. We also lease an office facility in Luxembourg, which serves as a headquarters for most of our foreign operations.

Each of our operating divisions assesses the manufacturing, distribution and other facilities needed to meet its operating requirements. We regularly review our anticipated requirements for facilities and, on the basis of that review, may from time to time build, acquire or lease additional facilities, or expand additional facilities.

### **Item 3. Legal Proceedings.**

Information regarding legal proceedings involving us is set forth in Note U to the consolidated financial statements included in Item 8 of this Report and is incorporated herein by reference.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The New York Stock Exchange is the principal market on which our common stock is traded, under the ticker symbol MAS. On January 31, 2022, there were approximately 2,700 holders of record of our common stock.

We expect that our practice of paying quarterly dividends on our common stock will continue, although the payment of future dividends is at the discretion of our Board of Directors and will depend upon our earnings, capital requirements, financial condition and other factors. The Board of Directors declared a quarterly dividend of \$0.28 per share in the first quarter of 2022 with the intention to increase the annual dividend to \$1.12 per share.

Effective February 10, 2021, our Board of Directors authorized the repurchase, for retirement, of up to \$2.0 billion of shares of our common stock in open-market transactions or otherwise, replacing the previous Board of Directors authorization established in 2019. We repurchased and retired 17.6 million shares of our common stock for the year ended December 31, 2021 for approximately \$1,026 million. This included 0.7 million shares to offset the dilutive impact of restricted stock units granted in 2021. At December 31, 2021, we had \$1,128 million remaining under the 2021 authorization.

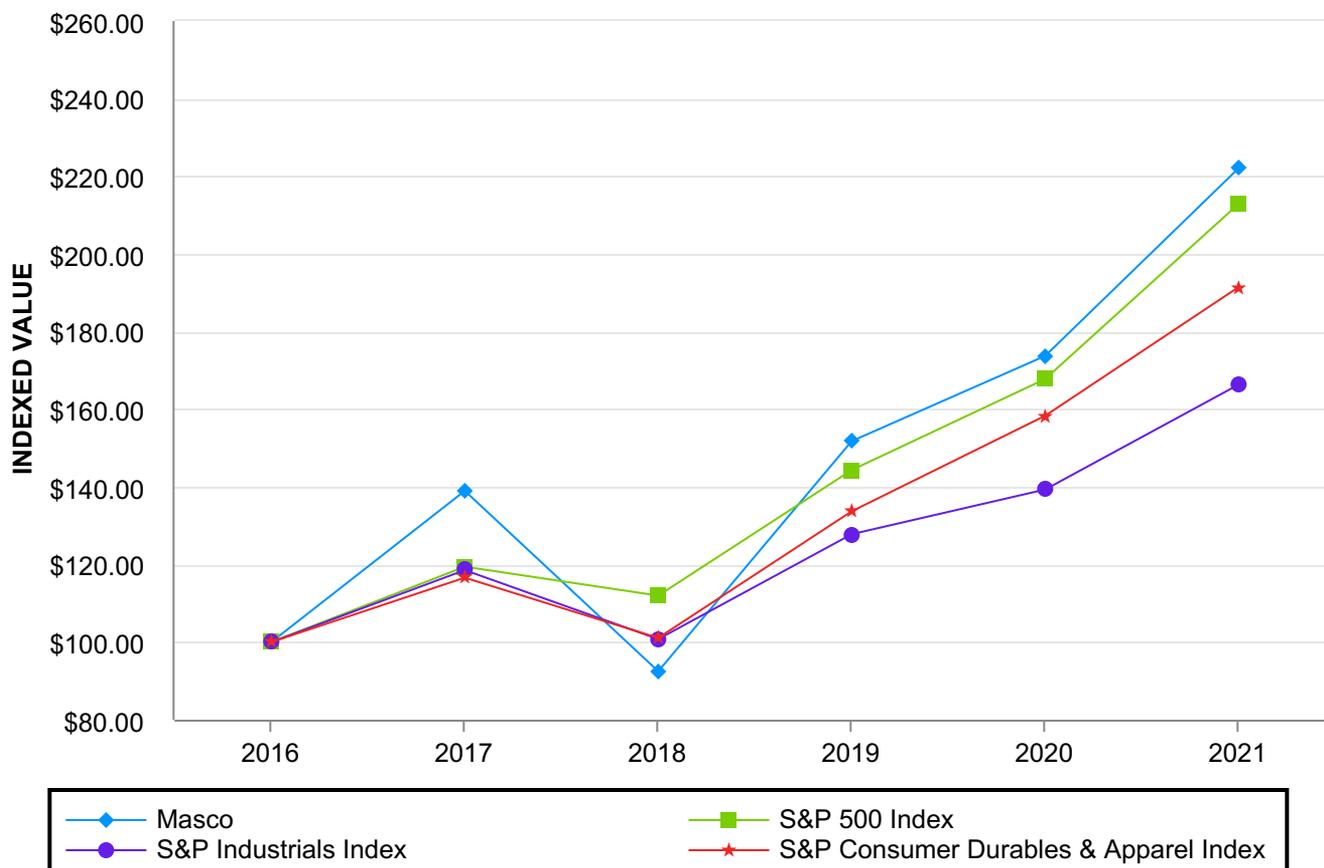
The following table provides information regarding the repurchase of our common stock for the three-month period ended December 31, 2021.

Period	Total Number of Shares Purchased	Average Price Paid Per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Value of Shares That May Yet Be Purchased Under the Plans or Programs
10/1/21 - 10/31/21	886,339	\$ 56.42	886,339	\$ 1,226,445,766
11/1/21 - 11/30/21	479,801	\$ 66.70	479,801	\$ 1,194,441,196
12/1/21 - 12/31/21	978,015	\$ 67.49	978,015	\$ 1,128,431,724
Total for the quarter	2,344,155	\$ 63.15	2,344,155	\$ 1,128,431,724

## Performance Graph

The table below compares the cumulative total shareholder return on our common stock with the cumulative total return of (i) the Standard & Poor's 500 Composite Stock Index ("S&P 500 Index"), (ii) The Standard & Poor's Industrials Index ("S&P Industrials Index") and (iii) the Standard & Poor's Consumer Durables & Apparel Index ("S&P Consumer Durables & Apparel Index"), from December 31, 2016 through December 31, 2021, when the closing price of our common stock was \$70.22. The graph assumes investments of \$100 on December 31, 2016 in our common stock and in each of the three indices and the reinvestment of dividends.

### PERFORMANCE GRAPH



The table below sets forth the value, as of December 31 for each of the years indicated, of a \$100 investment made on December 31, 2016 in each of our common stock, the S&P 500 Index, the S&P Industrials Index and the S&P Consumer Durables & Apparel Index and includes the reinvestment of dividends.

	2017	2018	2019	2020	2021
Masco	\$ 138.96	\$ 92.47	\$ 151.77	\$ 173.72	\$ 222.07
S&P 500 Index	\$ 119.42	\$ 111.97	\$ 144.31	\$ 167.77	\$ 212.89
S&P Industrials Index	\$ 118.54	\$ 100.76	\$ 127.79	\$ 139.30	\$ 166.33
S&P Consumer Durables & Apparel Index	\$ 116.59	\$ 101.07	\$ 133.69	\$ 158.30	\$ 191.45

Item 6. [Reserved]

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by, our consolidated financial statements (and notes related thereto) and other more detailed financial information appearing elsewhere in this Report. Further, you should read the following discussion and analysis of our financial condition and results of operations together with the "Risk Factors" included elsewhere in this Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. See also "Cautionary Statement Concerning Forward-Looking Statements" at the beginning of this report.*

### **Overview**

We design, manufacture and distribute branded home improvement and building products. These products are sold primarily for repair and remodeling activity and, to a lesser extent, new home construction. We sell our products through home center retailers, online retailers, wholesalers and distributors, mass merchandisers, hardware stores, direct to the consumer, professional contractors and homebuilders.

We continue to execute our strategy of leveraging our strong brand portfolio, industry-leading positions and the Masco Operating System, our methodology to drive growth and productivity, to create long-term shareholder value. We remain confident in the fundamentals of our business and long-term strategy. We believe that our strong financial position and cash flow generation, together with our investments in our industry-leading branded building products, our continued focus on innovation and disciplined capital allocation, will allow us to drive long-term growth and create value for our shareholders.

We continue to leverage the Masco Operating System and continuous improvement initiatives across our enterprise to identify additional opportunities to improve our business operations. From time to time, we may take actions to drive efficiency in the business focused on the strategic rationalization of our businesses, including business consolidations, plant closures, headcount reductions and other cost savings initiatives.

### **Recent Trends**

#### COVID-19 Impact and General Business Conditions

The COVID-19 pandemic has significantly disrupted global economic activity, including our workforce and operations, as well as the operations of our customers and suppliers. There remains substantial uncertainty regarding the global economic impact of, and the speed and shape of the recovery from, the ongoing COVID-19 pandemic and the resulting impact on our future operations and financial results. We are experiencing, and may continue to experience, higher commodity and transportation costs, and supply chain disruptions, particularly disruptions related to our ability to source products, components and raw materials. We are also experiencing and may continue to experience labor cost inflation and constraints in hiring qualified employees. We aim to offset the potential unfavorable impact of these items with productivity improvement and other initiatives.

## Consolidated Results of Operations

We report our financial results in accordance with accounting principles generally accepted in the United States of America ("GAAP"). However, we believe that certain non-GAAP performance measures and ratios, used in managing the business, may provide users of this financial information with additional meaningful comparisons between current results and results in prior periods. These include the disclosure of net sales, operating profit and operating profit margins adjusted for certain items. Non-GAAP performance measures and ratios should be viewed in addition to, and not as an alternative for, our reported results under GAAP.

We discuss our consolidated results as well as our Business Segment and Geographic Area results of operations for the year ended December 31, 2021 versus December 31, 2020. A detailed discussion of our consolidated, Business Segment and Geographic Area results of operations for the years ended December 31, 2020 compared to the year ended December 31, 2019 can be found under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on February 9, 2021.

## Sales and Operations

### Net Sales

Below is a summary of our net sales, in millions, for the years ended December 31, 2021 and 2020:

	Year Ended December 31,		
	2021	2020	Favorable / (Unfavorable)
Net sales, as reported	\$ 8,375	\$ 7,188	\$ 1,187
Acquisitions	(231)	—	(231)
Divestitures	—	(43)	43
Net sales, excluding acquisitions and divestitures	8,144	7,145	999
Currency translation	(98)	—	(98)
Net sales, excluding acquisitions, divestitures and the effect of currency translation	<u>\$ 8,046</u>	<u>\$ 7,145</u>	<u>\$ 901</u>

Net sales for 2021 were \$8.4 billion, which increased 17 percent compared to 2020. Excluding acquisitions, divestitures and the effect of currency translation, net sales increased 13 percent.

Net sales for 2021 increased primarily due to:

- Higher sales volume of plumbing products which increased sales by nine percent.
- Favorable net selling prices of paints and other coating products and plumbing products increased sales by three percent.
- The acquisitions of Kraus USA Inc. ("Kraus"), Easy Sanitary Solutions B.V. ("ESS"), Work Tools International Inc. and Elder & Jenks, LLC (collectively, "Work Tools") and Steamist, Inc. ("Steamist") increased sales by three percent.
- Favorable foreign currency translation increased sales by one percent.
- Favorable sales mix of plumbing products increased sales by one percent.

These amounts were slightly offset by:

- The divestiture of our Hüppe GmbH ("Hüppe") business decreased sales one percent.

### Gross Profit and Gross Margin

Below is a summary of our gross profit, in millions, and gross margin for the years ended December 31, 2021 and 2020:

	Year Ended December 31,		
	2021	2020	Favorable / (Unfavorable)
Gross profit	\$ 2,863	\$ 2,587	\$ 276
Gross margin	34.2 %	36.0 %	(180) bps

The 2021 gross profit margin was negatively impacted by:

- Increased commodity, transportation and labor costs.

These amounts were partially offset by:

- Increased sales volume.
- Favorable net selling prices.
- Cost savings initiatives.
- Favorable sales mix.

### Selling, General and Administrative Expenses

Below is a summary of our selling, general and administrative expenses, in millions, and selling, general and administrative expenses as a percentage of net sales for the years ended December 31, 2021 and 2020:

	Year Ended December 31,		
	2021	2020	(Favorable) / Unfavorable
Selling, general and administrative expenses	\$ 1,413	\$ 1,292	\$ 121
Selling, general and administrative expenses as percentage of net sales	16.9 %	18.0 %	(110) bps

The improvement in selling, general, and administrative expenses as a percentage of sales in 2021 was primarily driven by:

- Cost savings initiatives.
- Leverage of fixed expenses due primarily to increased sales volume.

These amounts were partially offset by:

- Increase in other expenses (such as labor and marketing costs).

## Operating Profit

Below is a summary of our operating profit, in millions, and operating profit margins for the years ended December 31, 2021 and 2020:

	Year Ended December 31,		
	2021	2020	Favorable / (Unfavorable)
Operating profit, as reported	\$ 1,405	\$ 1,295	\$ 110
Rationalization charges	4	11	(7)
Impairment charge for goodwill	45	—	45
Operating profit, excluding rationalization charges and impairment charge	\$ 1,454	\$ 1,306	\$ 148
Operating profit margins, as reported	16.8 %	18.0 %	(120) bps
Operating profit margins, excluding rationalization charges and impairment charge	17.4 %	18.2 %	(80) bps

Operating profit in 2021 was positively affected by:

- Increased sales volume.
- Favorable net selling prices.
- Cost savings initiatives.
- Favorable sales mix.
- Favorable foreign currency translation.

These positive impacts were partially offset by:

- Increased commodity costs.
- Increased other costs including transportation and marketing costs as well as increased labor costs.
- Goodwill impairment charge in our lighting business.

## Interest Expense

Below is a summary of our interest expense, in millions, for the years ended December 31, 2021 and 2020:

	Year Ended December 31,		
	2021	2020	Favorable / (Unfavorable)
Interest expense	\$ (278)	\$ (144)	\$ (134)

The increase in interest expense is primarily due to the \$168 million loss on debt extinguishment, which was recorded as additional interest expense in connection with the early retirement of debt in the first quarter of 2021, partially offset by interest savings related to debt refinancing in the first quarter of 2021.

## Other, net

Below is a summary of our other, net, in millions, for the years ended December 31, 2021 and 2020:

	Year Ended December 31,		
	2021	2020	Favorable / (Unfavorable)
Other, net	\$ (439)	\$ (20)	\$ (419)

Other, net, for 2021 included:

- \$430 million of net periodic pension and post-retirement benefit expense, which includes \$399 million of net settlement loss related to the termination of our qualified domestic defined-benefit pension plans.
- \$18 million loss related to the divestiture of Hüppe.
- \$16 million expense from the revaluation of contingent consideration related to a prior acquisition.

These amounts were partially offset by:

- \$14 million gain recognized on the redemption of the preferred stock of ACProducts Holding, Inc. and \$6 million of related dividend income.
- \$11 million of earnings related to equity method investments.

Other, net, for 2020 included:

- \$35 million of net periodic pension and post-retirement benefit expense.
- \$10 million of realized foreign currency transaction losses.

These amounts were partially offset by:

- \$10 million of dividend income related to preferred stock of ACProducts Holding, Inc.
- \$9 million of income due from an escrow settlement.

## Income Tax Expense

Below is a summary of our income tax expense, in millions, and our effective tax rate for the years ended December 31, 2021 and 2020:

	Year Ended December 31,		
	2021	2020	(Favorable) / Unfavorable
Income tax expense	\$ 210	\$ 269	\$ (59)
Effective tax rate	31 %	24 %	7 %

Our effective tax rate in 2021 was higher than our normalized tax rate of 25 percent due primarily to:

- \$18 million additional income tax expense primarily from the loss on the termination of our qualified domestic defined-benefit pension plans providing no tax benefit in certain state jurisdictions and a shift in pre-tax income from the lower-taxed U.S. jurisdiction to higher-taxed foreign jurisdictions.
- \$4 million additional income tax expense from a loss providing no tax benefit in certain foreign jurisdictions related to the divestiture of Hüppe.
- \$16 million income tax expense from the elimination of disproportionate tax effects from accumulated other comprehensive income (loss) related to our interest rate swap following the retirement of the related debt, and the termination of our qualified domestic defined-benefit pension plans.

Our effective tax rate in 2020 was lower than our normalized tax rate of 25 percent due primarily to:

- \$5 million income tax benefit from a change in judgment regarding the realizability of certain deferred tax assets in our foreign jurisdictions.
- \$4 million tax benefit from stock-based compensation payments.
- \$6 million tax benefit due to an anticipated refund claim from the retroactive application of the exclusion of certain high-taxed foreign income from the U.S. tax effects on Global Intangible Low-taxed Income back to 2018.

Refer to Note S to the consolidated financial statements for additional information.

Income and Income Per Common Share from Continuing Operations (Attributable to Masco Corporation)

Below is a summary of our income and diluted income per common share from continuing operations, in millions, except per share data, for the years ended December 31, 2021 and 2020:

	Year Ended December 31,		
	2021	2020	Favorable / (Unfavorable)
Income from continuing operations	\$ 410	\$ 810	\$ (400)
Diluted income per common share from continuing operations	\$ 1.62	\$ 3.04	\$ (1.42)

## Business Segment and Geographic Area Results

The following table sets forth our net sales and operating profit information for our continuing operations by Business Segment and Geographic Area, dollars in millions.

	Year Ended December 31,		Percent Change
	2021	2020	2021 vs. 2020
<b>Net Sales:</b>			
Plumbing Products	\$ 5,135	\$ 4,136	24 %
Decorative Architectural Products	3,240	3,052	6 %
<b>Total</b>	<b>\$ 8,375</b>	<b>\$ 7,188</b>	<b>17 %</b>
<b>Geographic Area:</b>			
North America	\$ 6,624	\$ 5,805	14 %
International, principally Europe	1,751	1,383	27 %
<b>Total</b>	<b>\$ 8,375</b>	<b>\$ 7,188</b>	<b>17 %</b>
<b>Operating Profit: (A)</b>			
Plumbing Products	\$ 929	\$ 806	15 %
Decorative Architectural Products	581	583	— %
<b>Total</b>	<b>\$ 1,510</b>	<b>\$ 1,389</b>	<b>9 %</b>
<b>Geographic Area:</b>			
North America	\$ 1,214	\$ 1,167	4 %
International, principally Europe	296	222	33 %
<b>Total</b>	<b>1,510</b>	<b>1,389</b>	<b>9 %</b>
General corporate expense, net	(105)	(94)	12 %
<b>Total operating profit</b>	<b>\$ 1,405</b>	<b>\$ 1,295</b>	<b>8 %</b>

(A) Before general corporate expense, net; refer to Note Q to the consolidated financial statements for additional information.

## **Business Segment Results Discussion**

Changes in operating profit in the following Business Segment and Geographic Area Results discussion exclude general corporate expense, net, and compares each respective period to the same period of the immediately preceding year.

### Plumbing Products

#### *Sales*

Net sales in the Plumbing Products segment increased 24 percent in 2021 due primarily to higher sales volume, which increased sales by 15 percent. The acquisitions of Kraus, ESS and Steamist increased sales by five percent. Additionally, favorable foreign currency translation and higher net selling prices both increased sales by two percent and positive sales mix increased sales by one percent. Such increases were slightly offset by the divestiture of Hüppe, which decreased sales by one percent.

#### *Operating Results*

Operating profit in the Plumbing Products segment in 2021 was positively impacted by higher sales volume, favorable net selling prices, positive sales mix, cost savings initiatives and favorable currency translation. These positive impacts were partially offset by increased commodity costs and an increase in other expenses (such as transportation and labor costs).

### Decorative Architectural Products

#### *Sales*

Net sales in the Decorative Architectural Products segment increased six percent in 2021, primarily due to favorable net selling prices of paints and other coating products and to a lesser extent higher volume of builders' hardware products. The Work Tools acquisition increased sales by one percent.

#### *Operating Results*

Operating profit in the Decorative Architectural Products segment in 2021 was positively impacted by favorable net selling prices as well as cost savings initiatives and lower fixed expenses in our lighting business. These positive impacts were partially offset by higher commodity costs and an increase in other expenses (such as transportation and marketing costs), as well as a goodwill impairment charge in our lighting business.

## Geographic Area Results Discussion

### North America

#### *Sales*

North American net sales in 2021 increased 14 percent. Higher sales volume of plumbing products, and to a lesser extent, builders' hardware, in aggregate, increased sales by seven percent. The acquisitions of Kraus, Work Tools and Steamist increased sales by three percent and favorable net selling prices of paints and other coating and plumbing products increased sales by three percent.

#### *Operating Results*

Operating profit from North American operations in 2021 was positively affected by favorable net selling prices, higher sales volume, cost savings initiatives, and lower fixed expenses in our lighting business. These positive impacts were partially offset by increased commodity costs and an increase in other expenses (such as transportation and labor costs) as well as a goodwill impairment charge in our lighting business.

