



Newell Brands Inc. (NWL)

Updated August 8th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	7.8%	Market Cap:	\$8.2 B
Fair Value Price:	\$22	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	08/27/22 ¹
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	09/15/22
Dividend Yield:	4.6%	5 Year Price Target	\$25	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Newell Brands traces its roots back to 1903 when Edgar Newell purchased a struggling curtain rod manufacturer. Since then, Newell has transformed itself into a consumer brands powerhouse with large acquisitions, such as its relatively recent merger with Jarden as well as its purchase of Sistema. The company's annual revenue is just under \$10 billion, and it trades with a market capitalization of \$8.2 billion.

Newell reported second quarter earnings on July 29th, 2022, and results were somewhat mixed. Adjusted earnings-per-share came to 57 cents, which was a dime better than expected. However, revenue was \$2.53 billion, which was down 6.3%, and missed estimates by \$10 million.

Part of the revenue decline was due to the sale of the company's former connected home security business at the end of Q1 2022. Core sales were up 1.7%, as four of its seven business units saw better core sales.

Adjusted operating margin came to 13.6% of revenue, up 100bps year-over-year. This was due to productivity savings, pricing efforts, and lower overhead costs more than offset inflation and advertising headwinds.

Adjusted earnings-per-share came to 57 cents, which was one penny better than the year-ago period. We now expect to see \$1.85 in earnings-per-share for this year following Q2 results.

Leverage increased to 3.4X at the end of the second quarter, versus 3.1X in the prior year, and 3.0X at the end of 2021, as long-term debt remains elevated.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.36	\$1.44	\$1.33	\$0.96	\$1.25	\$5.63	\$2.68	\$1.70	\$1.79	\$1.82	\$1.85	\$2.04
DPS	\$0.43	\$0.60	\$0.66	\$0.76	\$0.76	\$0.88	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92
Shares²	287	279	269	267	483	485	423	425	426	426	416	400

We continue to think the future is bright for Newell, despite struggles in recent years. We forecast annual earnings-per-share growth averaging 2% for the foreseeable future, comprised mainly of margin improvements and small revenue increases. We note that the near-term is likely to see more margin weakness, but that this should be transitory. We think the bulk of Newell's planned divestitures have been made at this point, so revenue has stabilized in the area of \$10 billion, consistent with 2020 and 2021 results. Margins should improve as management has committed to 15%+ operating margins in the future after the non-core assets are sold, but that will take some time; Newell is in the low double digits under normalized conditions, but there are short-term headwinds. In addition, the reduced leverage on the balance sheet should afford Newell more flexibility, as well as lower interest expense. Newell has once again resumed share repurchases, which will help EPS growth. We see Newell as a turnaround play and not a growth stock, although the pieces are in place for growth in the future should the plan work out as intended and margins increase. We note that Newell is working hard to reduce its significant debt load, as well as improving its cash conversion cycle, which will help bolster its working capital position, as evidenced by its improving operating cash flow numbers. There was progress on

¹ Estimated date

² Share count in millions

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both items in 2019, 2020, and 2021. This should aid the debt reduction effort given that Newell shouldn't have to borrow as much to fund operations as cash conversion improves.

Newell has paused dividend increases, so we're reiterating our dividend estimate at 92 cents for the next five years as the company focuses instead of reducing leverage.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.8	18.6	24.3	42.8	37.3	8.1	9.1	10.1	9.4	13.8	10.8	12.0
Avg. Yld.	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	5.5%	3.7%	4.6%	3.8%

Newell's price-to-earnings multiple is lower than our fair value estimate at 10.8 times earnings, which is based upon prior valuation ranges. We note that Newell's valuation has moved around a lot in the past decade. We see fair value around 12 times earnings. The stock yields 4.6% today, which could move lower over time given we expect no dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	32%	41%	49%	80%	62%	16%	34%	54%	51%	51%	50%	45%

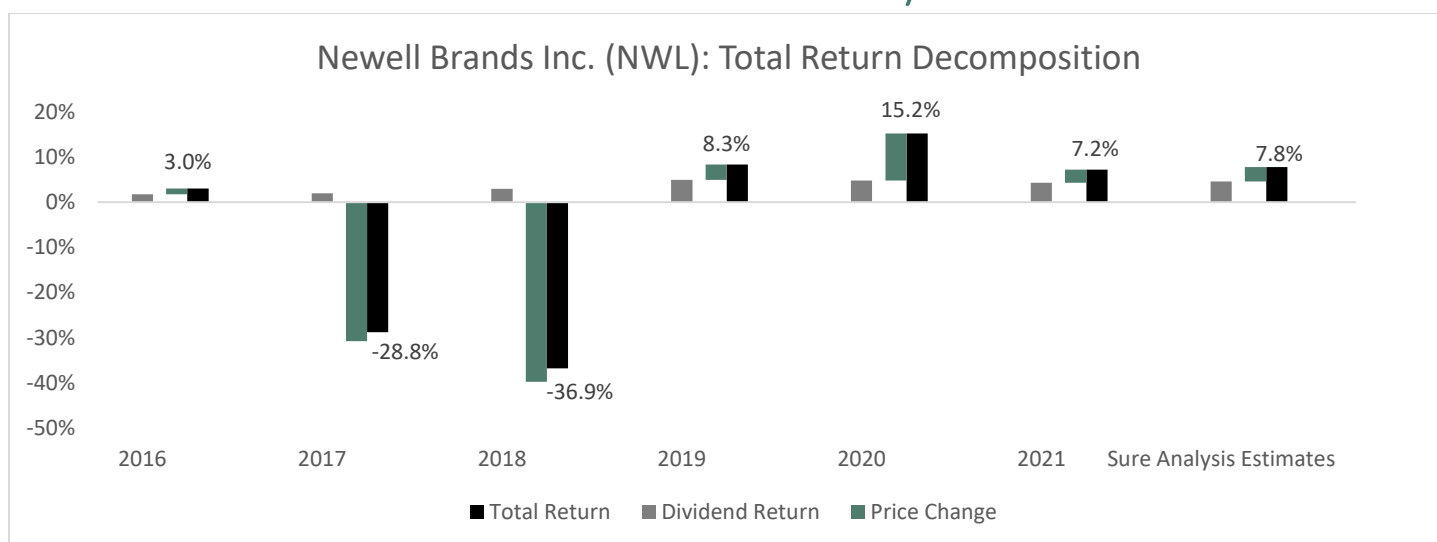
Newell's payout ratio should decline given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, with a sizable yield.