### International, Principally Europe

#### *Sales*

Net sales from International operations in 2021 increased 27 percent. In local currencies (including sales in foreign currencies outside their respective functional currencies), net sales increased 21 percent. Higher sales volume and, to a lesser extent, favorable sales mix and net selling prices of plumbing products increased sales by 21 percent and the acquisition of ESS increased sales by three percent. Such increases were slightly offset by the divestiture of Hüppe that decreased sales by three percent.

#### *Operating Results*

Operating profit from International operations in 2021 was positively impacted by higher sales volume, favorable net selling prices, positive sales mix, and favorable foreign currency translation. These positive impacts were partially offset by an increase in other expenses (such as marketing, transportation and labor costs) and increased commodity costs.

## Liquidity and Capital Resources

### Overview of Capital Structure

Historically, we have largely funded our growth through cash provided by our operations, the issuance of notes in the financial markets, bank borrowings and the issuance of our common stock, including issuances for certain mergers and acquisitions. Maintaining high levels of liquidity and focusing on cash generation are among our financial strategies. Our capital allocation strategy includes reinvesting in our business, balancing share repurchases with potential acquisitions and maintaining a meaningful dividend.

We had cash and cash investments of approximately \$926 million and \$1.3 billion at December 31, 2021 and 2020, respectively. Our cash and cash investments consist of overnight interest bearing money market demand accounts, time deposit accounts, and money market mutual funds containing government securities and treasury obligations. While we attempt to diversify these investments in a prudent manner to minimize risk, it is possible that future changes in the financial markets could affect the security or availability of these investments. Of the cash and cash investments we held at December 31, 2021 and 2020, respectively, \$490 million and \$385 million, respectively, was held in our foreign subsidiaries. If these funds were needed for our operations in the U.S., their repatriation into the U.S. would not result in significant additional U.S. income tax or foreign withholding tax, as we have recorded such taxes on substantially all undistributed foreign earnings, except for those that are legally restricted.

Our current ratio was 1.8 to 1 at both December 31, 2021 and 2020.

Our total debt as a percent of total capitalization was 98 percent and 87 percent at December 31, 2021 and 2020, respectively. Refer to Note L to the consolidated financial statements for additional information.

Costs of environmental responsibilities and compliance with existing environmental laws and regulations have not had, nor do we expect them to have, a material effect on our capital expenditures, financial position or results of operations.

We believe that our present cash balance and cash flows from operations, and borrowing availability under our Amended Credit Agreement, are sufficient to fund our near-term working capital and other investment needs. We believe that our longer-term working capital and other general corporate requirements will be satisfied through cash flows from operations and, to the extent necessary, from bank borrowings and future financial market activities. However, due to the highly uncertain nature and duration or resurgence of the COVID-19 pandemic and its impact on our customer, suppliers and employees, we are unable to fully estimate the extent of the impact it may have on our future financial condition.

#### Capital Expenditures

We continue to invest in our manufacturing and distribution operations of those businesses that align with our long-term growth strategy to increase our productivity, improve customer service and support product innovation. Capital expenditures for 2021 were \$128 million, compared with \$114 million for 2020. For 2022, capital expenditures, excluding any potential future acquisitions, are expected to be approximately \$250 million. Depreciation and amortization expense for 2021 totaled \$151 million, compared with \$133 million for 2020. For 2022, depreciation and amortization expense, excluding any potential future acquisitions, is expected to be approximately \$150 million. Amortization expense totaled \$40 million in 2021, compared with \$28 million in 2020.

#### Senior Indebtedness

On March 4, 2021, we issued \$600 million of 1.500% Notes due February 15, 2028, \$600 million of 2.000% Notes due February 15, 2031 and \$300 million of 3.125% Notes due February 15, 2051. We received proceeds of \$1,495 million, net of discount, for the issuance of these Notes. The Notes are senior indebtedness and are redeemable at our option at the applicable redemption price. On March 22, 2021, proceeds from the debt issuances, together with cash on hand, were used to repay and early retire our \$326 million 5.950% Notes due March 15, 2022, \$500 million 4.450% Notes due April 1, 2025, and \$500 million 4.375% Notes due April 1, 2026. In connection with these early retirements, we incurred a loss on debt extinguishment of \$168 million, which was recorded as interest expense in the consolidated statements of operations.

On September 18, 2020, we issued \$300 million of 2.000% Notes due October 1, 2030 (the "2030 Notes") and received proceeds of \$300 million, net of discount, for the issuance of the 2030 Notes. Also on September 18, 2020, we issued an incremental \$100 million on our existing 4.500% Notes due May 15, 2047 (the "2047 Notes") and received proceeds of \$119 million, including a premium, for the issuance of the 2047 Notes. The incremental \$100 million formed a single series with the existing \$300 million of 4.500% Notes due May 15, 2047. The 2030 Notes and 2047 Notes are senior indebtedness and are redeemable at our option at the applicable redemption price. On September 29, 2020, proceeds from the debt issuances were used to repay and early retire our \$400 million 3.500% Notes due April 1, 2021. In connection with this early retirement, we incurred a loss on debt extinguishment of \$6 million, which was recorded as interest expense in our consolidated statements of operations.

#### Credit Agreement

On March 13, 2019, we entered into a credit agreement (the "Credit Agreement") with an aggregate commitment of \$1.0 billion and a maturity date of March 13, 2024. On December 22, 2021, we amended the Credit Agreement with the bank group (the "Amended Credit Agreement"). The Credit Agreement was amended to (i) expand the "Agreed Currencies" for which loans thereunder may be denominated outside of the swingline facility to include British Pounds Sterling and Canadian Dollars, together with their applicable interest rate benchmark, (ii) replace the London Interbank Offering Rate ("LIBOR") with the Euro Interbank Offered Rate ("EURIBOR") as the interest rate benchmark for purposes of loans denominated in Euros and (iii) provide mechanics for the replacement of a benchmark for an applicable Agreed Currency upon the occurrence of certain specified events.

Under the Amended Credit Agreement, at our request and subject to certain conditions, we can increase the aggregate commitment up to an additional \$500 million with the current lenders or new lenders. See Note L to the consolidated financial statements for additional information.

The Amended Credit Agreement contains financial covenants requiring us to maintain (A) a net leverage ratio, as adjusted for certain items, not exceeding 4.0 to 1.0, and (B) a minimum interest coverage ratio, as adjusted for certain items, not less than 2.5 to 1.0. We were in compliance with all covenants and no borrowings were outstanding under our Amended Credit Agreement at December 31, 2021.

### Corporate Development Strategy

We expect to maintain a balanced growth strategy pursuing organic growth by maximizing the full potential of our existing businesses and, as appropriate, complementing our existing business with strategic acquisitions.

In addition, we actively manage our portfolio of companies by divesting of those businesses that do not align with our long-term growth strategy. We will continue to review all of our businesses to determine which businesses, if any, may not align with our long-term growth strategy.

### *Acquisitions*

During 2021, we acquired a 75.1 percent equity interest in ESS, a manufacturer of shower channel drains and offers a wide range of products for barrier-free showering and bathroom wall niches, for approximately €47 million (\$58 million), including \$52 million of cash and \$6 million of debt that will be paid out over two years. We also acquired all of the share capital of Steamist, a manufacturer of residential steam bath products that are complementary to many of our plumbing products, for approximately \$56 million in cash.

During 2020, we acquired substantially all of the net assets of Kraus, a designer and distributor of sinks, faucets and accessories for the kitchen and bathroom, as well as Work Tools, a leading manufacturer of high-quality precision painting tools and accessories including brushes, rollers and mini rollers for DIY and professionals. Additionally, we acquired all of the share capital of SmarTap A.Y Ltd. ("SmarTap"), a developer of a smart bathing system that monitors and controls the temperature and flow of water. We acquired these businesses for a combined \$175 million of cash and \$5 million of debt.

### *Divestitures*

During 2021, we completed the divestiture of our Hüppe business, a manufacturer of shower enclosures and shower trays. In connection with the divestiture, we recognized a loss of \$18 million.

During 2020, we completed the divestiture of our Masco Cabinetry LLC ("Cabinetry") business, a manufacturer of cabinetry products, for proceeds of approximately \$989 million, including \$853 million, net of cash disposed. In connection with the divestiture, we recognized a gain of \$585 million.

### Share Repurchases

We repurchased and retired 17.6 million shares of our common stock in 2021 for approximately \$1,026 million. This included 0.7 million shares to offset the dilutive impact of restricted stock units granted in 2021. At December 31, 2021, we had \$1,128 million remaining under the 2021 authorization. Consistent with past practice and as part of our long-term capital allocation strategy, we anticipate using approximately \$600 million of cash for share repurchases (including shares which will be purchased to offset any dilution from restricted stock units granted as part of our compensation programs) in 2022. Refer to Note O to the consolidated financial statements for additional information.

During 2020, we repurchased and retired 18.8 million shares of our common stock (including 0.4 million shares to offset the dilutive impact of restricted stock units granted during the year), for approximately \$727 million.

### Dividend to holders of our Common Shares

In the second quarter of 2021 we increased our quarterly dividend to \$0.235 per common share from \$0.14 per common share in order to increase the annual dividend to \$0.94 per share.

As part of our capital allocation strategy, the Board of Directors declared a quarterly dividend of \$0.28 per share in the first quarter of 2022 with the intention to increase the annual dividend to \$1.12 per share.

### Other Liquidity and Capital Resource Activities

As part of our ongoing efforts to improve our cash flow and related liquidity, we work with suppliers to optimize our terms and conditions, including extending payment terms. We also facilitate a voluntary supply chain finance program (the "program") to provide certain of our suppliers with the opportunity to sell receivables due from us to participating financial institutions at the sole discretion of both the suppliers and the financial institutions. A third party administers the program; our responsibility is limited to making payment on the terms originally negotiated with our supplier, regardless of whether the supplier sells its receivable to a financial institution. We do not enter into agreements with any of the participating financial institutions in connection with the program. The range of payment terms we negotiate with our suppliers is consistent, irrespective of whether a supplier participates in the program.

All outstanding payments owed under the program are recorded within accounts payable in our consolidated balance sheets. The amounts owed to participating financial institutions under the program and included in accounts payable for our continuing operations were \$43 million and \$45 million at December 31, 2021 and 2020, respectively. We account for all payments made under the program as a reduction to our cash flows from operations and reported within our increase (decrease) in accounts payable and accrued liabilities, net, line within our consolidated statements of cash flows. The amounts settled through the program and paid to participating financial institutions were \$220 million and \$146 million for our continuing operations during the years ended December 31, 2021 and 2020, respectively. A downgrade in our credit rating or changes in the financial markets could limit the financial institutions' willingness to commit funds to, and participate in, the program. We do not believe such risk would have a material impact on our working capital or cash flows, as substantially all of our payments are made outside of the program.

We utilize derivative and hedging instruments to manage our exposure to currency fluctuations, primarily related to the European euro, British pound, the Chinese renminbi and the U.S. dollar; occasionally, we have also used derivative and hedging instruments to manage interest rate fluctuations, primarily related to debt issuances. We review our hedging program, derivative positions and overall risk management on a regular basis. We currently do not have any derivative instruments for which we have designated hedge accounting.

## Cash Flows

Significant sources and (uses) of cash for the years ended December 31, 2021 and 2020 are summarized as follows, in millions:

	2021	2020
Net cash from operating activities	\$ 930	\$ 953
Retirement of notes	(1,326)	(400)
Purchase of Company common stock	(1,026)	(727)
Cash dividends paid	(211)	(145)
Dividends paid to noncontrolling interest	(43)	(23)
Capital expenditures	(128)	(114)
Debt extinguishment costs	(160)	(5)
Proceeds from the exercise of stock options	5	26
Acquisition of businesses, net of cash acquired	(57)	(227)
Issuance of notes, net of issuance costs	1,481	415
Employee withholding taxes paid on stock-based compensation	(15)	(25)
Proceeds from disposition of:		
Businesses, net of cash disposed	5	870
Property and equipment	—	1
Financial investments	171	3
Payment of debt	(3)	(2)
Effect of exchange rate changes on cash and cash investments	(20)	31
Other, net	(3)	(2)
Cash (decrease) increase	<u>\$ (400)</u>	<u>\$ 629</u>

Our working capital days were as follows:

	At December 31,	
	2021	2020
Receivable days	51	54
Inventory days	85	72
Accounts payable days	66	71
Working capital (receivables plus inventories, less accounts payable) as a percentage of net sales	<u>16.0 %</u>	<u>15.6 %</u>

### Operating Activities

Net cash provided by operations of \$930 million primarily benefited from higher operating profit, partially offset by changes in working capital, pension contributions related to the settlement of our qualified domestic defined-benefit pension plans and deferred income taxes.

### Financing Activities

Net cash used for financing activities was \$1,298 million, which included \$1,326 million for the early retirement of our 5.950% Notes due March 15, 2022, 4.450% Notes due April 1, 2025, and 4.375% Notes due April 1, 2026 and \$160 million of related debt extinguishment costs. Net cash used for financing activities was also impacted by \$1,026 million for the repurchase and retirement of our common stock (including 0.7 million shares repurchased to offset the dilutive impact of restricted stock units granted in 2021), \$211 million for the payment of cash dividends, \$43 million for dividends paid to noncontrolling interest and \$15 million for employee withholding taxes paid on stock-based compensation. These uses of cash were partially offset by proceeds, net of issuance costs, of \$1,481 million due to the issuances of \$600 million of 1.500% Notes due February 15, 2028, \$600 million of 2.000% Notes due February 15, 2031 and \$300 million of 3.125% Notes due February 15, 2051.

## Investing Activities

Net cash used for investing activities was \$12 million, primarily driven by \$128 million of capital expenditures and \$56 million for the acquisition of Steamist, partially offset by the \$166 million received, in cash, for the redemption of the preferred stock of ACProducts Holding Inc.

## **Commitments and Contingencies**

### Litigation

Information regarding our legal proceedings is set forth in Note U to the consolidated financial statements, which is incorporated herein by reference.

### Other Commitments

We enter into contracts, which include reasonable and customary indemnifications that are standard for the industries in which we operate. Such indemnifications include claims made against builders by homeowners for issues relating to our products and workmanship. In conjunction with divestitures and other transactions, we occasionally provide reasonable and customary indemnifications. We have not paid a material amount related to these indemnifications, and we evaluate the probability that amounts may be incurred and record an estimated liability when probable and reasonably estimable.

## **Contractual Obligations**

The following table provides payment obligations related to current contracts at December 31, 2021, in millions:

	Payments Due by Period					Total
	2022	2023-2024	2025-2026	Beyond 2026	Other	
Debt (A)	\$ 10	\$ 8	\$ 5	\$ 2,947	\$ —	\$ 2,970
Interest (A)	97	194	193	833	—	1,317
Operating leases	44	68	49	95	—	256
Currently payable income taxes	34	—	—	—	—	34
Purchase commitments (B)	486	49	49	—	—	584
Uncertain tax positions, including interest and penalties (C)	—	—	—	—	92	92
Total	\$ 671	\$ 319	\$ 296	\$ 3,875	\$ 92	\$ 5,253

- (A) We assume that all debt would be held to maturity. Amounts include finance lease obligations.
- (B) Excludes contracts that do not require volume commitments and open or pending purchase orders.
- (C) Due to the high degree of uncertainty regarding the timing of future cash outflows associated with uncertain tax positions, we are unable to make a reasonable estimate for the year in which cash settlements may occur with applicable tax authorities.

Refer to Note N to the consolidated financial statements for defined-benefit pension plan obligations.

## Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make certain estimates and assumptions that affect or could have affected the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We regularly review our estimates and assumptions, which are based upon historical experience, as well as current economic conditions and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities and related disclosures, and future revenues and expenses, that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions.

Note A to the consolidated financial statements includes our accounting policies, estimates and methods used in the preparation of our consolidated financial statements.

We believe that the following critical accounting policies are affected by significant judgments and estimates used in the preparation of our consolidated financial statements.

### Revenue Recognition and Receivables

We recognize revenue as control of our products is transferred to our customers, which is generally at the time of shipment or upon delivery based on the contractual terms with our customers. We provide customer programs and incentive offerings, including special pricing and co-operative advertising arrangements, promotions and other volume-based incentives. These customer programs and incentives are considered variable consideration. We include in revenue variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the variable consideration is resolved. This determination is made based upon known customer program and incentive offerings at the time of sale, and expected sales volume forecasts as it relates to our volume-based incentives. This determination is updated each reporting period.

We monitor our exposure for credit losses on customer receivable balances and the credit worthiness of customers on an on-going basis and maintain allowances for doubtful accounts receivable for estimated losses resulting from the inability of our customers to make required payments. Allowances are estimated based upon specific customer balances, where a risk of loss has been identified, and also include a provision for losses based upon historical collection experience and write-off activity as well as reasonable and supportable forecast information that considers macro-economic factors and industry-specific trends associated with our businesses, among others. A separate allowance is recorded for customer incentive rebates and is generally based upon sales activity.

### Goodwill and Other Intangible Assets

We record the excess of purchase cost over the fair value of net tangible assets of acquired companies as goodwill or other identifiable intangible assets. In the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, we complete the impairment testing of goodwill utilizing a discounted cash flow method. We selected the discounted cash flow methodology because we believe that it is comparable to what would be used by market participants. We have defined our reporting units and completed the impairment testing of goodwill at the operating segment level.

Determining market values using a discounted cash flow method requires us to make significant estimates and assumptions, including long-term projections of cash flows, market conditions and appropriate discount rates. Our judgments are based upon historical experience, current market trends, consultations with external valuation specialists and other information. While we believe that the estimates and assumptions underlying the valuation methodology are reasonable, different estimates and assumptions could result in different outcomes. In estimating future cash flows, we rely on internally generated five-year forecasts for sales and operating profits, and, currently, a two percent to three percent long-term assumed annual growth rate of cash flows for periods after the five-year forecast. We generally develop these forecasts based upon, among other things, recent sales data for existing products, planned timing of new product launches, estimated repair and remodel activity and, to a lesser extent, estimated housing starts. Our assumptions included U.S. and Eurozone Gross Domestic Product growing at approximately 3.8 percent and 4.5 percent, respectively, in 2022 and per annum over the five-year forecast.

We utilize our weighted average cost of capital of approximately 7.5 percent as the basis to determine the discount rate to apply to the estimated future cash flows. In 2021, based upon our assessment of the risks impacting each of our businesses, we applied a risk premium to increase the discount rate to a range of 9.0 percent to 11.5 percent for our reporting units.

If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized to the extent that a reporting unit's recorded carrying value exceeds its fair value, not to exceed the carrying amount of goodwill in that reporting unit.

In the fourth quarter of 2021, we recognized a \$45 million non-cash goodwill impairment charge related to a reporting unit within our Decorative Architectural Products segment due to competitive market conditions and higher inflationary costs in our lighting business. As of December 31, 2021, the impaired reporting unit had a remaining net goodwill balance of \$19 million. A 10 percent decrease in the estimated fair value of our other reporting units would not have resulted in any additional goodwill impairment.

We review our other indefinite-lived intangible assets for impairment annually, in the fourth quarter, or as events occur or circumstances change that indicate the assets may be impaired without regard to the business unit. Potential impairment is identified by comparing the fair value of an other indefinite-lived intangible asset to its carrying value. We utilize a relief-from-royalty model to estimate the fair value of other indefinite-lived intangible assets. We consider the implications of both external (e.g., market growth, competition and local economic conditions) and internal (e.g., product sales and expected product growth) factors and their potential impact on cash flows related to the intangible asset in both the near- and long-term. We also consider the profitability of the business, among other factors, to determine the royalty rate for use in the impairment assessment.

We utilize our weighted average cost of capital of approximately 7.5 percent as the basis to determine the discount rate to apply to the estimated future cash flows. In 2021, based upon our assessment of the risks impacting each of our businesses and the nature of the trade name, we applied a risk premium to increase the discount rate to a range of 10.0 percent to 15.5 percent for our other indefinite-lived intangible assets.

In the fourth quarter of 2021, we estimated that future discounted cash flows projected for our other indefinite-lived intangible assets were greater than the carrying values. Accordingly, we did not recognize any impairment charges for other indefinite-lived intangible assets. A 10 percent decrease in the estimated fair value of our other indefinite-lived intangibles assets would not have resulted in an impairment for any of our other indefinite-lived intangible assets.

Refer to Note H for additional information.

#### Income Taxes

Deferred taxes are recognized based on the future tax consequences of differences between the financial statement carrying value of assets and liabilities and their respective tax basis. The future realization of deferred tax assets depends on the existence of sufficient taxable income in future periods. Possible sources of taxable income include taxable income in carryback periods, the future reversal of existing taxable temporary differences recorded as a deferred tax liability, tax-planning strategies that generate future income or gains in excess of anticipated losses in the carryforward period and projected future taxable income.

If, based upon all available evidence, both positive and negative, it is more likely than not (more than 50 percent likely) such deferred tax assets will not be realized, a valuation allowance is recorded. The need to maintain a valuation allowance against deferred tax assets may cause greater volatility in our effective tax rate. Significant weight is given to positive and negative evidence that is objectively verifiable. A company's three-year cumulative loss position is significant negative evidence in considering whether deferred tax assets are realizable, and the accounting guidance restricts the amount of reliance we can place on projected taxable income to support the recovery of the deferred tax assets.

Based upon all available evidence, primarily three-year cumulative loss positions in certain state and foreign tax jurisdictions, we determined that it is more likely than not certain deferred tax assets will not be realized. As a result, we maintain a \$17 million valuation allowance on certain state and foreign deferred tax assets as of December 31, 2021.

#### Recently Adopted and Issued Accounting Pronouncements

Refer to Note A to the consolidated financial statements for discussion of recently adopted and issued accounting pronouncements, which is incorporated herein by reference.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

We have considered the provisions of accounting guidance regarding disclosure of accounting policies for derivative financial instruments and disclosure of quantitative and qualitative information about market risk inherent in derivative financial instruments and other financial instruments.

We are exposed to the impact of changes in interest rates and foreign currency exchange rates, particularly changes between the U.S. dollar and the European euro, British pound, Canadian dollar and Chinese renminbi, and to market price fluctuations related to our financial investments. We have insignificant involvement with derivative financial instruments and use such instruments to the extent necessary to manage exposure to foreign currency fluctuations.

At December 31, 2021, we performed sensitivity analyses to assess the potential loss in the fair values of market risk sensitive instruments resulting from a hypothetical change of 10 percent in foreign currency exchange rates, a 10 percent decline in the market value of our long-term investments, or a 100 basis point change in interest rates. Based upon the analyses performed, such changes would not be expected to materially affect our consolidated financial position, results of operations or cash flows.

## **Item 8. Financial Statements and Supplementary Data.**

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2021 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control – Integrated Framework* (2013). Based on this assessment, we have determined that our internal control over financial reporting was effective as of December 31, 2021.

PricewaterhouseCoopers LLP (PCAOB ID 238), an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2021, as stated in their report, which is presented herein. Their report expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2021 and expressed an unqualified opinion on our 2021 consolidated financial statements. This report appears under 'Item 8. Financial Statements and Supplementary Data' under the heading "Report of Independent Registered Public Accounting Firm."

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Masco Corporation

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Masco Corporation and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of operations, of comprehensive income (loss), of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the

company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Goodwill Impairment Assessments***

As described in Notes A and H to the consolidated financial statements, the Company's consolidated goodwill balance was \$568 million as of December 31, 2021. Management performs an annual impairment test of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would indicate the carrying value of goodwill may be impaired. In connection with its annual assessment, management recorded a \$45 million non-cash goodwill impairment charge within their Decorative Architectural Products segment. Potential impairment is identified by comparing the fair value of a reporting unit to its carrying value, including goodwill. Management estimates fair value by using a discounted cash flow model. The determination of fair value using the discounted cash flow model requires management to make significant estimates and assumptions related to forecasted sales and operating profits, and the discount rate.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessments is a critical audit matter are (i) the significant judgment by management when developing the fair value measurements of the reporting units; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate management's discounted cash flow model, including significant assumptions related to forecasted sales and the discount rates, as applicable; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessments, including controls over the valuation of the Company's reporting units. These procedures also included, among others, testing management's process for developing the fair value estimates; evaluating the appropriateness of the discounted cash flow model; testing the completeness, accuracy, and relevance of underlying data used in the model; and, evaluating the significant assumptions used by management, including forecasted sales and the discount rates, as applicable. Professionals with specialized skill and knowledge were used to assist in evaluating the Company's discount rate assumptions, as applicable. Evaluating management's assumption related to forecasted sales involved evaluating whether the assumptions used were reasonable considering (i) the current and past performance of the reporting units, (ii) the consistency with external market and industry data as relates to forecasted sales, and (iii) whether they were consistent with evidence obtained in other areas of the audit.

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan  
February 8, 2022

We have served as the Company's auditor since 1959.

## Financial Statements and Supplementary Data

### MASCO CORPORATION and Consolidated Subsidiaries CONSOLIDATED BALANCE SHEETS

December 31, 2021 and 2020  
(In Millions, Except Share Data)

	2021	2020
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash investments	\$ 926	\$ 1,326
Receivables	1,171	1,138
Inventories	1,216	876
Prepaid expenses and other	109	149
Total current assets	3,422	3,489
Property and equipment, net	896	908
Goodwill	568	563
Other intangible assets, net	388	357
Operating lease right-of-use assets	187	166
Other assets	114	294
Total assets	\$ 5,575	\$ 5,777
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 1,045	\$ 893
Notes payable	10	3
Accrued liabilities	884	1,038
Total current liabilities	1,939	1,934
Long-term debt	2,949	2,792
Noncurrent operating lease liabilities	172	149
Other liabilities	437	481
Total liabilities	\$ 5,497	\$ 5,356
Commitments and contingencies (Note U)		
Redeemable noncontrolling interest	22	—
<b>EQUITY</b>		
Masco Corporation's shareholders' equity:		
Common shares, par value \$1 per share		
Authorized shares: 1,400,000,000;		
Issued and outstanding: 2021 – 241,200,000; 2020 – 258,200,000	241	258
Preferred shares authorized: 1,000,000;		
Issued and outstanding: 2021 and 2020 – None	—	—
Paid-in capital	—	—
Retained (deficit) earnings	(652)	79
Accumulated other comprehensive income (loss)	232	(142)
Total Masco Corporation's shareholders' (deficit) equity	(179)	195
Noncontrolling interest	235	226
Total equity	56	421
Total liabilities and equity	\$ 5,575	\$ 5,777

See notes to consolidated financial statements.

**MASCO CORPORATION and Consolidated Subsidiaries**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Years Ended December 31, 2021, 2020 and 2019**  
(In Millions, Except Per Common Share Data)

	2021	2020	2019
Net sales	\$ 8,375	\$ 7,188	\$ 6,707
Cost of sales	5,512	4,601	4,336
Gross profit	2,863	2,587	2,371
Selling, general and administrative expenses	1,413	1,292	1,274
Impairment charges for goodwill and other intangible assets	45	—	9
Operating profit	1,405	1,295	1,088
Other income (expense), net:			
Interest expense	(278)	(144)	(159)
Other, net	(439)	(20)	(15)
	(717)	(164)	(174)
Income from continuing operations before income taxes	688	1,131	914
Income tax expense	210	269	230
Income from continuing operations	478	862	684
Income from discontinued operations, net	—	414	296
Net income	478	1,276	980
Less: Net income attributable to noncontrolling interest	68	52	45
Net income attributable to Masco Corporation	\$ 410	\$ 1,224	\$ 935

**Income per common share attributable to Masco Corporation:**

Basic:

Income from continuing operations	\$ 1.63	\$ 3.05	\$ 2.21
Income from discontinued operations, net	—	1.55	1.03
Net income	\$ 1.63	\$ 4.60	\$ 3.24

Diluted:

Income from continuing operations	\$ 1.62	\$ 3.04	\$ 2.20
Income from discontinued operations, net	—	1.55	1.02
Net income	\$ 1.62	\$ 4.59	\$ 3.22

**Amounts attributable to Masco Corporation:**

Income from continuing operations	\$ 410	\$ 810	\$ 639
Income from discontinued operations, net	—	414	296
Net income	\$ 410	\$ 1,224	\$ 935

See notes to consolidated financial statements.

**MASCO CORPORATION and Consolidated Subsidiaries**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**For the Years Ended December 31, 2021, 2020 and 2019**  
**(In Millions)**

	2021	2020	2019
Net income	\$ 478	\$ 1,276	\$ 980
Less: Net income attributable to noncontrolling interest	68	52	45
Net income attributable to Masco Corporation	<u>\$ 410</u>	<u>\$ 1,224</u>	<u>\$ 935</u>
Other comprehensive income (loss), net of tax (Note P):			
Cumulative translation adjustment	\$ (32)	\$ 72	\$ 6
Interest rate swaps	7	1	2
Pension and other post-retirement benefits	<u>384</u>	<u>(18)</u>	<u>(64)</u>
Other comprehensive income (loss), net of tax	359	55	(56)
Less: Other comprehensive income (loss) attributable to the noncontrolling interest:			
Cumulative translation adjustment	\$ (19)	\$ 20	\$ (1)
Pension and other post-retirement benefits	<u>4</u>	<u>(2)</u>	<u>(3)</u>
	<u>(15)</u>	<u>18</u>	<u>(4)</u>
Other comprehensive income (loss) attributable to Masco Corporation	<u>\$ 374</u>	<u>\$ 37</u>	<u>\$ (52)</u>
Total comprehensive income	<u>\$ 837</u>	<u>\$ 1,331</u>	<u>\$ 924</u>
Less: Total comprehensive income attributable to noncontrolling interest	53	70	41
Total comprehensive income attributable to Masco Corporation	<u>\$ 784</u>	<u>\$ 1,261</u>	<u>\$ 883</u>

See notes to consolidated financial statements.

**MASCO CORPORATION and Consolidated Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2021, 2020 and 2019**  
(In Millions)

	2021	2020	2019
<b>CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:</b>			
Net income	\$ 478	\$ 1,276	\$ 980
Depreciation and amortization	151	133	159
Fair value adjustment to contingent earnout obligation	16	—	—
Display amortization	—	2	12
Deferred income taxes	(68)	(3)	(41)
Employee withholding taxes paid on stock-based compensation	15	25	23
Gain on disposition of investments, net	(25)	(3)	(1)
Loss (gain) on disposition of businesses, net	18	(602)	(298)
Pension and other post-retirement benefits	312	(32)	(45)
Impairment of goodwill and other intangible assets	45	—	16
Stock-based compensation	61	45	35
Dividends paid-in-kind	(6)	(10)	—
Increase in receivables	(64)	(141)	(37)
(Increase) decrease in inventories	(350)	(89)	58
Increase (decrease) in accounts payable and accrued liabilities, net	190	332	(27)
Debt extinguishment costs	160	5	2
Other, net	(3)	15	(3)
Net cash from operating activities	<u>930</u>	<u>953</u>	<u>833</u>
<b>CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:</b>			
Retirement of notes	(1,326)	(400)	(201)
Purchase of Company common stock	(1,026)	(727)	(896)
Cash dividends paid	(211)	(145)	(144)
Dividends paid to noncontrolling interest	(43)	(23)	(42)
Issuance of notes, net of issuance costs	1,481	415	—
Debt extinguishment costs	(160)	(5)	(2)
Proceeds from the exercise of stock options	5	26	27
Employee withholding taxes paid on stock-based compensation	(15)	(25)	(23)
Payment of debt	(3)	(2)	(8)
Credit Agreement and other financing costs	—	—	(2)
Net cash for financing activities	<u>(1,298)</u>	<u>(886)</u>	<u>(1,291)</u>
<b>CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:</b>			
Capital expenditures	(128)	(114)	(162)
Acquisition of businesses, net of cash acquired	(57)	(227)	—
Proceeds from disposition of:			
Businesses, net of cash disposed	5	870	722
Property and equipment	—	1	34
Financial investments	171	3	1
Other, net	(3)	(2)	(13)
Net cash (for) from investing activities	<u>(12)</u>	<u>531</u>	<u>582</u>
Effect of exchange rate changes on cash and cash investments	<u>(20)</u>	<u>31</u>	<u>14</u>
<b>CASH AND CASH INVESTMENTS:</b>			
(Decrease) increase for the year	(400)	629	138
At January 1	1,326	697	559
At December 31	<u>\$ 926</u>	<u>\$ 1,326</u>	<u>\$ 697</u>

See notes to consolidated financial statements.

**MASCO CORPORATION and Consolidated Subsidiaries**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

**For the Years Ended December 31, 2021, 2020 and 2019**  
(In Millions, Except Per Common Share Data)

	Total	Common Shares (\$1 par value)	Paid-In Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest
<b>Balance, January 1, 2019</b>	\$ 69	\$ 294	\$ —	\$ (278)	\$ (127)	\$ 180
Total comprehensive income (loss)	924	—	—	935	(52)	41
Shares issued	15	3	12	—	—	—
Shares retired:						
Repurchased	(896)	(20)	(42)	(834)	—	—
Surrendered (non-cash)	(10)	(1)	—	(9)	—	—
Cash dividends declared	(146)	—	—	(146)	—	—
Dividends paid to noncontrolling interest	(42)	—	—	—	—	(42)
Stock-based compensation	30	—	30	—	—	—
<b>Balance, December 31, 2019</b>	<u>\$ (56)</u>	<u>\$ 276</u>	<u>\$ —</u>	<u>\$ (332)</u>	<u>\$ (179)</u>	<u>\$ 179</u>
Cumulative effect of adoption of new credit loss standard	(1)	—	—	(1)	—	—
<b>Balance, January 1, 2020</b>	<u>\$ (57)</u>	<u>\$ 276</u>	<u>\$ —</u>	<u>\$ (333)</u>	<u>\$ (179)</u>	<u>\$ 179</u>
Total comprehensive income	1,331	—	—	1,224	37	70
Shares issued	14	2	12	—	—	—
Shares retired:						
Repurchased	(727)	(19)	(53)	(655)	—	—
Surrendered (non-cash)	(14)	(1)	—	(13)	—	—
Cash dividends declared	(144)	—	—	(144)	—	—
Dividends paid to noncontrolling interest	(23)	—	—	—	—	(23)
Stock-based compensation	41	—	41	—	—	—
<b>Balance, December 31, 2020</b>	<u>\$ 421</u>	<u>\$ 258</u>	<u>\$ —</u>	<u>\$ 79</u>	<u>\$ (142)</u>	<u>\$ 226</u>
Total comprehensive income	836	—	—	410	374	52
Shares issued	3	1	2	—	—	—
Shares retired:						
Repurchased	(1,026)	(18)	(57)	(951)	—	—
Surrendered (non-cash)	(13)	—	—	(13)	—	—
Cash dividends declared	(175)	—	—	(175)	—	—
Dividends paid to noncontrolling interest	(43)	—	—	—	—	(43)
Redeemable noncontrolling interest - redemption adjustment	(2)	—	—	(2)	—	—
Stock-based compensation	55	—	55	—	—	—
<b>Balance, December 31, 2021</b>	<u>\$ 56</u>	<u>\$ 241</u>	<u>\$ —</u>	<u>\$ (652)</u>	<u>\$ 232</u>	<u>\$ 235</u>

See notes to consolidated financial statements.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**A. ACCOUNTING POLICIES**

**Principles of Consolidation.** The consolidated financial statements include the accounts of Masco Corporation and all majority-owned subsidiaries. All significant intercompany transactions have been eliminated. We consolidate the assets, liabilities and results of operations of variable interest entities for which we are the primary beneficiary.

**Use of Estimates and Assumptions in the Preparation of Financial Statements.** The preparation of financial statements in conformity with accounting principles generally accepted ("GAAP") in the United States of America requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

**Revenue Recognition.** We recognize revenue as control of our products is transferred to our customers, which is generally at the time of shipment or upon delivery based on the contractual terms with our customers. Our customers' payment terms generally range from 30 to 65 days.

We provide customer programs and incentive offerings, including special pricing and co-operative advertising arrangements, promotions and other volume-based incentives. These customer programs and incentives are considered variable consideration. We include in revenue variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the variable consideration is resolved. This determination is made based upon known customer program and incentive offerings at the time of sale and expected sales volume forecasts as it relates to our volume-based incentives. This determination is updated each reporting period.

Certain product sales include a right of return. We estimate future product returns at the time of sale based on historical experience and record a corresponding refund liability. We additionally record an asset, based on historical experience, for the amount of product we expect to return to inventory as a result of the return, which is recorded in prepaid expenses and other in the consolidated balance sheets.

We consider shipping and handling activities performed by us as activities to fulfill the sales of our products. Amounts billed for shipping and handling are included in net sales, while costs incurred for shipping and handling are included in cost of sales. We capitalize incremental costs of obtaining a contract and expense the costs on a straight-line basis over the contractual period if the cost is recoverable, the cost would not have been incurred without the contract and the term of the contract is greater than one year; otherwise, we expense the amounts as incurred. We do not adjust the promised amount of consideration for the effects of a financing component if the period between when we transfer our products or services and when our customers pay for our products or services is expected to be one year or less.

**Customer Displays.** In-store displays that are owned by us and used to market our products are included in other assets in the consolidated balance sheets and are amortized using the straight-line method over the expected useful life of three to five years; related amortization expense is classified as a selling expense in the consolidated statements of operations.

**Foreign Currency.** The financial statements of our foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at exchange rates as of the balance sheet dates. Revenues and expenses are translated at average exchange rates in effect during the year. The resulting cumulative translation adjustments have been recorded in accumulated other comprehensive income (loss) in the consolidated balance sheets. Realized foreign currency transaction gains and losses are included in other income (expense), net in the consolidated statements of operations.

**Cash and Cash Investments.** We consider all highly liquid investments with an initial maturity of three months or less to be cash and cash investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**A. ACCOUNTING POLICIES (Continued)**

**Receivables.** We do business with home center retailers, plumbing wholesalers and a number of other customers. We monitor our exposure for credit losses on customer receivable balances and other financial investments measured at amortized cost and the credit worthiness of customers on an on-going basis, including requiring the completion of credit applications and performing periodic reviews of our open accounts receivable. We record allowances for doubtful accounts for estimated losses resulting from the inability of our customers to fulfill their required payment obligation to us. Allowances are estimated based upon specific customer balances, where a risk of loss has been identified, and also include a provision for losses based upon historical collection experience and write-off activity as well as reasonable and supportable forecast information that considers macro-economic factors and industry-specific trends associated with our businesses, among others. A separate allowance is recorded for customer incentive rebates and is generally based upon sales activity. Receivables are presented net of certain allowances (including allowances for doubtful accounts) of \$67 million and \$48 million at December 31, 2021 and 2020, respectively. Our receivables balances are generally due in less than one year.

**Property and Equipment.** Property and equipment, including significant improvements to existing facilities, are recorded at cost. Upon retirement or disposal, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statements of operations. Maintenance and repair costs are charged against earnings as incurred.

We review our property and equipment as events occur or circumstances change that would more likely than not reduce the fair value of the property and equipment below its carrying amount. If the carrying amount of property and equipment is not recoverable from its undiscounted cash flows, then we would recognize an impairment loss for the difference between the carrying amount and the current fair value. Further, we evaluate the remaining useful lives of property and equipment at each reporting period to determine whether events and circumstances warrant a revision to the remaining depreciation periods.

**Depreciation.** Depreciation expense is computed principally using the straight-line method over the estimated useful lives of the assets. Annual depreciation rates are as follows: buildings and land improvements, 2 to 10 percent, computer hardware and software, 17 to 33 percent, and machinery and equipment, 5 to 33 percent. Depreciation expense, including discontinued operations, was \$111 million in 2021, \$105 million in 2020 and \$132 million in 2019.

**Leases.** We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets ("ROU assets"), accrued liabilities and noncurrent operating lease liabilities on our consolidated balance sheet. Finance lease ROU assets are included in property and equipment, net, notes payable, and long-term debt on our consolidated balance sheet.

ROU assets represent our right to use an underlying asset for the duration of the lease term while lease liabilities represent our obligation to make lease payments in exchange for the right to use an underlying asset. ROU assets and lease liabilities are measured based on the present value of fixed lease payments over the lease term at the commencement date. The ROU asset also includes any lease payments made prior to the commencement date and initial direct costs incurred, and is reduced by any lease incentives received. We review our ROU assets as events occur or circumstances change that would indicate the carrying amount of the ROU assets are not recoverable and exceed their fair values. If the carrying amount of the ROU asset is not recoverable from its undiscounted cash flows, then we would recognize an impairment loss for the difference between the carrying amount and the current fair value.

As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate on the commencement date of the lease as the discount rate in determining the present value of future lease payments. We determine the incremental borrowing rate for each lease by using the current yields of our uncollateralized, publicly traded debts with maturity periods similar to the respective lease term or a comparable market alternative, adjusted to a collateralized basis based on third-party data. Our lease terms may include options to extend or terminate the lease when there are relevant economic incentives present that make it reasonably certain that we will exercise that option. We account for any non-lease components separately from lease components.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**A. ACCOUNTING POLICIES (Continued)**

For operating leases, lease expense for future fixed lease payments is recognized on a straight-line basis over the lease term. For finance leases, lease expense for future fixed lease payments is recognized using the effective interest rate method over the lease term. Variable lease payments are recognized as lease expense in the period incurred. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

**Goodwill and Other Intangible Assets.** We perform our annual impairment testing of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We have defined our reporting units and completed the impairment testing of goodwill at the operating segment level. Our operating segments are reporting units that engage in business activities, for which discrete financial information, including five-year forecasts, are available. We compare the fair value of the reporting units to the carrying value of the reporting units for goodwill impairment testing. Fair value is determined using a discounted cash flow method, which includes significant unobservable inputs (Level 3 inputs), and requires us to make significant estimates and assumptions, including long-term projections of cash flows, market conditions and appropriate discount rates. Our judgments are based upon historical experience, current market trends, consultations with external valuation specialists and other information. In estimating future cash flows, we rely on internally generated five-year forecasts for sales and operating profits, and, currently, a two percent to three percent long-term assumed annual growth rate of cash flows for periods after the five-year forecast. For 2021, we utilized a weighted average cost of capital of approximately 7.5 percent as the basis to determine the discount rate to apply to the estimated future cash flows. Based upon our assessment of the risks impacting each of our businesses, we applied a risk premium to increase the discount rate to a range of 9.0 percent to 11.5 percent for our reporting units. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized to the extent that a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill in that reporting unit.