Newell's competitive advantage is its position in several niche consumer markets that are small but necessary and, therefore, profitable. Its willingness to buy and sell assets has helped it prepare for this recession as well, building upon significant earnings growth that occurred during the Great Recession, illustrating the staying power of the model.

Final Thoughts & Recommendation

In total, we see Newell as relatively attractive, particularly as the valuation is below fair value. We forecast 7.8% total annual returns in the coming years following Q2 results. We see the valuation as decent today, and with good total return prospects, we're reiterating the stock at a hold rating. The stock's yield is now about three times that of the S&P 500, and we note that the near-term offers up margin headwinds from cost inflation and supply availability.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5508.5	5607	5727	5915.7	13264	14742	8630.9	9,715	9,385	10589
Gross Profit	2094.1	2124.9	2203.4	2304.6	4398.8	5089.3	3008.8	3,219	3,079	3296
Gross Margin	38.0%	37.9%	38.5%	39.0%	33.2%	34.5%	34.9%	33.1%	32.8%	31.1%
SG&A Exp.	1403.5	1399.5	1480.5	1573.9	3221.1	3669.1	2434.8	2,451	2,189	2274
D&A Exp.	163.7	158.9	156.1	171.6	437.2	635.6	433.9	446	357	325
Operating Profit	690.6	725.4	722.9	730.7	1177.7	1420.2	574	768	890	1022
Op. Margin	12.5%	12.9%	12.6%	12.4%	8.9%	9.6%	6.7%	7.9%	9.5%	9.7%
Net Profit	401.3	474.6	377.8	350	527.8	2748.8	-6918	107	-770	572
Net Margin	7.3%	8.5%	6.6%	5.9%	4.0%	18.6%	-80.2%	1.1%	-8.2%	5.4%
Free Cash Flow	441.3	467	472.2	381.5	1399	525.8	295.6	779	1,173	595
Income Tax	161.5	120	89.1	78.2	286	-1320	-1505	-1,038	-236	121

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6222	6069.7	6564.3	7259.5	33838	33136	17716	15,642	14,700	14179
Cash & Equivalents	183.8	226.3	199.4	274.8	587.5	485.7	495.7	349	981	440
Acc. Receivable	1112.4	1105.1	1248.2	1250.7	2746.9	2674	1850.7	1,842	1,678	1500
Inventories	696.4	684.4	708.5	721.8	2116	2498.8	1583.1	1,607	1,638	1997
Goodwill & Int.	3024.3	2975.6	3433.2	3854.9	24331	24796	8549.8	8,625	7,117	6874
Total Liabilities	4221.8	3994.7	4709.4	5433.1	22453	18954	12439	10,646	10,800	10088
Accounts Payable	527.4	558.9	674.1	642.4	1518.9	1761.6	1019.5	1,101	1,526	1680
Long-Term Debt	1918.4	1836.4	2481.9	3057.9	11893	10552	7015	5,724	5,607	4886
Total Equity	1996.7	2071.5	1851.4	1822.9	11349	14145	5243	4,963	3,874	4091
LTD/E Ratio	0.96	0.89	1.34	1.68	1.05	0.75	1.34	1.15	1.45	1.19

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.5%	7.7%	6.0%	5.1%	2.6%	8.2%	-27.2%	0.6%	-5.1%	4.0%
Return on Equity	20.9%	23.3%	19.3%	19.1%	8.0%	21.6%	-71.4%	2.1%	-17.4%	14.4%
ROIC	10.1%	12.1%	9.2%	7.6%	3.7%	11.5%	-37.4%	0.9%	-7.6%	6.2%
Shares Out.	287	279	269	267	483	485	423	425	426	428
Revenue/Share	18.76	19.22	20.53	21.79	31.35	30.21	18.22	22.92	22.13	24.74
FCF/Share	1.50	1.60	1.69	1.41	3.31	1.08	0.62	1.84	2.77	1.39

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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