We review our other indefinite-lived intangible assets for impairment annually in the fourth quarter, or as events occur or circumstances change that indicate the assets may be impaired without regard to the business unit. Potential impairment is identified by comparing the fair value of an other indefinite-lived intangible asset to its carrying value. We utilize a relief-from-royalty model to estimate the fair value of other indefinite-lived intangible assets. We consider the implications of both external (e.g., market growth, competition and local economic conditions) and internal (e.g., product sales and expected product growth) factors and their potential impact on cash flows related to the intangible asset in both the near- and long-term. We also consider the profitability of the business, among other factors, to determine the royalty rate for use in the impairment assessment. We utilize our weighted average cost of capital of approximately 7.5 percent as the basis to determine the discount rate to apply to the estimated future cash flows. In 2021, based upon our assessment of the risks impacting each of our businesses and the nature of the trade name, we applied a risk premium to increase the discount rate to a range of 10.0 percent to 15.5 percent for our other indefinite-lived intangible assets.

While we believe that the estimates and assumptions underlying the valuation methodologies are reasonable, different estimates and assumptions could result in different outcomes.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. We review our intangible assets with finite useful lives as events occur or circumstances change that would more likely than not reduce the fair value of the assets below its carrying amount. If the carrying amount of the assets is not recoverable from the undiscounted cash flows, then we would recognize an impairment loss for the difference between the carrying amount and the current fair value. We evaluate the remaining useful lives of amortizable intangible assets at each reporting period to determine whether events or circumstances warrant a revision to the remaining periods of amortization.

Refer to Note H for additional information regarding goodwill and other intangible assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**A. ACCOUNTING POLICIES (Continued)**

**Acquisitions.** In accordance with accounting guidance for the provisions in Financial Accounting Standards Board ("FASB") ASC 805, "Business Combinations," we allocate the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. In addition, any contingent consideration is fair valued as of the date of the acquisition and is recorded as part of the purchase price. This estimate is updated in future periods and any changes in the estimate, which are not considered an adjustment to the purchase price, are recorded in our consolidated statements of operations.

We use all available information to estimate fair values. We typically engage external valuation specialists to assist in the fair value determination of identifiable intangible assets and any other significant assets or liabilities. We adjust the preliminary purchase price allocation, as necessary, up to one year after the acquisition closing date as we obtain more information regarding assets acquired and liabilities assumed based on facts and circumstances that existed as of the acquisition date.

Our purchase price allocation methodology contains uncertainties because it requires us to make assumptions and to apply judgment to estimate the fair value of acquired assets and assumed liabilities. We estimate the fair value of assets and liabilities based upon the carrying value of the acquired assets and assumed liabilities and widely accepted valuation techniques, including discounted cash flows. Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies.

Other estimates used in determining fair value include, but are not limited to, future cash flows or income related to intangibles, market rate assumptions and appropriate discount rates. Our estimates of fair value are based upon assumptions believed to be reasonable, but that are inherently uncertain, and therefore, may not be realized. Accordingly, there can be no assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

Refer to Note B for additional information regarding acquisitions.

**Fair Value of Financial Instruments.** We use derivative financial instruments to manage certain exposure to fluctuations in earnings and cash flows resulting from changes in foreign currency exchange rates, and occasionally from interest rate exposures. Derivative financial instruments are recorded in the consolidated balance sheets as either an asset or liability measured at fair value, netted by counterparty, where the right of offset exists. The gain or loss is recognized in determining current earnings during the period of the change in fair value. We currently do not have any derivative instruments for which we have designated hedge accounting.

Refer to Note I for additional information regarding fair value of financial instruments.

**Warranty.** We offer limited warranties on certain products with warranty periods lasting up to the lifetime of the product to the original consumer purchaser. At the time of sale, we accrue a warranty liability for the estimated future cost to provide products, parts or services to repair or replace products to satisfy our warranty obligations. Our estimate of future costs to service our warranty obligations is based upon the information available and includes a number of factors, such as the warranty coverage, the warranty period, historical experience specific to the nature, frequency and average cost to service the claim, along with industry and demographic trends.

Certain factors and related assumptions in determining our warranty liability involve judgments and estimates and are sensitive to changes in the factors described above. We believe that the warranty accrual is appropriate; however, actual claims incurred could differ from our original estimates which would require us to adjust our previously established accruals. Refer to Note U for additional information on our warranty accrual.

A significant portion of our business is at the consumer retail level through home center retailers and other major retailers. A consumer may return a product to a retail outlet that is a warranty return. However, certain retail outlets do not distinguish between warranty and other types of returns when they claim a return deduction from us. Our revenue recognition policy takes into account this type of return when recognizing revenue, and an estimate of these amounts is recorded as a deduction to net sales at the time of sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**A. ACCOUNTING POLICIES (Continued)**

**Insurance Reserves.** We provide for expenses associated with workers' compensation and product liability obligations when such amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change that would affect the estimated liability. Any obligations expected to be settled within 12 months are recorded in accrued liabilities; all other obligations are recorded in other liabilities.

**Litigation.** We are involved in claims and litigation, including class actions, mass torts and regulatory proceedings, which arise in the ordinary course of our business. Liabilities and costs associated with these matters require estimates and judgments based upon our professional knowledge and experience and that of our legal counsel. When a liability is probable of being incurred and our exposure in these matters is reasonably estimable, amounts are recorded as charges to earnings. The ultimate resolution of these exposures may differ due to subsequent developments.

**Stock-Based Compensation.** We issue stock-based incentives in various forms to our employees and non-employee Directors. Outstanding stock-based incentives were in the form of long-term stock awards, stock options, restricted stock units ("RSUs"), performance restricted stock units ("PRSUs") and phantom stock awards.

We measure compensation expense for stock awards and RSUs at the market price of our common stock at the grant date. We measure compensation expense for stock options using a Black-Scholes option pricing model. We measure compensation expense for PRSUs at the expected payout of the awards. We recognize forfeitures related to stock awards, stock options, RSUs and PRSUs as they occur.

We initially measure compensation expense for phantom stock awards at the market price of our common stock at the grant date. Phantom stock awards are linked to the value of our common stock on the date of grant and are settled in cash upon vesting. We account for phantom stock awards as liability-based awards; the liability is remeasured and adjusted at the end of each reporting period until the awards are fully-vested and paid to the employees.

In December 2019, our Organization and Compensation Committee of the Board of Directors (the "Compensation Committee") amended the terms of equity awards under our 2014 Long Term Stock Incentive Plan to provide that newly issued stock options, RSUs and phantom stock awards vest over a three-year period and redefined retirement-eligibility as age 65 or age 55 with at least 10 years of continuous service. As such, compensation expense for equity awards granted in 2020 and thereafter is recognized ratably over the shorter of the vesting period, typically three years, or the length of time until the grantee becomes retirement eligible. For prior year grants, expense was recognized ratably over the shorter of the vesting period of the stock awards, stock options and phantom stock awards, typically five years, or the length of time until the grantee became retirement-eligible, generally at age 65. Expense for PRSUs is recognized ratably over the three-year vesting period of the units.

Refer to Note M for additional information on stock-based compensation.

**Noncontrolling Interest.** We owned 68 percent of Hansgrohe SE at both December 31, 2021 and 2020. The aggregate noncontrolling interest, net of dividends, at December 31, 2021 and 2020 has been recorded as a component of equity on our consolidated balance sheets.

**Discontinued Operations.** We report financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Discontinued operations reporting occurs only when the disposal of a component or a group of components represents a strategic shift that will have a major effect on our operations and financial results. In our consolidated statements of cash flows, the cash flow from discontinued operations are not separately classified.

Refer to Note C for further information regarding our discontinued operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**A. ACCOUNTING POLICIES (Continued)**

**Income Taxes.** Deferred taxes are recognized based on the future tax consequences of differences between the financial statement carrying value of assets and liabilities and their respective tax basis. The future realization of deferred tax assets depends on the existence of sufficient taxable income in future periods. Possible sources of taxable income include taxable income in carryback periods, the future reversal of existing taxable temporary differences recorded as a deferred tax liability, tax-planning strategies that generate future income or gains in excess of anticipated losses in the carryforward period and projected future taxable income.

If, based upon all available evidence, both positive and negative, it is more likely than not (more than 50 percent likely) such deferred tax assets will not be realized, a valuation allowance is recorded. Significant weight is given to positive and negative evidence that is objectively verifiable. A company's three-year cumulative loss position is significant negative evidence in considering whether deferred tax assets are realizable, and the accounting guidance restricts the amount of reliance we can place on projected taxable income to support the recovery of the deferred tax assets.

The current accounting guidance allows the recognition of only those income tax positions that have a greater than 50 percent likelihood of being sustained upon examination by the taxing authorities. We believe that there is an increased potential for volatility in our effective tax rate because this threshold allows for changes in the income tax environment and, to a greater extent, the inherent complexities of income tax law in a substantial number of jurisdictions, which may affect the computation of our liability for uncertain tax positions.

We record interest and penalties on our uncertain tax positions in income tax expense.

The accounting guidance for income taxes requires us to allocate our provision for income taxes between continuing operations and other categories of earnings, such as other comprehensive income (loss). Subsequent adjustments to deferred taxes originally recorded to other comprehensive income (loss) may reverse in a different category of earnings, such as continuing operations, resulting in a disproportionate tax effect within accumulated other comprehensive income (loss). Generally, a disproportionate tax effect will be eliminated and recognized in income tax expense when the circumstances upon which it is premised cease to exist.

The disproportionate tax effects related to various defined-benefit pension plans will be eliminated from accumulated other comprehensive income (loss) at the termination of the related pension plans. The disproportionate tax effect relating to our interest rate swap hedge, which was terminated in 2012, was eliminated from accumulated other comprehensive income (loss) upon the early retirement of the related debt in March 2021.

We record the tax effects of Global Intangible Low-taxed Income related to our foreign operations as a component of income tax expense in the period the tax arises.

**Recently Adopted Accounting Pronouncements.** In January 2020, the FASB issued ASU 2020-01, "Investments—Equity Securities (Topic 321)," "Investments—Equity Method and Joint Ventures (Topic 323)," and "Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815," which clarifies that an entity should consider observable transactions when either applying or discontinuing the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321. ASU 2020-01 clarifies that for certain forward contracts or purchased options to acquire investments, an entity should not consider whether, upon settlement of the forward contract or exercise of the purchased option, the underlying securities would be accounted for under the equity method or the fair value option. We adopted ASU 2020-01 prospectively beginning on January 1, 2021. The adoption of the standard did not have a material effect on our financial position or results of operations.

**Recently Issued Accounting Pronouncements.** In August 2020, the FASB issued ASU 2020-06, "Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity." ASU 2020-06 simplifies the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. We plan to adopt this standard for annual periods beginning January 1, 2022 and do not anticipate that the adoption of this new standard will have a material impact on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**A. ACCOUNTING POLICIES (Concluded)**

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Acquired Contract Assets and Contract Liabilities from Contracts with Customers." ASU 2021-08 requires contract assets and contract liabilities acquired in a business combination to be recognized in accordance with Topic 606 as if the acquirer had originated the contracts. We plan to adopt this standard for annual periods beginning January 1, 2022 and do not anticipate that the adoption of this new standard will have a material impact on our financial position or results of operations.

**B. ACQUISITIONS**

In the third quarter of 2021, we acquired all of the share capital of Steamist, Inc. ("Steamist") for approximately \$56 million in cash. This amount is subject to working capital and other adjustments. Steamist is a manufacturer of residential steam bath products that are complementary to many of our plumbing products. This business is included in our Plumbing Products segment. In connection with this acquisition, we recognized \$31 million of definite-lived intangible assets, primarily related to customer relationships. The definite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of 11 years. We also recognized \$29 million of goodwill, which is not tax deductible, and is related primarily to the expected synergies from combining the operations into our business.

In the first quarter of 2021, we acquired a 75.1 percent equity interest in Easy Sanitary Solutions B.V. ("ESS"), for approximately €47 million (\$58 million), including \$52 million of cash and \$6 million of debt that will be paid out over two years less any pending or settled indemnity matters. The cash payment was made to a third-party notary on December 29, 2020 for the acquisition of this equity interest in advance of the transaction closing on January 4, 2021. ESS is a manufacturer of shower channel drains and offers a wide range of products for barrier-free showering and bathroom wall niches. This business is included in our Plumbing Products segment. In connection with this acquisition, we recognized \$32 million of definite-lived intangible assets, primarily related to customer relationships. The definite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of 10 years. We also recognized \$35 million of goodwill, which is not tax deductible, and is related primarily to the expected synergies from combining the operations into our business. Working capital and other adjustments were finalized with the seller in the fourth quarter of 2021, resulting in no significant changes.

The remaining 24.9 percent equity interest in ESS is subject to a call and put option that is exercisable by us or the sellers, respectively, any time after December 31, 2023. The redemption value of the call and put option is the same and based on a floating EBITDA value. The call and put options were determined to be embedded within the redeemable noncontrolling interest and were recorded as temporary equity in the consolidated balance sheet at December 31, 2021. We elected to adjust the redeemable noncontrolling interest to its full redemption amount directly into retained (deficit) earnings.

In the fourth quarter of 2020, we acquired substantially all of the net assets of Kraus USA Inc. ("Kraus"), a designer and distributor of sinks, faucets and accessories for the kitchen and bathroom, for approximately \$103 million and an additional cash payment of up to \$50 million to be paid in 2023, contingent upon the achievement of certain financial performance metrics for the year ending December 31, 2022. As of the closing date of the acquisition, the contingent consideration was assigned a fair value of approximately \$8 million. Refer to Note I for additional information regarding the measurement of the contingent consideration liability. This business expands our product offerings to our customers and our online presence under the Kraus brand. This business is included in the Plumbing Products segment. In connection with this acquisition, we recognized \$25 million of indefinite-lived intangible assets, which is related to trademarks, and \$49 million of definite-lived intangible assets, primarily related to customer relationships. The definite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of 10 years. We also recognized \$20 million of goodwill, which is generally tax deductible, and is related primarily to the expected synergies from combining the operations into our business. During the first quarter of 2021, we revised the allocation of the purchase price to certain identifiable assets and liabilities based on analysis of information as of the acquisition date, which resulted in a \$1 million decrease to goodwill. The working capital adjustments were finalized with the seller in the second quarter of 2021, resulting in no significant changes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**B. ACQUISITIONS (Concluded)**

In the fourth quarter of 2020, we acquired substantially all of the net assets of Work Tools International Inc. and Elder & Jenks, LLC (collectively, "Work Tools") for approximately \$53 million, including \$48 million of cash and \$5 million of debt that will be paid out in 18 months less any pending or settled indemnity matters. Work Tools expands our product offering to our customers as it is a leading manufacturer of high-quality precision painting tools and accessories including brushes, rollers and mini rollers for DIY and professionals. This business is included in the Decorative Architectural Products segment. In connection with this acquisition, we recognized \$7 million of indefinite-lived intangible assets, which is related to trademarks, and \$27 million of definite-lived intangible assets, primarily related to customer relationships. The definite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of 12 years. We also recognized \$7 million of goodwill, which is generally tax deductible, and is related primarily to the expected synergies from combining the operations into our business. The working capital adjustments were finalized with the seller in the first quarter of 2021, resulting in no significant changes.

In the first quarter of 2020, we acquired all of the share capital of SmarTap A.Y Ltd. ("SmarTap") for approximately \$24 million in cash. SmarTap is a developer of a smart bathing system that monitors and controls the temperature and flow of water. This acquisition provides an adaptable solution for a wide range of products as it is compatible with showerheads, hand showers, spouts and shower jets. This business is included in the Plumbing Products segment. In connection with this acquisition, we recognized \$10 million of definite-lived intangible assets, primarily related to technology, which is being amortized on a straight-line basis over a weighted average amortization period of 5 years. We also recognized \$14 million of goodwill, which is not tax deductible, and is related primarily to the expected synergies from combining the operations into our business.

**C. DIVESTITURES**

On May 31, 2021, we completed the divestiture of our Hüppe GmbH ("Hüppe") business, a manufacturer of shower enclosures and shower trays. In connection with the divestiture, we recognized a loss of \$18 million for the year ended December 31, 2021, which is included in other, net in our consolidated statements of operations. This loss resulted primarily from the recognition of \$23 million of currency translation losses that were previously included within accumulated other comprehensive income (loss). The sale of Hüppe does not represent a strategic shift that will have a major effect on our operations and financial results and therefore was not presented as discontinued operations. Prior to the divestiture, the results of the business were included in our Plumbing Products segment.

On September 6, 2019, we completed the divestiture of our UK Window Group business ("UKWG"), a manufacturer and distributor of windows and doors, for proceeds of approximately \$8 million, of which \$2 million net of cash disposed was received upon sale. The remaining \$6 million was accounted for as a note receivable that was collected in the third quarter of 2021. In connection with the sale, we recognized a loss of \$70 million for the year ended December 31, 2019, which is included in income from discontinued operations, net in the consolidated statements of operations.

On November 6, 2019, we completed the divestiture of our Milgard Windows and Doors business ("Milgard"), a manufacturer and distributor of windows and doors for proceeds of approximately \$720 million, net of cash disposed. In connection with the sale, we recognized a gain on the divestiture of \$368 million for the year ended December 31, 2019, which is included in income from discontinued operations, net in the consolidated statements of operations.

In 2019, we determined that the previously reported Windows and Other Specialty Products segment met the criteria to be classified as a discontinued operation as a result of the combined sale of UKWG and Milgard. These businesses represented all of our windows businesses and all remaining businesses in the Windows and Other Specialty Products segment.

MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

C. DIVESTITURES (Continued)

During the second quarter of 2020, a \$17 million pre-tax post-closing adjustment related to the finalization of working capital items was recorded to income from discontinued operations, net in the consolidated statements of operations, as a gain on the divestiture of Milgard. As of December 31, 2020, we received \$17 million in cash, which was presented in investing activities on the consolidated statement of cash flow as proceeds from disposition of businesses, net of cash disposed. All post-closing adjustments related to our divestiture of Milgard were finalized with the buyer in the second quarter of 2020.

On November 14, 2019, we entered into a definitive agreement to sell Masco Cabinetry LLC ("Cabinetry"), a manufacturer of cabinetry products. We completed the divestiture of Cabinetry on February 18, 2020 for proceeds of approximately \$989 million, including \$853 million, net of cash disposed. The remaining \$136 million was accounted for as preferred stock issued by a holding company of the buyer; refer to Note I for additional information. The working capital adjustment was finalized with the buyer in the second quarter of 2020, resulting in no significant changes to net proceeds. In connection with the sale, we recognized a gain on the divestiture of \$585 million for the year ended December 31, 2020, which was included in income from discontinued operations, net in the consolidated statements of operations. We determined that the previously reported Cabinetry Products segment met the criteria to be classified as a discontinued operation as Cabinetry represented all of our cabinet businesses and all remaining businesses in the Cabinetry Products segment.

We determined that the assets and liabilities for Cabinetry, Milgard and UKWG met the held for sale criteria in accordance with ASC 205-20, Discontinued Operations, during 2019. We ceased recording depreciation and amortization for the held for sale assets upon meeting the held for sale criteria.

As the combined sale of UKWG and Milgard and the sale of Cabinetry each represented a strategic shift that will have a major effect on our operations and financial results, these businesses were presented in discontinued operations separate from continuing operations for all periods presented. In addition, depreciation and amortization, capital expenditures, and significant non-cash operating and investing activities related to discontinued operations were separately disclosed.

The results of the windows businesses recorded in income from discontinued operations before income tax was income of \$2 million for the year ended December 31, 2020, and a loss of \$1 million for the year ended December 31, 2019. The results of the cabinetry business recorded in income from discontinued operations before income tax was a loss of \$7 million for the year ended December 31, 2020 and income of \$107 million the year ended December 31, 2019.

The major classes of line items constituting income from discontinued operations, net, in millions:

	Year Ended December 31,		
	2021	2020	2019
Net sales	\$ —	\$ 101	\$ 1,528
Cost of sales	—	78	1,184
Gross profit	—	23	344
Selling, general and administrative expenses	—	28	232
Impairment charge for goodwill (A)	—	—	7
Other income (expense), net	—	—	1
(Loss) income from discontinued operations	—	(5)	106
Gain on disposal of discontinued operations, net	—	602	298
Income before income tax	—	597	404
Income tax expense	—	(183)	(108)
Income from discontinued operations, net	\$ —	\$ 414	\$ 296

(A) In the first quarter of 2019, we recognized a \$7 million non-cash goodwill impairment charge related to a decline in the long-term outlook of our windows and doors business in the United Kingdom.

MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

C. DIVESTITURES (Concluded)

Other selected financial information for Cabinetry, Milgard and UKWG during the period owned by us, were as follows, in millions:

	Year Ended December 31,		
	2021	2020	2019
Depreciation and amortization	\$ —	\$ —	\$ 29
Capital expenditures	—	1	34
ROU assets obtained in exchange for new lease obligations	—	—	3

D. REVENUE

Our revenues are derived primarily from sales to customers in North America and Internationally, principally Europe. Net sales from these geographic markets, by segment, were as follows, in millions:

	Year Ended December 31, 2021		
	Plumbing Products	Decorative Architectural Products	Total
Primary geographic markets:			
North America	\$ 3,384	\$ 3,240	\$ 6,624
International, principally Europe	1,751	—	1,751
Total	\$ 5,135	\$ 3,240	\$ 8,375

	Year Ended December 31, 2020		
	Plumbing Products	Decorative Architectural Products	Total
Primary geographic markets:			
North America	\$ 2,753	\$ 3,052	\$ 5,805
International, principally Europe	1,383	—	1,383
Total	\$ 4,136	\$ 3,052	\$ 7,188

	Year Ended December 31, 2019		
	Plumbing Products	Decorative Architectural Products	Total
Primary geographic markets:			
North America	\$ 2,605	\$ 2,723	\$ 5,328
International, principally Europe	1,379	—	1,379
Total	\$ 3,984	\$ 2,723	\$ 6,707

We recognized increases to revenue of \$9 million, \$7 million, and \$2 million in 2021, 2020, and 2019, respectively, for variable consideration related to performance obligations settled in previous periods.

We record contract assets for items for which we have satisfied our performance obligation but our receipt of payment is contingent upon delivery or other circumstances other than the passage of time. Our contract assets are recorded in prepaid expenses and other in our consolidated balance sheets. Our contract assets generally become unconditional and are reclassified to receivables in the quarter subsequent to each balance sheet date. Our contract asset balance was \$1 million and \$2 million at December 31, 2021 and 2020, respectively.

MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**D. REVENUE (Concluded)**

We record contract liabilities primarily for deferred revenue. Our contract liabilities are recorded in accrued liabilities in our consolidated balance sheets. Our contract liabilities are generally recognized to net sales in the immediately subsequent reporting period. Our contract liability balance was \$67 million and \$62 million at December 31, 2021 and 2020, respectively.

Changes in the allowance for credit losses deducted from accounts receivable were as follows, in millions:

	Year Ended December 31,	
	2021	2020
Balance at January 1	\$ 7	\$ 5
Provision for expected credit losses during the period	1	3
Write-offs charged against the allowance	(2)	(2)
Recoveries of amounts previously written off	1	1
Other (A)	(1)	—
Balance at end of year	<u>\$ 6</u>	<u>\$ 7</u>

(A) As a result of Hüppe being divested in May 2021, \$1 million for the year ended December 31, 2021 was removed from allowance for credit losses.

**E. INVENTORIES**

The components of inventory were as follows, in millions:

	At December 31,	
	2021	2020
Finished goods	\$ 702	\$ 552
Raw materials	383	242
Work in process	131	82
Total	<u>\$ 1,216</u>	<u>\$ 876</u>

Inventories, which include purchased parts, materials, direct labor and applied overhead, are stated at the lower of cost or net realizable value, with cost determined by use of the first-in, first-out method.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**F. LEASES**

We have operating and finance leases primarily for corporate offices, manufacturing facilities, warehouses, vehicles, and equipment. Our leases have remaining lease terms up to 21 years, some of which may include one or more renewal options with terms to extend the lease for up to an additional 15 years, and some of which may include options to terminate the leases prior to their expiration.

The components of lease cost included in income from continuing operations were as follows, in millions:

	Year Ended December 31,		
	2021	2020	2019
Operating lease cost	\$ 48	\$ 47	\$ 49
Short-term lease cost	8	7	6
Variable lease cost	4	3	3
Finance lease cost:			
Amortization of right-of-use assets	3	3	3
Interest on lease liabilities	1	1	1

Supplemental cash flow information related to leases was as follows, in millions:

	Year Ended December 31,		
	2021	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for operating leases	\$ 47	\$ 47	\$ 58
Operating cash flows for finance leases	1	1	1
Financing cash flows for finance leases	2	2	8
ROU assets obtained in exchange for new lease obligations:			
Operating leases (A)	67	27	27
Finance leases	—	—	—

(A) Includes \$2 million of ROU assets obtained in exchange for new lease obligations related to the acquisitions of ESS and Steamist in 2021. Includes \$9 million of ROU assets obtained in exchange for new lease obligations related to the acquisitions of Kraus and Work Tools in the fourth quarter of 2020.

Certain other information related to leases was as follows:

	At December 31,		
	2021	2020	2019
Weighted-average remaining lease term:			
Operating leases	9 years	10 years	10 years
Finance leases	9 years	10 years	11 years
Weighted-average discount rate:			
Operating leases	4.0 %	4.4 %	4.6 %
Finance leases	3.3 %	3.3 %	3.4 %

MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

F. LEASES (Concluded)

Supplemental balance sheet information related to leases was as follows, in millions:

	At December 31,			
	2021		2020	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Property and equipment, net	\$ —	\$ 24	\$ —	\$ 27
Notes payable	—	3	—	2
Accrued liabilities	38	—	39	—
Long-term debt	—	23	—	26

Gross ROU assets under finance leases recorded within property and equipment, net was \$42 million at both December 31, 2021 and 2020, and accumulated amortization associated with these leases was \$18 million and \$15 million, at December 31, 2021 and 2020, respectively.

At December 31, 2021, future maturities of lease liabilities were as follows, in millions:

	Operating Leases	Finance Leases
Year ending December 31,		
2022	\$ 44	\$ 3
2023	37	3
2024	31	3
2025	26	4
2026	23	3
Thereafter	95	14
Total lease payments	256	30
Less: imputed interest	(46)	(4)
Total	\$ 210	\$ 26

G. PROPERTY AND EQUIPMENT

The components of property and equipment, net were as follows, in millions:

	At December 31,	
	2021	2020
Land and improvements	\$ 67	\$ 66
Buildings	514	522
Computer hardware and software	259	249
Machinery and equipment	1,199	1,184
	2,039	2,021
Less: Accumulated depreciation	(1,143)	(1,113)
Total	\$ 896	\$ 908

MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

H. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill at December 31, 2021, by segment, was as follows, in millions:

	Gross Goodwill At December 31, 2021	Accumulated Impairment Losses	Net Goodwill At December 31, 2021
Plumbing Products (A)	\$ 662	\$ (340)	\$ 322
Decorative Architectural Products	366	(120)	246
Total	\$ 1,028	\$ (460)	\$ 568

(A) As a result of Hüppe being divested in May 2021, both gross goodwill and accumulated impairment losses for the Plumbing Products segment were reduced by \$39 million.

The changes in the carrying amount of goodwill for years ended December 31, 2021 and 2020, by segment, were as follows, in millions:

	Gross Goodwill At December 31, 2020	Accumulated Impairment Losses	Net Goodwill At December 31, 2020	Acquisitions	Pre-tax Impairment Charge	Other (B)	Net Goodwill At December 31, 2021
Plumbing Products	\$ 613	\$ (340)	\$ 273	\$ 63	\$ —	\$ (14)	\$ 322
Decorative Architectural Products	365	(75)	290	1	(45)	—	246
Total	\$ 978	\$ (415)	\$ 563	\$ 64	\$ (45)	\$ (14)	\$ 568

	Gross Goodwill At December 31, 2019	Accumulated Impairment Losses	Net Goodwill At December 31, 2019	Acquisitions	Pre-tax Impairment Charge	Other (B)	Net Goodwill At December 31, 2020
Plumbing Products	\$ 566	\$ (340)	\$ 226	\$ 34	\$ —	\$ 13	\$ 273
Decorative Architectural Products	358	(75)	283	7	—	—	290
Total	\$ 924	\$ (415)	\$ 509	\$ 41	\$ —	\$ 13	\$ 563

(B) Other consists of the effect of foreign currency translation.

In the fourth quarter of 2021, we recognized a \$45 million non-cash goodwill impairment charge within our Decorative Architectural Products segment due to competitive market conditions and higher inflationary costs in our lighting business.

Other indefinite-lived intangible assets were \$109 million at both December 31, 2021 and 2020, respectively, and principally included registered trademarks. In the first quarter of 2019, we recognized a \$9 million impairment charge related to a registered trademark in our Decorative Architectural Products segment due to a change in the long-term net sales projections of lighting products.

We completed our annual impairment testing of goodwill and other indefinite-lived intangible assets in the fourth quarters of 2021, 2020 and 2019. There was no impairment of goodwill for any of our reporting units or of our other indefinite-lived intangible assets in any of these years, other than as disclosed above.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**H. GOODWILL AND OTHER INTANGIBLE ASSETS (Concluded)**

The carrying value of our definite-lived intangible assets was \$279 million (net of accumulated amortization of \$75 million) at December 31, 2021 and \$248 million (net of accumulated amortization of \$73 million) at December 31, 2020 and principally included customer relationships with a weighted average amortization period of 15 years in both 2021 and 2020. Amortization expense, including discontinued operations, related to the definite-lived intangible assets was \$31 million, \$24 million and \$23 million in 2021, 2020 and 2019, respectively. The increase in our definite-lived intangible assets is primarily a result of our acquisitions of Steamist and ESS.

At December 31, 2021, amortization expense related to the definite-lived intangible assets during each of the next five years will be as follows: 2022 – \$30 million; 2023 – \$29 million; 2024 – \$28 million, 2025 – \$23 million and 2026 – \$22 million

**I. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Preferred Stock of ACProducts Holding, Inc.** As described in Note C, in conjunction with our divestiture of Cabinetry, we received preferred stock of ACProducts Holding, Inc., the holding company of the buyer, with a liquidation preference of \$150 million. We did not have the ability to exercise significant influence, and the fair value of the preferred stock was not readily available. We elected to measure this investment at cost (less impairment, if any) adjusted for observable price changes in orderly transactions for the identical or similar investments of the same issuer for subsequent measurements of fair value. As the preferred stock was received in conjunction with the sale of Cabinetry, we determined the cost to be the fair value of the preferred stock at the time of sale, which was determined to be \$136 million and was included in other assets in our consolidated balance sheet.

In May 2021, we received, in cash, \$166 million for the redemption of the preferred stock, including all accrued but unpaid dividends, and recognized a gain of \$14 million, which was included within other, net in our consolidated statements of operations.

Prior to the redemption, dividends earned on this investment were included within other, net in our consolidated statements of operations with a corresponding increase to our basis in the investment. We had dividend income of \$6 million and \$10 million for the years ended December 31, 2021 and 2020, respectively. The preferred stock was reported at the carrying value of \$146 million in other assets in our consolidated balance sheet at December 31, 2020.

**Kraus Acquisition Contingent Consideration.** As described in Note B, we may be obligated to pay up to an additional \$50 million in 2023 for the Kraus acquisition contingent upon the achievement of certain financial performance metrics for the year ending December 31, 2022. The measurement of the liability for contingent consideration is based on significant inputs that are not observable in the market, and is therefore classified as Level 3 inputs. Examples of utilized unobservable inputs are estimated future revenues and earnings of the acquired business and an applicable discount rate. The estimate of the liability may fluctuate if there are changes in the forecast of the acquired business' future revenues and earnings, as a result of actual levels achieved or in the discount rate used to determine the present value of contingent future cash flows. All subsequent remeasurements from the initial estimate at the time of acquisition are recorded in other, net in the consolidated statements of operations, as described in Note R. The fair value of the liability was estimated to be \$24 million and \$8 million as of December 31, 2021, and 2020, respectively, using probability weighted discounted cash flows and a discount rate that reflects the uncertainty surrounding the expected outcomes, which we believe is appropriate and representative of a market participant assumption.

**Fair Value of Debt.** The fair value of our short-term and long-term fixed-rate debt instruments is based principally upon modeled market prices for the same or similar issues, which are Level 1 inputs. The aggregate estimated market value of our short-term and long-term debt at December 31, 2021 was approximately \$3.2 billion, compared with the aggregate carrying value of \$3.0 billion. The aggregate estimated market value of our short-term and long-term debt at December 31, 2020 was approximately \$3.3 billion, compared with the aggregate carrying value of \$2.8 billion.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**J. OTHER ASSETS**

The components of other assets were as follows, in millions:

	At December 31,	
	2021	2020
Deferred tax assets (Note S)	\$ 57	\$ 109
Equity method investments	18	11
Other investments	7	—
Preferred stock of ACProducts Holding, Inc. (Note I)	—	146
Other	32	28
Total	<u>\$ 114</u>	<u>\$ 294</u>

We recognized amortization expense, including discontinued operations, related to in-store displays of \$2 million and \$12 million in 2020 and 2019, respectively. Cash spent for displays was \$11 million in 2019 and is included in other, net within investing activities on the consolidated statements of cash flows.

**K. ACCRUED LIABILITIES**

The components of accrued liabilities were as follows, in millions:

	At December 31,	
	2021	2020
Salaries, wages and commissions	\$ 195	\$ 193
Advertising and sales promotion	297	293
Interest	29	35
Warranty (Note U)	31	34
Employee retirement plans	49	182
Insurance reserves	27	29
Property, payroll and other taxes	32	32
Dividends payable	—	36
Deferred revenue	67	62
Product returns	23	23
Operating lease liabilities (Note F)	38	39
Other	96	80
Total	<u>\$ 884</u>	<u>\$ 1,038</u>

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**L. DEBT**

The carrying value of outstanding debt was as follows, in millions:

	At December 31,	
	2021	2020
Notes and debentures:		
5.950%, due March 15, 2022	\$ —	\$ 326
4.450%, due April 1, 2025	—	500
4.375%, due April 1, 2026	—	498
3.500%, due November 15, 2027	300	300
1.500%, due February 15, 2028	599	—
7.750%, due August 1, 2029	235	235
2.000%, due October 1, 2030	300	300
2.000%, due February 15, 2031	596	—
6.500%, due August 15, 2032	200	200
4.500%, due May 15, 2047	417	418
3.125%, due February 15, 2051	300	—
Other	35	33
Prepaid debt issuance costs	(23)	(15)
	<u>2,959</u>	<u>2,795</u>
Less: Current portion	10	3
Total long-term debt	<u>\$ 2,949</u>	<u>\$ 2,792</u>

All of the notes and debentures above are senior indebtedness and, other than the 7.75% Notes due 2029, are redeemable at our option.

On March 4, 2021, we issued \$600 million of 1.500% Notes due February 15, 2028, \$600 million of 2.000% Notes due February 15, 2031 and \$300 million of 3.125% Notes due February 15, 2051. We received proceeds of \$1,495 million, net of discount, for the issuance of these Notes. The Notes are senior indebtedness and are redeemable at our option at the applicable redemption price. On March 22, 2021, proceeds from the debt issuances, together with cash on hand, were used to repay and early retire our \$326 million 5.950% Notes due March 15, 2022, \$500 million 4.450% Notes due April 1, 2025, and \$500 million 4.375% Notes due April 1, 2026. In connection with these early retirements, we incurred a loss on debt extinguishment of \$168 million for the year ended December 31, 2021, which was recorded as interest expense in the consolidated statements of operations.

On September 18, 2020, we issued \$300 million of 2.000% Notes due October 1, 2030 (the "2030 Notes") and received proceeds of \$300 million, net of discount, for the issuance of the 2030 Notes. Also on September 18, 2020, we issued an incremental \$100 million of our existing 4.500% Notes due May 15, 2047 (the "2047 Notes") and received proceeds of \$119 million, including a premium, for the issuance of the 2047 Notes. The incremental \$100 million formed a single series with the existing \$300 million of 4.500% Notes due May 15, 2047. The 2030 Notes and 2047 Notes are senior indebtedness and are redeemable at our option at the applicable redemption price. On September 29, 2020, proceeds from the debt issuances were used to repay and early retire our \$400 million 3.500% Notes due April 1, 2021. In connection with this early retirement, we incurred a loss on debt extinguishment of \$6 million, which was recorded as interest expense in our consolidated statements of operations.

On December 19, 2019, proceeds from the UKWG and Milgard divestitures were used to repay and early retire our \$201 million 7.125% Notes due March 15, 2020. In connection with this early retirement, we incurred a loss on debt extinguishment of \$2 million for the year ended December 31, 2019, which was recorded as interest expense in our consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**L. DEBT (Continued)**

On March 13, 2019, we entered into a credit agreement (the "Credit Agreement") with an aggregate commitment of \$1.0 billion and a maturity date of March 13, 2024. On December 22, 2021, we amended the Credit Agreement with the bank group (the "Amended Credit Agreement"). The Credit Agreement was amended to (i) expand the "Agreed Currencies" for which loans thereunder may be denominated outside of the swingline facility to include British Pounds Sterling and Canadian Dollars, together with their applicable interest rate benchmark, (ii) replace the London Interbank Offering Rate ("LIBOR") with the Euro Interbank Offered Rate ("EURIBOR") as the interest rate benchmark for purposes of loans denominated in Euros and (iii) provide mechanics for the replacement of a benchmark for an applicable Agreed Currency upon the occurrence of certain specified events. Under the Amended Credit Agreement, the replacement reference interest rate benchmark for loans denominated in U.S. dollars upon the eventual discontinuation of LIBOR will have a benchmark adjustment applied based on its historical relationship to LIBOR, which can be either the term Secured Overnight Financing Rate ("SOFR") plus a spread, daily simple SOFR plus a spread, or another alternative interest rate index selected by the Administrative Agent and us.

Under the Amended Credit Agreement, at our request and subject to certain conditions, we can increase the aggregate commitment up to an additional \$500 million with the current lenders or new lenders. Upon entry into the Credit Agreement, our credit agreement dated March 28, 2013, as amended, with an aggregate commitment of \$750 million, was terminated.

The Amended Credit Agreement provides for an unsecured revolving credit facility available to us and one of our foreign subsidiaries, in U.S. dollars, European euros, British Pounds sterling, Canadian dollars and certain other currencies for revolving credit loans, swingline loans and letters of credit. Borrowings under the revolving credit loans denominated in any agreed upon currency other than U.S. dollars are limited to \$500 million, equivalent. We can also borrow swingline loans up to \$100 million and obtain letters of credit of up to \$25 million; outstanding letters of credit under the Amended Credit Agreement reduce our borrowing capacity. At December 31, 2021, we had no outstanding standby letters of credit under the Amended Credit Agreement.

Revolving credit loans denominated in U.S. Dollars bear interest under the Amended Credit Agreement at a rate per annum equal to the greater of (i) the JPMorgan Chase Bank, N.A. prime rate, (ii) the Federal Reserve Bank of New York effective rate plus 0.50% and (iii) adjusted LIBO Rate plus 1.0%; plus an applicable margin based upon our then-applicable corporate credit ratings. Foreign currency revolving credit loans denominated in Canadian Dollars bear interest under the Amended Credit Agreement at a rate per annum equal to the greater of (i) the rate equal to the PRIMCAN Index rate and (ii) the CDOR Rate for a one month interest period, plus 1.0%; plus an applicable margin based upon our then-applicable corporate credit ratings. Foreign currency revolving credit loans denominated in Pounds Sterling bear interest under the Amended Credit Agreement at a rate per annum equal to the Daily Simple SONIA plus 0.0326%. Foreign currency revolving credit loans denominated in Euros bear interest at the adjusted EURIBOR Rate, plus an applicable margin based upon our then-applicable corporate credit ratings. The various benchmarks are subject to applicable floors as specified in the Amended Credit Agreement. The Amended Credit Agreement also provides mechanics for the replacement of a benchmark upon the occurrence of certain specified events.

The Amended Credit Agreement contains financial covenants requiring us to maintain (A) a net leverage ratio, as adjusted for certain items, not exceeding 4.0 to 1.0, and (B) a minimum interest coverage ratio, as adjusted for certain items, not less than 2.5 to 1.0.

In order for us to borrow under the Amended Credit Agreement, there must not be any default in our covenants in the Amended Credit Agreement (i.e., in addition to the two financial covenants, principally limitations on subsidiary debt, negative pledge restrictions, legal compliance requirements and maintenance of properties and insurance) and our representations and warranties in the Amended Credit Agreement must be true in all material respects on the date of borrowing (i.e., principally no material adverse change or litigation likely to result in a material adverse change, since December 31, 2018, no material ERISA or environmental non-compliance, and no material tax deficiency). We were in compliance with all covenants and no borrowings were outstanding at December 31, 2021.

At December 31, 2021, the debt maturities during each of the next five years were as follows: 2022 – \$10 million; 2023– \$5 million; 2024 – \$3 million; 2025 – \$3 million and 2026 – \$2 million.

MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**L. DEBT (Concluded)**

Interest paid was \$114 million, \$136 million and \$157 million in 2021, 2020 and 2019, respectively. These amounts exclude \$160 million, \$5 million and \$2 million of debt extinguishment costs related to the early retirement of debt, which were recorded as interest expense and paid in 2021, 2020 and 2019, respectively.

**M. STOCK-BASED COMPENSATION**

Our 2014 Long Term Stock Incentive Plan (the "2014 Plan") provides for the issuance of stock-based incentives in various forms to our employees and non-employee Directors. At December 31, 2021, outstanding stock-based incentives were in the form of long-term stock awards, stock options, restricted stock units, performance restricted stock units and phantom stock awards.

Pre-tax compensation expense included in income from continuing operations for these stock-based incentives was as follows, in millions:

	Year Ended December 31,		
	2021	2020	2019
Long-term stock awards	\$ 10	\$ 14	\$ 20
Stock options	7	7	4
Restricted stock units	28	13	—
Performance restricted stock units	10	5	3
Phantom stock awards	6	4	4
Total	\$ 61	\$ 43	\$ 31

At December 31, 2021, 12.9 million shares of our common stock were available under the 2014 Plan for the granting of long-term stock awards, stock options, restricted stock units and performance restricted stock units.

**Long-Term Stock Awards.** Prior to the amendment of our 2014 Plan in December 2019, we granted long-term stock awards to our key employees and non-employee Directors. These grants did not cause net share dilution due to our practice of repurchasing and retiring an equal number of shares in the open market. We did not grant shares of long-term stock awards during 2021.

Our long-term stock award activity was as follows, shares in millions:

	Year Ended December 31,		
	2021	2020	2019
Unvested stock award shares at January 1	1	2	2
Weighted average grant date fair value	\$ 36	\$ 34	\$ 30
Stock award shares granted	—	—	1
Weighted average grant date fair value	\$ —	\$ —	\$ 36
Stock award shares vested	—	1	1
Weighted average grant date fair value	\$ 34	\$ 32	\$ 25
Stock award shares forfeited	—	—	—
Weighted average grant date fair value	\$ 36	\$ 35	\$ 35
Unvested stock award shares at December 31	1	1	2
Weighted average grant date fair value	\$ 37	\$ 36	\$ 34

At December 31, 2021, 2020 and 2019, there was \$10 million, \$21 million and \$41 million, respectively, of total unrecognized compensation expense related to unvested stock awards; such awards had a weighted average remaining vesting period of two years at both December 31, 2021 and 2020, and three years at December 31, 2019.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**M. STOCK-BASED COMPENSATION (Continued)**

The total market value (at the vesting date) of stock award shares which vested was \$28 million during 2021 and \$31 million during both 2020 and 2019.

**Stock Options.** Stock options are granted to certain key employees. The exercise price equals the market price of our common stock at the grant date and expire no later than 10 years after the grant date.

We granted 331,970 shares of stock options during 2021 with a grant date weighted-average exercise price of approximately \$56 per share.

Our stock option activity was as follows, shares in millions:

	Year Ended December 31,		
	2021	2020	2019
Option shares outstanding, January 1	2	3	4
Weighted average exercise price	\$ 33	\$ 27	\$ 21
Option shares granted	1	1	1
Weighted average exercise price	\$ 56	\$ 48	\$ 36
Option shares exercised	—	2	2
Aggregate intrinsic value on date of exercise <b>(A)</b>	\$ 5 million	\$ 29 million	\$ 33 million
Weighted average exercise price	\$ 25	\$ 17	\$ 13
Option shares forfeited	—	—	—
Weighted average exercise price	\$ 11	\$ 40	\$ 34
Option shares outstanding, December 31	3	2	3
Weighted average exercise price	\$ 37	\$ 33	\$ 27
Weighted average remaining option term (in years)	6	6	6
Option shares vested and expected to vest, December 31	3	2	3
Weighted average exercise price	\$ 36	\$ 33	\$ 27
Aggregate intrinsic value <b>(A)</b>	\$ 89 million	\$ 51 million	\$ 63 million
Weighted average remaining option term (in years)	6	6	6
Option shares exercisable (vested), December 31	2	1	2
Weighted average exercise price	\$ 31	\$ 28	\$ 21
Aggregate intrinsic value <b>(A)</b>	\$ 63 million	\$ 35 million	\$ 47 million
Weighted average remaining option term (in years)	5	5	4

**(A)** Aggregate intrinsic value is calculated using our stock price at each respective date, less the exercise price (grant date price) multiplied by the number of shares.

At December 31, 2021, 2020 and 2019, there was \$4 million, \$6 million and \$9 million, respectively, of unrecognized compensation expense (using the Black-Scholes option pricing model at the grant date) related to unvested stock options; such options had a weighted average remaining vesting period of two years at both December 31, 2021 and 2020, and three years at December 31, 2019.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**M. STOCK-BASED COMPENSATION (Continued)**

The weighted average grant date fair value of option shares granted and the assumptions used to estimate those values using a Black-Scholes option pricing model were as follows:

	Year Ended December 31,		
	2021	2020	2019
Weighted average grant date fair value	\$ 13.61	\$ 10.67	\$ 8.81
Risk-free interest rate	0.75 %	1.53 %	2.57 %
Dividend yield	1.67 %	1.14 %	1.35 %
Volatility factor	30.00 %	24.00 %	25.00 %
Expected option life	6 years	6 years	6 years

The following table summarizes information for stock option shares outstanding and exercisable, shares in millions:

At December 31, 2021					
Option Shares Outstanding				Option Shares Exercisable	
Range of Prices	Number of Shares	Weighted Average Remaining Option Term	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$ 17 - 21	—	2	\$20	—	\$20
\$ 22 - 26	1	4	\$24	1	\$24
\$ 27 - 36	1	6	\$35	1	\$34
\$ 37 - 57	1	8	\$49	—	\$44
\$ 17 - 57	3	6	\$37	2	\$31

**Restricted Stock Units.** Restricted stock units are granted to our key employees and non-employee Directors. These grants did not cause net share dilution due to our practice of repurchasing and retiring an equal number of shares in the open market.

We granted 669,980 restricted stock units in the year ended December 31, 2021 with a weighted average grant date fair value of \$57 per share. In the year ended December 31, 2021, 141,461 shares were issued and 29,125 restricted stock units were forfeited. During the year ended December 31, 2020, we granted 445,670 restricted stock units with a weighted average grant date fair value of \$47 per share and 11,100 restricted stock units were forfeited.

At December 31, 2021, and 2020 there was \$15 million and \$7 million, respectively of unrecognized compensation expense related to unvested restricted stock units; such units had a weighted average remaining vesting period of two years at both December 31, 2021 and 2020.

The total market value (at the vesting date) of restricted stock units which vested was \$8 million during the year ended December 31, 2021.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**M. STOCK-BASED COMPENSATION (Concluded)**

**Performance Restricted Stock Units.** Under our Long Term Incentive Program, we grant performance restricted stock units to certain senior executives. These performance restricted stock units will vest and share awards will be issued at no cost to the employees, subject to our achievement of specified return on invested capital performance goals, and beginning with the 2020 grant, an additional earning per share metric over a three-year period that have been established by our Compensation Committee for the performance period. To receive the award, the recipient must be employed through the share award date. Performance restricted stock units are granted at a target number; based on our performance, the number of performance restricted stock units that vest can be adjusted downward to zero and upward to a maximum of 200 percent of the target number.

During 2021, we granted 85,360 performance restricted stock units with a grant date fair value of approximately \$53 per share, 104,757 performance restricted stock units were issued. No performance restricted stock units were forfeited. At December 31, 2021, there were 186,304 shares vested, but unissued. During 2020, we granted 133,390 performance restricted stock units with a grant date fair value of approximately \$34 per share, 151,724 performance restricted stock units were issued and 10,680 performance restricted stock units were forfeited. During 2019, we granted 126,680 performance restricted stock units with a grant date fair value of approximately \$39 per share, and 15,600 performance restricted stock units were forfeited.

**Phantom Stock Awards.** Certain non-U.S. employees are granted phantom stock awards.

We recognized expense of \$6 million in 2021, and expense of \$4 million in both 2020 and 2019 related to phantom stock awards. In 2021, 2020 and 2019, we granted 82,160, 82,630, and 79,500 shares, respectively, of phantom stock awards with an aggregate fair value of \$5 million in 2021 and \$3 million in both 2020 and 2019, and paid cash of \$3 million in 2021, 2020 and 2019, to settle phantom stock awards.

Information related to phantom stock awards was as follows, in millions:

	At December 31,	
	2021	2020
Accrued compensation cost liability	\$ 8	\$ 6
Unrecognized compensation cost	\$ 3	\$ 4
Equivalent common shares	—	—

**N. EMPLOYEE RETIREMENT PLANS**

We sponsor qualified defined-benefit and defined-contribution retirement plans for most of our employees. In addition to our qualified defined-benefit pension plans, we have unfunded non-qualified defined-benefit pension plans covering certain employees and former employees, which provide for benefits in addition to those provided by the qualified pension plans. Substantially all salaried employees participate in non-contributory defined-contribution retirement plans, to which payments are determined annually by the Compensation Committee.

Pre-tax expense included in income from continuing operations related to our retirement plans was as follows, in millions:

	Year Ended December 31,		
	2021	2020	2019
Defined-contribution plans	\$ 57	\$ 46	\$ 40
Defined-benefit pension plans	435	38	24
	<u>\$ 492</u>	<u>\$ 84</u>	<u>\$ 64</u>

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**N. EMPLOYEE RETIREMENT PLANS (Continued)**

As of January 1, 2010, substantially all our domestic and foreign qualified and domestic non-qualified defined-benefit pension plans were frozen to future benefit accruals. In December 2019, our Board of Directors approved a resolution to terminate our qualified domestic defined-benefit pension plans. In the second quarter of 2021, we settled these plans and made a final contribution of \$101 million. The settlement loss included \$447 million of pre-tax actuarial losses that were reclassified out of accumulated other comprehensive income (loss) for the year ended December 31, 2021. In the fourth quarter of 2021, we recognized a \$7 million reduction in pension expense related to the reversion of excess pension plan assets for the settlement of such plans.

Changes in the projected benefit obligation and fair value of plan assets, and the funded status of our defined-benefit pension plans were as follows, in millions:

	Year Ended December 31,			
	2021		2020	
	Qualified	Non-Qualified	Qualified	Non-Qualified
<b>Changes in projected benefit obligation:</b>				
Projected benefit obligation at January 1	\$ 1,118	\$ 162	\$ 1,034	\$ 161
Service cost	4	—	3	—
Interest cost	15	4	23	5
Actuarial loss, net	(105)	(6)	85	10
Foreign currency exchange	(16)	—	18	—
Benefit payments	(230)	(12)	(45)	(13)
Divestitures	(14)	—	—	(1)
Settlements	(594)	—	—	—
Projected benefit obligation at December 31	<u>\$ 178</u>	<u>\$ 148</u>	<u>\$ 1,118</u>	<u>\$ 162</u>
<b>Changes in fair value of plan assets:</b>				
Fair value of plan assets at January 1	\$ 863	\$ —	\$ 780	\$ —
Actual return on plan assets	(40)	—	67	—
Foreign currency exchange	(7)	—	8	—
Company contributions	107	12	57	13
Expenses, other	—	—	(4)	—
Benefit payments	(230)	(12)	(45)	(13)
Settlements	(594)	—	—	—
Fair value of plan assets at December 31	<u>\$ 99</u>	<u>\$ —</u>	<u>\$ 863</u>	<u>\$ —</u>
<b>Funded status at December 31</b>	<u>\$ (79)</u>	<u>\$ (148)</u>	<u>\$ (255)</u>	<u>\$ (162)</u>

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**N. EMPLOYEE RETIREMENT PLANS (Continued)**

Amounts in our consolidated balance sheets were as follows, in millions:

	At December 31,			
	2021		2020	
	Qualified	Non-Qualified	Qualified	Non-Qualified
Other assets	\$ 1	\$ —	\$ 1	\$ —
Accrued liabilities (A)	—	(12)	(135)	(12)
Other liabilities (A)	(80)	(136)	(121)	(150)
Total net liability	<u>\$ (79)</u>	<u>\$ (148)</u>	<u>\$ (255)</u>	<u>\$ (162)</u>

(A) As a result of the termination of the qualified domestic defined-benefit pension plans in 2021, the liabilities associated with these plans were reported as current liabilities at December 31, 2020.

Unrealized loss included in accumulated other comprehensive income (loss) before income taxes was as follows, in millions:

	At December 31,			
	2021		2020	
	Qualified	Non-Qualified	Qualified	Non-Qualified
Net loss	\$ 56	\$ 57	\$ 540	\$ 65
Net prior service cost	3	—	3	—
Total	<u>\$ 59</u>	<u>\$ 57</u>	<u>\$ 543</u>	<u>\$ 65</u>

Information for defined-benefit pension plans with an accumulated benefit obligation in excess of plan assets was as follows, in millions:

	At December 31,			
	2021		2020	
	Qualified	Non-Qualified	Qualified	Non-Qualified
Projected benefit obligation	\$ 174	\$ 148	\$ 1,100	\$ 162
Accumulated benefit obligation	174	148	1,100	162
Fair value of plan assets	94	—	844	—

The projected benefit obligation was in excess of plan assets for all of our qualified defined-benefit pension plans at December 31, 2021 and 2020 which had an accumulated benefit obligation in excess of plan assets.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**N. EMPLOYEE RETIREMENT PLANS (Continued)**

Net periodic pension cost for our defined-benefit pension plans, with the exception of service cost, is recorded in other net, in our consolidated statements of operations. Net periodic pension cost for our defined-benefit pension plans was as follows, in millions:

	Year Ended December 31,					
	2021		2020		2019	
	Qualified	Non-Qualified	Qualified	Non-Qualified	Qualified	Non-Qualified
Service cost	\$ 4	\$ —	\$ 3	\$ —	\$ 3	\$ —
Interest cost	15	4	28	5	39	6
Expected return on plan assets	(9)	—	(24)	—	(44)	—
Settlement loss	404	—	—	—	—	—
Recognized prior service cost	1	—	1	—	—	—
Recognized net loss	14	2	22	3	18	2
Net periodic pension cost	<u>\$ 429</u>	<u>\$ 6</u>	<u>\$ 30</u>	<u>\$ 8</u>	<u>\$ 16</u>	<u>\$ 8</u>

We expect to recognize \$7 million of pre-tax net loss from accumulated other comprehensive income (loss) into net periodic pension cost in 2022 related to our defined-benefit pension plans. For plans in which almost all of the plan's participants are inactive, pre-tax net loss within accumulated other comprehensive income (loss) is amortized using the straight-line method over the remaining life expectancy of the inactive plan participants. For plans which do not have almost all inactive participants, pre-tax net loss within accumulated other comprehensive income (loss) is amortized using the straight-line method over the average remaining service period of the active employees expected to receive benefits from the plan.

**Plan Assets.** Our qualified defined-benefit pension plan weighted average asset allocation, which is based upon fair value, was as follows:

	At December 31,	
	2021	2020
Equity securities	38 %	15 %
Debt securities	48 %	49 %
Other	14 %	36 %
Total	<u>100 %</u>	<u>100 %</u>

For our qualified defined-benefit pension plans, we have adopted accounting guidance that defines fair value, establishes a framework for measuring fair value and prescribes disclosures about fair value measurements. Accounting guidance defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 compared to December 31, 2020.

*Common and Preferred Stocks and Short-Term and Other Investments:* Valued at the closing price reported on the active market on which the individual securities are traded or based on the active market for similar securities. Certain investments are valued based on net asset value ("NAV"), which approximates fair value. Such basis is determined by referencing the respective fund's underlying assets. There are no unfunded commitments or other restrictions associated with these investments.

*Private Equity and Hedge Funds:* Valued based on an estimated fair value using either a market approach or an income approach, both of which require a significant degree of judgment. There is no active trading market for these investments and they are generally illiquid. Due to the significant unobservable inputs, the fair value measurements used to estimate fair value are a Level 3 input.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**N. EMPLOYEE RETIREMENT PLANS (Continued)**

*Corporate, Government and Other Debt Securities:* Valued based on either the closing price reported on the active market on which the individual securities are traded or using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

*Real Estate:* Real Estate consists of Real Estate Investment Trusts and property funds. Real Estate Investment Trusts are valued at the closing price reported on the active market on which the individual securities are traded or based on the active market for similar securities. Real Estate property funds are valued based on the underlying investments, which include inputs such as cost, discounted future cash flows, independent appraisals and market based comparable data. There is no active trading market for these investments, and they are generally illiquid. Due to the significant unobservable inputs, the fair value measurements used to estimate fair value are a Level 3 input.

*Common Collective Trust Fund:* Valued based on an amortized cost basis, which approximates fair value. Such basis is determined by reference to the respective fund's underlying assets, which are primarily cash equivalents. There are no unfunded commitments or other restrictions associated with this fund.

*Buy-in Annuity:* Valued based on the associated benefit obligation for which the buy-in annuity covers the benefits, which approximates fair value. Such basis is determined based on various assumptions, including the discount rate, long-term rate of return on plan assets and mortality rate.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth, by level within the fair value hierarchy, the qualified defined-benefit pension plan assets at fair value as of December 31, 2021 and 2020, as well as those valued at NAV using the practical expedient, which approximates fair value, in millions.

	At December 31, 2021				
	Level 1	Level 2	Level 3	Valued at NAV	Total
<b>Plan Assets</b>					
Common and Preferred Stocks:					
<i>United States</i>	\$ 25	\$ —	\$ —	\$ —	\$ 25
<i>International</i>	13	—	—	—	13
Corporate Debt Securities:					
<i>United States</i>	—	5	—	—	5
<i>International</i>	—	2	—	—	2
Government and Other Debt Securities:					
<i>United States</i>	—	4	—	—	4
<i>International</i>	—	36	—	—	36
Real Estate					
<i>United States</i>	3	—	—	—	3
<i>International</i>	2	—	6	—	8
Short-Term and Other Investments –					
<i>International</i>	3	—	—	—	3
<b>Total Plan Assets</b>	<b>\$ 46</b>	<b>\$ 47</b>	<b>\$ 6</b>	<b>\$ —</b>	<b>\$ 99</b>

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**N. EMPLOYEE RETIREMENT PLANS (Continued)**

	At December 31, 2020				
	Level 1	Level 2	Level 3	Valued at NAV	Total
<b>Plan Assets</b>					
Common and Preferred Stocks:					
<i>United States</i>	\$ 26	\$ —	\$ —	\$ 87	\$ 113
<i>International</i>	15	—	—	—	15
Private Equity and Hedge Funds – <i>International</i>	—	—	1	—	1
Corporate Debt Securities:					
<i>United States</i>	—	143	—	—	143
<i>International</i>	—	23	—	—	23
Government and Other Debt Securities:					
<i>United States</i>	—	214	—	—	214
<i>International</i>	—	46	—	—	46
Common Collective Trust Fund – <i>United States</i>	—	292	—	—	292
Buy-in Annuity - <i>International</i>	—	14	—	—	14
Short-Term and Other Investments – <i>International</i>	2	—	—	—	2
<b>Total Plan Assets</b>	<b>\$ 43</b>	<b>\$ 732</b>	<b>\$ 1</b>	<b>\$ 87</b>	<b>\$ 863</b>

Changes in the fair value of the qualified defined-benefit pension plan Level 3 assets, were as follows, in millions:

	2021	2020
Fair Value, January 1	\$ 1	\$ 19
Purchases	5	—
Sales	—	(18)
Fair Value, December 31	<u>\$ 6</u>	<u>\$ 1</u>

**Assumptions.** Weighted average major assumptions used in accounting for our defined-benefit pension plans were as follows:

	At December 31,		
	2021	2020	2019
Discount rate for obligations	1.80 %	1.70 %	2.50 %
Expected return on plan assets	3.00 %	2.00 %	3.00 %
Rate of compensation increase	— %	— %	— %
Discount rate for net periodic pension cost	1.70 %	2.50 %	3.80 %

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**N. EMPLOYEE RETIREMENT PLANS (Continued)**

The discount rate for obligations for 2021, 2020 and 2019 is based primarily upon the expected duration of each defined-benefit pension plan's liabilities matched to the December 31, 2021, 2020 and 2019 Willis Towers Watson Rate Link Curve. At December 31, 2021, such rates for our defined-benefit pension plans ranged from 0.8 percent to 2.6 percent, with the most significant portion of the liabilities having a discount rate for obligations of 1.2 percent or higher. At December 31, 2020, such rates for our defined-benefit pension plans ranged from 0.7 percent to 2.1 percent, with the most significant portion of the liabilities having a discount rate for obligations of 1.6 percent or higher. At December 31, 2019, such rates for our defined-benefit pension plans ranged from 1.1 percent to 3.0 percent, with the most significant portion of the liabilities having a discount rate for obligations of 2.4 percent or higher. The increase in the weighted average discount rate from 2020 to 2021 is principally the result of higher long-term interest rates in the bond markets. The decrease in the weighted average discount rate from 2019 to 2020 is principally due to lower long-term interest rates in the bond markets.

Our weighted average projected long-term rate of return on plan assets for the foreign qualified defined-benefit pension plans was 3.0 percent, 2.9 percent and 3.9 percent for 2021, 2020 and 2019, respectively.

The asset allocation of the investment portfolio was developed with the objective of achieving our expected rate of return and reducing volatility of asset returns, and considered the freezing of future benefits. The fixed-income portfolio is invested in corporate bonds, bond index funds and U.S. Treasury securities. Although we would expect alternative investments to yield a higher rate of return than the targeted overall long-term return, these investments are subject to greater volatility and would be less liquid than financial instruments that trade on public markets.

The fair value of our plan assets is subject to risk including significant concentrations of risk in our plan assets related to equity, interest rate and operating risk. In order to ensure plan assets are sufficient to pay benefits, a portion of our foreign qualified plans' assets are allocated to equity investments and real assets that are expected, over time, to earn higher returns with more volatility than fixed-income investments which more closely match pension liabilities. Within equity, risk is mitigated by targeting a portfolio that is broadly diversified by geography, market capitalization, manager mandate size, investment style and process.

In order to minimize asset volatility relative to the liabilities, a significant portion of plan assets are allocated to fixed-income investments that are exposed to interest rate risk. Rate increases generally will result in a decline in fixed-income assets, while reducing the present value of the liabilities. Conversely, rate decreases will increase fixed income assets, partially offsetting the related increase in the liabilities.

Potential events or circumstances that could have a negative effect on estimated fair value include the risks of inadequate diversification and other operating risks. To mitigate these risks, investments are diversified across and within asset classes in support of investment objectives. Policies and practices to address operating risks include ongoing manager oversight, plan and asset class investment guidelines and instructions that are communicated to managers, and periodic compliance and audit reviews to ensure adherence to these policies. In addition, we periodically seek the input of our independent advisor to ensure the investment policy is appropriate.

**Other.** We sponsor certain post-retirement benefit plans that provide medical, dental and life insurance coverage for eligible retirees and dependents based upon age and length of service. Substantially all of these plans were frozen as of January 1, 2010. The aggregate present value of the unfunded accumulated post-retirement benefit obligation was \$9 million and \$10 million at December 31, 2021 and 2020, respectively.

**Cash Flows.** At December 31, 2021, we expect to contribute approximately \$12 million in 2022 to our non-qualified (domestic) defined-benefit pension plans.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**N. EMPLOYEE RETIREMENT PLANS (Concluded)**

At December 31, 2021, the benefits expected to be paid in each of the next five years, and in aggregate for the five years thereafter, relating to our defined-benefit pension plans, were as follows, in millions:

	Qualified Plans	Non-Qualified Plans
2022	\$ 4	\$ 12
2023	4	12
2024	4	12
2025	5	11
2026	5	11
2027 - 2031	31	48

**O. SHAREHOLDERS' EQUITY**

Effective February 10, 2021, our Board of Directors authorized the repurchase, for retirement, of up to \$2.0 billion of shares of our common stock in open-market transactions or otherwise, replacing the previous Board of Directors authorization established in 2019. During 2021, we repurchased and retired 17.6 million shares of our common stock (including 0.7 million shares to offset the dilutive impact of restricted stock units granted in 2021), for cash aggregating \$1,026 million. At December 31, 2021, we had \$1,128 million remaining under the 2021 authorization.

During 2020, we repurchased and retired 18.8 million shares of our common stock (including 0.4 million shares to offset the dilutive impact of restricted stock units granted in 2020), for cash aggregating \$727 million.

During 2019, we repurchased and retired 20.1 million shares of our common stock (including 0.6 million shares to offset the dilutive impact of long-term stock awards granted in 2019) for cash aggregating \$896 million.

On the basis of amounts paid (declared), cash dividends per common share were \$0.845 (\$0.705) in 2021, \$0.545 (\$0.550) in 2020 and \$0.495 (\$0.510) in 2019.

**Accumulated Other Comprehensive Income (Loss).** The components of accumulated other comprehensive income (loss) attributable to Masco Corporation were as follows, in millions:

	At December 31,	
	2021	2020
Cumulative translation adjustments, net	\$ 312	\$ 325
Unrealized loss on interest rate swaps, net	—	(7)
Unrecognized net loss and prior service cost, net	(80)	(460)
Accumulated other comprehensive income (loss)	\$ 232	\$ (142)

The cumulative translation adjustment, net, is reported net of income tax benefit of \$1 million at both December 31, 2021 and 2020. The unrealized loss on interest rate swaps, net, is reported net of income tax expense of \$5 million at December 31, 2020. The unrecognized net loss and prior service cost, net, is reported net of income tax benefit of \$20 million and \$124 million at December 31, 2021 and 2020, respectively.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**P. RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The reclassifications from accumulated other comprehensive income (loss) to the consolidated statements of operations were as follows, in millions:

Accumulated Other Comprehensive Income (Loss)	Year Ended December 31,			Statement of Operations Line Item
	2021	2020	2019	
<b>Settlement and amortization of defined-benefit pension and other post-retirement benefits (A):</b>				
Actuarial losses, net and prior service cost	\$ 18	\$ 26	\$ 20	Other, net
Settlement loss	451	—	—	
Tax (benefit)	(104)	(7)	(5)	
Net of tax	\$ 365	\$ 19	\$ 15	
<b>Interest rate swaps (B)</b>				
Interest rate swaps (B)	\$ 2	\$ 2	\$ 2	Interest expense
Tax expense (benefit)	5	(1)	—	
Net of tax	\$ 7	\$ 1	\$ 2	

(A) In the second quarter of 2021, we settled our qualified domestic defined-benefit pension plans and recognized \$447 million of pre-tax actuarial losses from accumulated other comprehensive income (loss) and \$96 million of income tax benefit, which included \$11 million of related disproportionate tax expense. Additionally, the amortization of defined-benefit pension and post-retirement benefits included \$3 million, net of tax, due to the disposition of pension plans in connection with the divestiture of Hüppe.

(B) Upon full repayment and retirement of the 5.950% Notes due March 15, 2022 in the first quarter of 2021, we recognized the remaining interest rate swap loss and related disproportionate tax expense.

In addition to the above amounts, we reclassified \$23 million of currency translation losses from accumulated other comprehensive income (loss) to the consolidated statements of operations in conjunction with the divestiture of Hüppe in the second quarter of 2021. Also, we reclassified \$9 million of deferred currency translation losses from accumulated other comprehensive income (loss) to the consolidated statements of operations in conjunction with the liquidation of certain UK dormant entities upon receiving final regulatory approval in 2020. Additionally, we reclassified \$14 million of deferred currency translation losses from accumulated other comprehensive income (loss) to the consolidated statements of operations in conjunction with the disposition of UKWG in the third quarter of 2019.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Q. SEGMENT INFORMATION**

Our reportable segments are as follows:

**Plumbing Products** – principally includes faucets, plumbing system components and valves, showerheads and handheld showers, bath hardware and accessories, bath units, tubs and shower bases and enclosures, shower drains, steam shower systems, sinks, kitchen accessories, toilets, spas, exercise pools and fitness systems and water handling systems.

**Decorative Architectural Products** – principally includes paints and other coating products, paint applicators and accessories, lighting fixtures, ceiling fans, landscape lighting and LED lighting systems, and cabinet and other hardware.

The above products are sold to the residential repair and remodel and to a lesser extent the new home construction markets through home center retailers, online retailers, wholesalers and distributors, mass merchandisers, hardware stores, direct to the consumer and homebuilders.

Our operations are principally located in North America and Europe. Our country of domicile is the United States of America.

Other than those assets specifically identified within a segment, corporate assets consist primarily of property and equipment, right-of-use assets, deferred tax assets, cash and cash investments and other investments.

Our segments are based upon similarities in products and represent the aggregation of operating units, for which financial information is regularly evaluated by our corporate operating executive in determining resource allocation and assessing performance, and is periodically reviewed by the Board of Directors. Accounting policies for the segments are the same as those for us. We primarily evaluate performance based upon operating profit and, other than general corporate expense, allocate specific corporate overhead to each segment.

As described in Note C, our previously reported Windows and Other Specialty Products as well as Cabinetry Products segments were classified as discontinued operations in 2019.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Q. SEGMENT INFORMATION (Concluded)**

Information by segment and Geographic Area was as follows, in millions:

	Year Ended December 31,						At December 31,		
	Net Sales (1)(2)(3)(4)			Operating Profit (5)			Assets (6)		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Our operations by segment were:									
Plumbing Products	\$ 5,135	\$ 4,136	\$ 3,984	\$ 929	\$ 806	\$ 708	\$ 3,195	\$ 2,822	\$ 2,375
Decorative Architectural Products	3,240	3,052	2,723	581	583	480	1,781	1,633	1,526
Total	<u>\$ 8,375</u>	<u>\$ 7,188</u>	<u>\$ 6,707</u>	<u>\$ 1,510</u>	<u>\$ 1,389</u>	<u>\$ 1,188</u>	<u>\$ 4,976</u>	<u>\$ 4,455</u>	<u>\$ 3,901</u>
Our operations by Geographic Area were:									
North America	\$ 6,624	\$ 5,805	\$ 5,328	\$ 1,214	\$ 1,167	\$ 987	\$ 3,510	\$ 3,101	\$ 2,785
International, principally Europe	1,751	1,383	1,379	296	222	201	1,466	1,354	1,116
Total, as above	<u>\$ 8,375</u>	<u>\$ 7,188</u>	<u>\$ 6,707</u>	1,510	1,389	1,188	4,976	4,455	3,901
General corporate expense, net (5)				(105)	(94)	(100)			
Operating profit, as reported				1,405	1,295	1,088			
Other income (expense), net				(717)	(164)	(174)			
Income from continuing operations before income taxes				<u>\$ 688</u>	<u>\$ 1,131</u>	<u>\$ 914</u>			
Corporate assets							599	1,322	598
Assets held for sale (8)							—	—	528
Total assets							<u>\$ 5,575</u>	<u>\$ 5,777</u>	<u>\$ 5,027</u>

	Year Ended December 31,					
	Property Additions (7)			Depreciation and Amortization		
	2021	2020	2019	2021	2020	2019
Our operations by segment were:						
Plumbing Products	\$ 94	\$ 86	\$ 108	\$ 101	\$ 84	\$ 80
Decorative Architectural Products	31	25	18	37	41	41
	125	111	126	138	125	121
Unallocated amounts, principally related to corporate assets	3	2	2	13	8	9
Discontinued operations	—	1	34	—	—	29
Total	<u>\$ 128</u>	<u>\$ 114</u>	<u>\$ 162</u>	<u>\$ 151</u>	<u>\$ 133</u>	<u>\$ 159</u>

- (1) Included in net sales were export sales from the U.S. of \$322 million, \$274 million and \$244 million in 2021, 2020 and 2019, respectively.
- (2) Excluded from net sales were intra-company sales between segments of less than one percent in 2021, 2020 and 2019.
- (3) Included in net sales were sales to one customer of \$3,037 million, \$2,812 million and \$2,481 million in 2021, 2020 and 2019, respectively. Such net sales were included in each of our segments.
- (4) Net sales from our operations in the U.S. were \$6,387 million, \$5,592 million and \$5,127 million in 2021, 2020 and 2019, respectively.
- (5) General corporate expense, net included those expenses not specifically attributable to our segments.
- (6) Long-lived assets of our operations in the U.S. and Europe were \$1,332 million and \$546 million, \$1,301 million and \$522 million, and \$1,198 million and \$470 million at December 31, 2021, 2020 and 2019, respectively.
- (7) Property additions exclude amounts paid for long-lived assets as part of acquisitions.
- (8) Related to the divestiture of our Cabinetry business.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**R. OTHER INCOME (EXPENSE), NET**

Other, net, which is included in other income (expense), net, was as follows, in millions:

	Year Ended December 31,		
	2021	2020	2019
Net periodic pension and post-retirement benefit expense <b>(A)</b>	\$ (430)	\$ (35)	\$ (21)
Loss on sale of business	(18)	—	—
Contingent consideration <b>(B)</b>	(16)	—	—
Gain on preferred stock redemption	14	—	—
Equity investment income, net	11	3	1
Dividend income	6	10	—
Foreign currency transaction (losses) gains <b>(C)</b>	(4)	(10)	2
Income from cash and cash investments	1	3	3
Other items, net <b>(D)</b>	(3)	9	—
Total other, net	<u>\$ (439)</u>	<u>\$ (20)</u>	<u>\$ (15)</u>

- (A)** In the second quarter of 2021, we settled our qualified domestic defined-benefit pension plans and recognized \$406 million of additional pension expense. In the fourth quarter of 2021, we recognized a \$7 million reduction in pension expense related to the reversion of excess pension plan assets for the settlement of such plans. Refer to Note N for additional information.
- (B)** In 2021, we recognized \$16 million of expense from the revaluation of contingent consideration related to a prior acquisition. Refer to Note I for additional information.
- (C)** Included in foreign currency transaction (losses) gains for 2020 was a \$9 million deferred currency translation loss reclassified from accumulated other comprehensive income (loss) in conjunction with the liquidation of certain UK dormant entities upon receiving final regulatory approval in 2020.
- (D)** Included in other items, net for 2020 was \$9 million of miscellaneous income related to an escrow settlement.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**S. INCOME TAXES**

	2021	2020	(In Millions) 2019
Income from continuing operations before income taxes:			
U.S.	\$ 374	\$ 892	\$ 684
Foreign	314	239	230
	<u>\$ 688</u>	<u>\$ 1,131</u>	<u>\$ 914</u>
Income tax expense:			
Currently payable:			
U.S. Federal	\$ 145	\$ 170	\$ 155
State and local	40	33	46
Foreign	93	69	70
Deferred:			
U.S. Federal	(57)	(9)	(23)
State and local	(10)	11	(15)
Foreign	(1)	(5)	(3)
	<u>\$ 210</u>	<u>\$ 269</u>	<u>\$ 230</u>
Deferred tax assets at December 31:			
Receivables	\$ 14	\$ 9	
Inventories	17	17	
Other assets, including stock-based compensation	18	17	
Accrued liabilities	58	82	
Noncurrent operating lease liabilities	40	35	
Other long-term liabilities	79	96	
Net operating loss carryforward	26	56	
Tax credit carryforward	11	9	
	<u>263</u>	<u>321</u>	
Valuation allowance	<u>(17)</u>	<u>(35)</u>	
	<u>246</u>	<u>286</u>	
Deferred tax liabilities at December 31:			
Property and equipment	62	67	
Operating lease right-of-use assets	43	39	
Intangibles	75	74	
Investment in foreign subsidiaries	10	10	
Other investments	3	3	
Other	16	4	
	<u>209</u>	<u>197</u>	
Net deferred tax asset at December 31	<u>\$ 37</u>	<u>\$ 89</u>	

The net deferred tax asset consisted of net deferred tax assets (included in other assets) of \$57 million and \$109 million, and net deferred tax liabilities (included in other liabilities) of \$20 million and \$20 million, at December 31, 2021 and 2020, respectively.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**S. INCOME TAXES (Continued)**

We continue to maintain a valuation allowance on certain state and foreign deferred tax assets as of December 31, 2021. Should we determine that we would not be able to realize our remaining deferred tax assets, or the deferred tax assets that currently have a valuation allowance become realizable in these jurisdictions in the future, an adjustment to the valuation allowance would be recorded in the period such determination is made.

The current portion of the state and local income tax includes a \$10 million, \$9 million and \$8 million tax benefit from the reversal of an accrual for uncertain tax positions resulting primarily from the expiration of applicable statutes of limitations in 2021, 2020 and 2019, respectively. The deferred portion of the state and local taxes includes a \$3 million tax expense in 2021 and a \$1 million tax benefit in 2019, resulting from changes in valuation allowances against state and local deferred tax assets. The deferred portion of the foreign taxes includes a \$2 million tax expense in 2021 and a \$5 million and \$4 million tax benefit in 2020 and 2019, respectively, from a change in the valuation allowances against foreign deferred tax assets.

We incurred a \$14 million state income tax expense in 2021 resulting from the loss on the termination of our qualified domestic defined-benefit pension plans providing no tax benefit in certain state jurisdictions.

The loss from the divestiture of Hüppe provided no tax benefit in certain foreign jurisdictions resulting in a \$4 million foreign income tax expense in 2021.

We recorded a \$16 million income tax expense due to the elimination of disproportionate tax effects from accumulated other comprehensive income (loss) relating to our interest rate swap following the retirement of the related debt, and the termination of our qualified domestic defined-benefit pension plans in 2021.

Our capital allocation strategy includes reinvesting in our business, balancing share repurchases with potential acquisitions and maintaining a meaningful dividend. In order to provide greater flexibility in the execution of our capital allocation strategy, we may repatriate earnings from certain foreign subsidiaries. Our deferred tax balance on investment in foreign subsidiaries reflects the impact of all taxable temporary differences, including those related to substantially all undistributed foreign earnings, except those that are legally restricted, and consists primarily of foreign withholding taxes.

Of the \$37 million and \$65 million deferred tax assets related to the net operating loss and tax credit carryforwards at December 31, 2021 and 2020, respectively, \$25 million and \$35 million, respectively, will expire within approximately 15 years and \$12 million and \$30 million, respectively, have no expiration.

A reconciliation of the U.S. Federal statutory tax rate to the income tax expense on income from continuing operations before income taxes was as follows:

	Year Ended December 31,		
	2021	2020	2019
U.S. Federal statutory tax rate	21 %	21 %	21 %
State and local taxes, net of U.S. Federal tax benefit	4	3	3
Higher taxes on foreign earnings	3	1	2
U.S. and foreign taxes on distributed and undistributed foreign earnings	—	—	1
Stock-based compensation	(1)	(1)	(1)
Business divestiture with no tax impact	1	—	—
Disproportionate tax effects	2	—	—
Other, net	1	—	(1)
Effective tax rate	<u>31 %</u>	<u>24 %</u>	<u>25 %</u>

Income taxes paid were \$246 million, \$442 million and \$384 million in 2021, 2020 and 2019, respectively.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**S. INCOME TAXES (Concluded)**

A reconciliation of the beginning and ending liability for uncertain tax positions, including related interest and penalties, is as follows, in millions:

	Uncertain Tax Positions	Interest and Penalties	Total
Balance at January 1, 2020	\$ 63	\$ 10	\$ 73
Current year tax positions:			
Additions	22	—	22
Reductions	(2)	—	(2)
Prior year tax positions:			
Additions	2	—	2
Reductions	(2)	—	(2)
Lapse of applicable statute of limitations	(9)	—	(9)
Balance at December 31, 2020	<u>\$ 74</u>	<u>\$ 10</u>	<u>\$ 84</u>
Current year tax positions:			
Additions	19	—	19
Reductions	(2)	—	(2)
Prior year tax positions:			
Additions	1	—	1
Reductions	(1)	—	(1)
Lapse of applicable statute of limitations	(10)	—	(10)
Interest and penalties recognized in income tax expense	—	1	1
Balance at December 31, 2021	<u>\$ 81</u>	<u>\$ 11</u>	<u>\$ 92</u>

If recognized, \$64 million and \$58 million of the liability for uncertain tax positions at December 31, 2021 and 2020, respectively, net of any U.S. Federal tax benefit, would impact our effective tax rate.

Of the \$92 million and \$84 million total liability for uncertain tax positions (including related interest and penalties) at December 31, 2021 and 2020, respectively, \$88 million and \$81 million are recorded in other liabilities, respectively, and \$4 million and \$3 million are recorded as a net offset to other assets, respectively.

We file income tax returns in the U.S. Federal jurisdiction, and various local, state and foreign jurisdictions. We continue to participate in the Compliance Assurance Process ("CAP"). CAP is a real-time audit of the U.S. Federal income tax return that allows the Internal Revenue Service ("IRS"), working in conjunction with us, to determine tax return compliance with the U.S. Federal tax law prior to filing the return. This program provides us with greater certainty about our tax liability for a given year within months, rather than years, of filing our annual tax return and greatly reduces the need for recording a liability for U.S. Federal uncertain tax positions. The IRS has completed their examination of our consolidated U.S. Federal tax returns through 2020. With few exceptions, we are no longer subject to state or foreign income tax examinations on filed returns for years before 2018.

As a result of tax audit closings, settlements and the expiration of applicable statutes of limitation in various jurisdictions within the next 12 months, we anticipate that it is reasonably possible the liability for uncertain tax positions could be reduced by approximately \$10 million.

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**T. INCOME PER COMMON SHARE**

Reconciliations of the numerators and denominators used in the computations of basic and diluted earnings per common share were as follows, in millions:

	Year Ended December 31,		
	2021	2020	2019
<b>Numerator (basic and diluted):</b>			
Income from continuing operations	\$ 410	\$ 810	\$ 639
Less: Allocation to redeemable noncontrolling interest	2	—	—
Less: Allocation to unvested restricted stock awards	2	6	4
Income from continuing operations attributable to common shareholders	406	804	635
Income from discontinued operations, net	—	414	296
Less: Allocation to unvested restricted stock awards	—	3	2
Income from discontinued operations, net attributable to common shareholders	—	411	294
<b>Net income attributable to common shareholders</b>	<b>\$ 406</b>	<b>\$ 1,215</b>	<b>\$ 929</b>
<b>Denominator:</b>			
Basic common shares (based upon weighted average)	249	264	287
Add: Stock option dilution	2	—	1
<b>Diluted common shares</b>	<b>251</b>	<b>264</b>	<b>288</b>

We follow accounting guidance regarding determining whether instruments granted in share-based payment transactions are participating securities. This accounting guidance clarifies that share-based payment awards that entitle their holders to receive non-forfeitable dividends prior to vesting should be considered participating securities. In 2020, we began granting restricted stock units. The dividends associated with the unvested restricted stock units are forfeitable, and consequently, the restricted stock units are not considered a participating security and are not accounted for under the two-class method. We have also granted restricted stock awards that contain non-forfeitable rights to dividends on unvested shares; such unvested restricted stock awards are considered participating securities. As participating securities, the unvested shares are required to be included in the calculation of our basic income per common share, using the two-class method. The two-class method of computing income per common share is an allocation method that calculates income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. For the years ended December 31, 2021, 2020 and 2019, we allocated dividends and undistributed earnings to the participating securities.

Additionally, 296,000, 374,000 and 854,000 common shares for 2021, 2020 and 2019, respectively, related to stock options.

Common shares outstanding included on our balance sheet and for the calculation of income per common share do not include unvested stock awards (0.6 million and 1 million common shares at December 31, 2021 and 2020, respectively); shares outstanding for legal requirements included all common shares that have voting rights (including unvested stock awards).

**MASCO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)**

**U. OTHER COMMITMENTS AND CONTINGENCIES**

**Litigation.** We are involved in claims and litigation, including class actions, mass torts and regulatory proceedings, which arise in the ordinary course of our business. The types of matters may include, among others: competition, product liability, employment, warranty, advertising, contract, personal injury, environmental, intellectual property, product compliance and insurance coverage. We believe we have adequate defenses in these matters. We are also subject to product safety regulations, product recalls and direct claims for product liabilities. We believe the likelihood that the outcome of these claims, litigation and product safety matters would have a material adverse effect on us is remote. However, there is no assurance that we will prevail in these matters, and we could, in the future, incur judgments or penalties, enter into settlements of claims or revise our expectations regarding the outcome of these matters, which could materially impact our results of operations.

**Warranty.** Changes in our warranty liability were as follows, in millions:

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Balance at January 1	\$ 83	\$ 84
Accruals for warranties issued during the year	38	34
Accruals related to pre-existing warranties	(8)	(3)
Settlements made (in cash or kind) during the year	(31)	(33)
Other, net (including currency translation and acquisitions)	(2)	1
Balance at December 31	<u>\$ 80</u>	<u>\$ 83</u>

**Other Matters.** We enter into contracts, which include reasonable and customary indemnifications that are standard for the industries in which we operate. Such indemnifications include claims made against builders by homeowners for issues relating to our products and workmanship. In conjunction with divestitures and other transactions, we occasionally provide reasonable and customary indemnifications. We have not paid a material amount related to these indemnifications, and we evaluate the probability that amounts may be incurred and record an estimated liability when it is probable and reasonably estimable.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. Controls and Procedures.**

a. Evaluation of Disclosure Controls and Procedures.

The Company's Principal Executive Officer and Principal Financial Officer have concluded, based on an evaluation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15 that, as of December 31, 2021, the Company's disclosure controls and procedures were effective.

b. Management's Report on Internal Control over Financial Reporting.

Management's report on the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) is included in this Report under Item 8. Financial Statements and Supplementary Data, under the heading, "Management's Report on Internal Control over Financial Reporting" and is incorporated herein by reference. The report of our independent registered public accounting firm is also included under Item 8, under the heading, "Report of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

c. Changes in Internal Control over Financial Reporting.

In connection with the evaluation of the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2021, which is required under the Securities Exchange Act of 1934 by paragraph (d) of Exchange Rules 13a-15 or 15d-15 (as defined in paragraph (f) of Rule 13a-15), management determined that there was no change that materially affected or is reasonably likely to materially affect internal control over financial reporting.

**Item 9B. Other Information.**

Not applicable.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

Our Code of Ethics applies to all employees, officers and directors including our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer, and is posted on our website at www.masco.com. Amendments to or waivers of our Code of Ethics for directors and executive officers, if any, will be posted on our website.

Other information required by this Item will be contained in our definitive Proxy Statement for the 2022 Annual Meeting of Stockholders, to be filed before April 29, 2022, and such information is incorporated herein by reference.

### Item 11. Executive Compensation.

Information required by this Item will be contained in our definitive Proxy Statement for the 2022 Annual Meeting of Stockholders, to be filed before April 29, 2022, and such information is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

#### Equity Compensation Plan Information

We grant equity under our 2014 Long Term Stock Incentive Plan (the "2014 Plan"). The following table sets forth information as of December 31, 2021 concerning the 2014 Plan, which was approved by our stockholders. We do not have any equity compensation plans that have not been approved by our stockholders.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by stockholders	2,691,956	\$ 36.67	12,923,217

The remaining information required by this Item will be contained in our definitive Proxy Statement for our 2022 Annual Meeting of Stockholders, to be filed before April 29, 2022, and such information is incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item will be contained in our definitive Proxy Statement for the 2022 Annual Meeting of Stockholders, to be filed before April 29, 2022, and such information is incorporated herein by reference.

### Item 14. Principal Accountant Fees and Services.

Information required by this Item will be contained in our definitive Proxy Statement for the 2022 Annual Meeting of Stockholders, to be filed before April 29, 2022, and such information is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

a. Listing of Documents.

- (1) *Financial Statements.* Our consolidated financial statements included in Item 8 hereof, as required at December 31, 2021 and 2020, and for the years ended December 31, 2021, 2020 and 2019, consist of the following:

<a href="#">Consolidated Balance Sheets</a>	40
<a href="#">Consolidated Statements of Operations</a>	41
<a href="#">Consolidated Statements of Comprehensive Income (Loss)</a>	42
<a href="#">Consolidated Statements of Cash Flows</a>	43
<a href="#">Consolidated Statements of Shareholders' Equity</a>	44
<a href="#">Notes to Consolidated Financial Statements</a>	45

- (2) *Financial Statement Schedule.*

- a. Our Financial Statement Schedule appended hereto, as required for the years ended December 31, 2021, 2020 and 2019, consists of the following:

<a href="#">II. Valuation and Qualifying Accounts</a>	91
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- (3) *Exhibits.*

Exhibit No.	Exhibit Description	Incorporated By Reference			Filed Herewith
		Form	Exhibit	Filing Date	
<a href="#">2.a</a>	Stock Purchase Agreement, dated September 29, 2019, by and between Masco Corporation and MIWD Holding Company LLC.	8-K	2.1	10/03/2019	
<a href="#">2.b</a>	Securities Purchase Agreement, dated November 14, 2019, by and between Masco Corporation and ACP Products, Inc.	8-K	2.1	11/18/2019	
<b>Note 1:</b> Disclosure schedules and certain exhibits have been omitted from Exhibit No. 2.a and 2.b pursuant to Item 601(b)(2) of Regulation S-K. Each Agreement as filed identifies such schedules and exhibits, including the general nature of their contents. Masco agrees to furnish a copy of any omitted attachment to the Securities Exchange Commission on a confidential basis upon request.					
<a href="#">3.a</a>	Restated Certificate of Incorporation of Masco Corporation.	2015 10-K	3.i	02/12/2016	
<a href="#">3.b</a>	Bylaws of Masco Corporation, as Amended and Restated on February 5, 2021.	2020 10-K	3.b	02/09/2021	
<a href="#">4.a</a>	Indenture dated as of December 1, 1982 between Masco Corporation and The Bank of New York Mellon Trust Company, N.A., as successor trustee under agreement originally with Morgan Guaranty Trust Company of New York, as Trustee, and Supplemental Indenture thereto dated as of July 26, 1994; and Directors' resolutions establishing Masco Corporation's:	2016 10-K	4.a	02/09/2017	
<a href="#">4.a.i</a>	7-3/4% Debentures Due August 1, 2029.	2014 10-K	4.a.i(ii)	02/13/2015	

Exhibit No.	Exhibit Description	Incorporated By Reference			Filed Herewith
		Form	Exhibit	Filing Date	
<a href="#">4.b</a>	Indenture dated as of February 12, 2001 between Masco Corporation and The Bank of New York Mellon Trust Company, N.A., as successor trustee under agreement originally with Bank One Trust Company, National Association, as Trustee, and Supplemental Indenture thereto dated as of November 30, 2006; and Directors' Resolutions establishing Masco Corporation's:	2016 10-K	4.b	02/09/2017	
<a href="#">4.b.i</a>	6-1/2% Notes Due August 15, 2032;	2017 10-K	4.b.i	02/08/2018	
<a href="#">4.b.ii</a>	3.500% Notes Due November 15, 2027; and	8-K	4.1	06/15/2017	
<a href="#">4.b.iii</a>	4.500% Notes Due May 15, 2047.	8-K	4.2	06/15/2017	
<a href="#">4.b.iv</a>	Second Supplemental Indenture, dated as of September 18, 2020, between Masco Corporation and The Bank of New York Mellon Trust Company, N.A., as successor trustee.	8-K	4.3	09/18/2020	
<a href="#">4.b.v</a>	4.500% Notes Due May 15, 2047	8-K	4.2	09/18/2020	
<a href="#">4.b.vi</a>	2.000% Notes Due October 1, 2030	8-K	4.1	09/18/2020	
<a href="#">4.b.vii</a>	1.500% Notes Due February 15, 2028	8-K	4.1	03/04/2021	
<a href="#">4.b.viii</a>	2.000% Notes Due February 15, 2031	8-K	4.2	03/04/2021	
<a href="#">4.b.ix</a>	3.125% Notes Due February 15, 2051	8-K	4.3	03/04/2021	
<b>Note 2:</b>	Other instruments, notes or extracts from agreements defining the rights of holders of long-term debt of Masco Corporation or its subsidiaries have not been filed since (i) in each case the total amount of long-term debt permitted thereunder does not exceed 10 percent of Masco Corporation's consolidated assets, and (ii) such instruments, notes and extracts will be furnished by Masco Corporation to the Securities and Exchange Commission upon request.				
<a href="#">4.c</a>	Description of securities.	2019 10-K	4.c	02/11/2020	
<a href="#">10.a</a>	Credit Agreement dated as of March 13, 2019 by and among Masco Corporation and Masco Europe S.à r.l. as borrowers, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Citibank, N.A. and PNC Bank, National Association, as Co-Syndication Agents, and Deutsche Bank Securities, Inc., Royal Bank of Canada, SunTrust Bank, Bank of America, N.A., Fifth Third Bank and Wells Fargo Bank, National Association, as Co-Documentation Agents, as amended by Amendment No. 1 dated as of December 22, 2021.	8-K	10	12/22/2021	
<b>Note 3:</b>	Exhibits 10.b through 10.i constitute the management contracts and executive compensatory plans or arrangements in which certain of the directors and executive officers of the Company participate.				
<a href="#">10.b</a>	Masco Corporation 2005 Long Term Stock Incentive Plan (Amended and Restated May 11, 2010): Form of Stock Option Grant Agreements:	2015 10-K	10.b.i	02/12/2016	
<a href="#">10.b.i</a>	for grants on or after January 1, 2013	2017 10-K	10.b.iii	02/08/2018	
<a href="#">10.b.ii</a>	for grants during 2012	2017 10-K	10.b.iv	02/08/2018	
<a href="#">10.b.iii</a>	for grants prior to 2012	2015 10-K	10.b.i(ii)(C)	02/12/2016	

Exhibit No.	Exhibit Description	Incorporated By Reference			Filed Herewith
		Form	Exhibit	Filing Date	
<a href="#">10.c</a>	Masco Corporation 2014 Long Term Stock Incentive Plan (Amended and Restated May 9, 2016): Form of Restricted Stock Award Agreements:	10-Q	10.a	07/26/2016	
<a href="#">10.c.i</a>	for awards prior to July 1, 2018	8-K	10.b	05/06/2014	
<a href="#">10.c.ii</a>	for awards on or after July 1, 2018	2018 10-K	10.c.ii	02/07/2019	
	Form of Restricted Stock Unit Award Agreements:				
<a href="#">10.c.iii</a>	for awards between December 17, 2019 and February 2, 2022	2019 10-K	10.c.iii	02/11/2020	
<a href="#">10.c.iv</a>	for awards on or after February 3, 2022				X
	Form of Stock Option Grant Agreements:				
<a href="#">10.c.v</a>	for grants prior to July 1, 2018	8-K	10.d	05/06/2014	
<a href="#">10.c.vi</a>	for grants between July 1, 2018 and December 17, 2019	2018 10-K	10.c.iv	02/07/2019	
<a href="#">10.c.vii</a>	for grants between December 17, 2019 and February 3, 2022	2019 10-K	10.c.vi	02/11/2020	
<a href="#">10.c.viii</a>	for grants on or after February 3, 2022				X
<a href="#">10.c.xi</a>	Form of Long Term Incentive Program Award Agreement for awards prior to December 17, 2019.	2018 10-K	10.c.v	02/07/2019	
<a href="#">10.c.x</a>	Long-Term Incentive Program under Masco Corporation's 2014 Long Term Stock Incentive Plan (December 17, 2019) and form of Performance Restricted Stock Unit Award Agreement thereunder.	10-Q	10.a	04/29/2020	
<a href="#">10.c.xi</a>	Long-Term Incentive Program under Masco Corporation's 2014 Long Term Stock Incentive Plan (Amended and Restated February 3, 2022) and form of Performance Restricted Stock Unit Award Agreement thereunder.				X
<a href="#">10.c.xii</a>	Non-Employee Directors Equity Program under Masco Corporation's 2014 Long Term Stock Incentive Plan (Amended and Restated May 9, 2016). Form of Restricted Stock Award Agreement for Non-Employee Directors:	10-Q	10.b	07/26/2016	
<a href="#">10.c.xiii</a>	for Non-Employee Directors for awards prior to July 1, 2018	8-K	10.c	05/06/2014	
<a href="#">10.c.xiv</a>	for Non-Employee Directors for awards after July 1, 2018	2018 10-K	10.c.viii	02/07/2019	
<a href="#">10.c.xv</a>	Non-Employee Directors Equity Program under Masco Corporation's 2014 Long Term Stock Incentive Plan (Amended and Restated February 7, 2020). Form of Restricted Stock Unit Award Agreement for Non-Employee Directors:	2019 10-K	10.c.xiii	02/11/2020	
<a href="#">10.c.xvi</a>	for awards between February 7, 2020 and February 3, 2022	2019 10-K	10.c.xiv	02/11/2020	
<a href="#">10.c.xvii</a>	for awards on or after February 3, 2022				X
<a href="#">10.d</a>	Form of Masco Corporation Supplemental Executive Retirement and Disability Plan and amendments thereto (includes amendment freezing benefit accruals) for John G. Sznewajs.	2015 10-K	10.d.i(ii)	02/12/2016	
<a href="#">10.e</a>	Other compensatory arrangements for executive officers.	2016 10-K	10.f	02/09/2017	
<a href="#">10.f</a>	Compensation of Non-Employee Directors.				X

Exhibit No.	Exhibit Description	Incorporated By Reference			Filed Herewith
		Form	Exhibit	Filing Date	
<a href="#">10.g</a>	Masco Corporation Retirement Benefit Restoration Plan effective January 1, 1995 (as amended and restated December 22, 2010), and amendments thereto effective February 6, 2012 and January 1, 2014.	2016 10-K	10.i	02/09/2017	
<a href="#">10.h</a>	Employment Offer Letter dated May 3, 2021 between Richard Marshall and Masco Corporation	10-Q	10	07/29/2021	
<a href="#">10.i</a>	Employment Offer Letter dated January 6, 2022 between Robin Zondervan and Masco Corporation	8-K	10	02/07/2022	
<a href="#">21</a>	List of Subsidiaries.				X
<a href="#">23</a>	Consent of Independent Registered Public Accounting Firm relating to Masco Corporation's Consolidated Financial Statements and Financial Statement Schedule.				X
<a href="#">31.a</a>	Certification by Chief Executive Officer required by Rule 13a-14(a)/15d-14(a).				X
<a href="#">31.b</a>	Certification by Chief Financial Officer required by Rule 13a-14(a)/15d-14(a).				X
<a href="#">32</a>	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.				X
101	The following financial information from Masco Corporation's Annual Report on Form 10-K for the year ended December 31, 2021, formatted in Inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Shareholders' Equity, and (vi) Notes to Consolidated Financial Statements.				X
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)				X

**The Company will furnish to its stockholders a copy of any of the above exhibits not included herein upon the written request of such stockholder and the payment to the Company of the reasonable expenses incurred by the Company in furnishing such copy or copies.**

#### **Item 16. Form 10-K Summary**

The optional summary in Item 16 has not been included in this Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

### MASCO CORPORATION

By: /s/ John G. Sznewajs

John G. Sznewajs

*Vice President, Chief Financial Officer*

February 8, 2022



**MASCO CORPORATION**

**SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS**  
**For the Years Ended December 31, 2021, 2020 and 2019**

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>		<u>Column D</u>	<u>(In Millions)</u> <u>Column E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
Allowances for doubtful accounts, deducted from accounts receivable in the balance sheet:					
<b>2021</b>	\$ 7	\$ 1	\$ —	\$ (2) (a) (b)	\$ 6
<b>2020</b>	\$ 5 (c)	\$ 3	\$ —	\$ (1) (a)	\$ 7
<b>2019</b>	\$ 5	\$ 1	\$ —	\$ (2) (a)	\$ 4
Valuation allowance on deferred tax assets:					
<b>2021</b>	\$ 35	\$ 5	\$ —	\$ (23) (b)	\$ 17
<b>2020</b>	\$ 38	\$ —	\$ 2 (d)	\$ (5) (e)	\$ 35
<b>2019</b>	\$ 43	\$ —	\$ —	\$ (5) (e)	\$ 38

(a) Deductions, representing uncollectible accounts written off, less recoveries of accounts written off in prior years.

(b) As a result of the Hüppe divestiture in May 2021, \$1 million was removed from allowance for credit losses and \$23 million was removed from valuation allowance on deferred tax assets.

(c) Includes a \$1 million adjustment related to the cumulative effect of adoption of the new credit loss standard.

(d) \$2 million net increase in valuation allowance due to currency translation recorded in other comprehensive income (loss).

(e) \$5 million net reduction to valuation allowance recorded as an income tax benefit.



### **EXECUTIVE OFFICE**

Masco Corporation  
17450 College Parkway  
Livonia, MI 48152  
Phone: 313-274-7400  
Fax: 313-792-4177

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

PricewaterhouseCoopers LLP  
500 Woodward Avenue  
Detroit, MI 48226

### **STOCK EXCHANGE INFORMATION**

Masco Corporation's common stock is traded on the New York Stock Exchange under the symbol MAS.

### **INTERNET CONTACT**

Current information about Masco Corporation can be found by visiting our website at [masco.com](http://masco.com), or you may contact us via e-mail at [webmaster@mascohq.com](mailto:webmaster@mascohq.com).

### **INVESTOR RELATIONS CONTACT**

Additional information about the Company is available without charge to shareholders who direct a request to:

David A. Chaika, Investor Relations  
Masco Corporation  
17450 College Parkway  
Livonia, MI 48152  
Phone: 313-792-5500

### **ANNUAL MEETING OF SHAREHOLDERS**

The 2022 Annual Meeting of Shareholders of Masco Corporation will take place on Thursday, May 12, 2022 at 9:30 a.m. EDT. Details regarding our 2022 Annual Meeting can be found in our current proxy statement.

### **DUPLICATE MAILINGS AND OTHER INQUIRIES**

Multiple shareholders residing at one address and holding shares through a bank or broker may receive only one Annual Report and Proxy Statement. This "householding" procedure reduces duplicate mailings and Company expenses. Shareholders who wish to opt out of householding should contact their bank or broker.

Shares owned by one person, but held in different forms of the same name, may result in duplicate mailings of shareholder information at added expense to us. Please notify Computershare to eliminate such duplication.

### **TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT**

Answers to many of your shareholder questions and requests for forms are available by visiting the Computershare website at:

[www.computershare.com/investor](http://www.computershare.com/investor)

Certificates for transfer, inquiries about our Dividend Reinvestment Plan, inquiries regarding lost certificates, address changes and all other general shareholder correspondence should be mailed to:

Computershare  
P.O. Box 505000  
Louisville, KY 40233

Overnight correspondence should be sent to:

Computershare  
462 South 4th Street  
Louisville, KY 40202

Phone:  
866-230-0666 (in the U.S.)  
201-680-6578 (outside the U.S.)  
800-231-5469 (hearing impaired-TDD phone)

E-mail Address:  
[web.queries@computershare.com](mailto:web.queries@computershare.com)

Shareholder Online Inquiries:  
[www.us.computershare.com/investor/contact](http://www.us.computershare.com/investor/contact)



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