



Stanley Black & Decker, Inc. (SWK)

Updated October 28th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$78	5 Year CAGR Estimate:	10.2%	Market Cap:	\$11.5 B
Fair Value Price:	\$73	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/30/22
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	12/20/22
Dividend Yield:	4.1%	5 Year Price Target	\$107	Years Of Dividend Growth:	55
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Stanley Black & Decker is a world leader in power tools, hand tools, and related items. The company holds the top global position in tools and storage sales. Stanley Black & Decker is second in the world in the areas of commercial electronic security and engineered fastening. Stanley Works and Black & Decker merged in 2010 to form the current company, though the company can trace its history back to 1843. Black & Decker was founded in Baltimore, MD in 1910 and manufactured the world's first portable power tool.

On July 20th, 2022, Stanley Black & Decker announced it was raising its quarterly dividend 1.3% to \$0.80, extending the company's dividend growth streak to 55 consecutive years. The company is one of just 46 Dividend Kings.

On July 22nd, the company completed its previously announced sale of its Security Business to Securities AB for \$3.2 billion in cash.

On October 27th, 2022, Stanley Black & Decker announced third quarter results for the period ending September 30th, 2022. Revenue grew 9% to \$4.1 billion, topping estimates by \$120 million. Adjusted earnings-per-share of \$0.76 compared very unfavorably to \$2.77 in the prior year, but was \$0.06 above expectations.

Organic growth declined 2%. Sales for Tools & Outdoor, the largest segment within the company, experienced an organic decline of 5% as a 7% benefit from pricing was once again more than offset by a decline in volume. North America fell 4% and both emerging markets and Europe were lower by 2%. Industrial organic growth remained strong, improving 14%. Infrastructure grew 12% due to ongoing high demand for attachment tools. Engineered Fastening was up 15% as demand from the aerospace and automotive markets was high. General industrial also performed well. Adjusted gross margin contracted 760 basis points to 24.7% as higher prices were more than offset by higher commodity inflation and lower volume. The company's cost reduction program remains on track and delivered \$65 million in pre-tax savings during the quarter. The company's goal is to reduce expenses by \$1 billion by the end of 2023 and by \$2 billion within three years.

Stanley Black & Decker offered revised guidance for 2022. Due to inflationary pressures and lower demand, the company now expects adjusted earnings-per-share in a range of \$4.15 to \$4.65, down from prior guidance of \$5.00 to \$6.00, \$9.50 to \$10.50, and \$12.00 to \$12.50. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.67	\$4.98	\$5.36	\$5.86	\$6.51	\$7.43	\$8.15	\$8.40	\$9.04	\$11.20	\$4.40	\$6.47
DPS	\$1.80	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$2.76	\$2.78	\$2.98	\$3.20	\$4.70
Shares¹	160	156	157	154	153	154	152	153	157	159	154	145

Stanley Black & Decker has seen earnings-per-share grow at a rate of more than 10% over both the last five- and 10-year periods of time. Stanley Black & Decker remained profitable over the Great Recession but saw earnings decline 15% in

¹ Share count in millions

Disclosure: This analyst has a long position in the security discussed in this research report.



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2008 and 20% in 2009. In the years since, Stanley Black & Decker has generally seen its earnings-per-share rise consistently. We expect the company to continue to grow earnings-per-share at a rate of 8% annually going forward.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.2	16.3	16.2	17.1	17.2	19.1	17.5	16.9	17.6	16.8	17.7	16.5
Avg. Yld.	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	1.8%	1.9%	1.9%	1.6%	4.1%	4.4%

Shares of Stanley Black & Decker have decreased \$19, or 19.6%, since our July 30th, 2022 update. Based on revised earnings-per-share guidance for 2022, the stock now trades with a price-to-earnings ratio, or P/E, of 17.7. We reaffirm our target P/E of 16.5, which is in-line with the long-term average. If shares were to revert to our target P/E by 2027, then valuation would be a 1.4% headwind to annual returns over this time. Stanley Black & Decker's current yield is one of the stock's highest over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

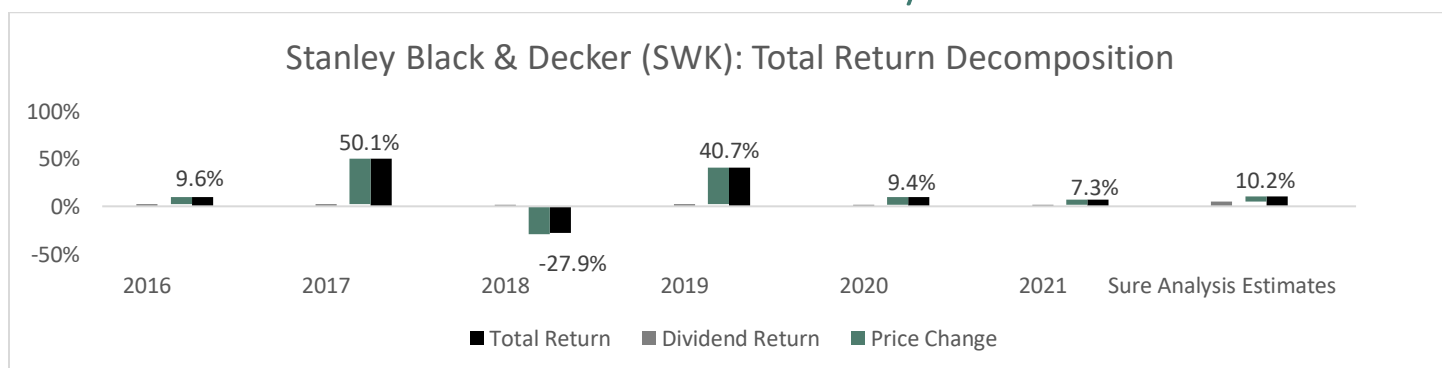
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	39%	40%	38%	37%	35%	33%	32%	33%	31%	27%	73%	73%

As seen during the 2008/2009-time period, Stanley Black & Decker is not recession-proof, but investors who were willing to hold shares of the company from the 2008 lows have seen their shares grow enormously. The company's low payout ratio does make it likely that dividends will continue rising even through a serious economic downturn. Stanley Black & Decker's key competitive advantage is that its products are well-known and respected by customers. This was why the company has been able to increase prices in certain product categories over the years and not see a decline in sales. Stanley Black & Decker has also been very active in making strategic acquisitions to help grow the company. For example, adding the Craftsman Brand helped drive organic growth nearly every quarter in North America since the 2017 acquisition.

Final Thoughts & Recommendation

Stanley Black & Decker is now expected to produce annual returns of 10.2% through 2027, up from our previous estimate of 9.6%. This projection stems from an 8% earnings growth and a starting yield of 4.1% offset by a low single-digit headwind from multiple reversion. Low demand and higher inflation costs impacted Stanley Black & Decker's third quarter, just as they have over the past few periods. The further reduction in earnings estimates is reflective of the pressures that the company is experiencing. We have lowered our five-year price target \$26 to \$107 due to revised guidance, but note that Stanley Black & Decker has an impressive dividend growth streak and a higher than usual yield. Shares now earns a buy rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	10,022	10,890	11,339	11,172	11,594	12,967	13,982	14,442	14,535	15,617
Gross Profit	3,657	3,904	4,103	4,072	4,268	4,778	4,851	4,806	4,968	5,194
Gross Margin	36.5%	35.8%	36.2%	36.4%	36.8%	36.9%	34.7%	33.3%	34.2%	33.3%
SG&A Exp.	2,463	2,676	2,575	2,459	2,609	2,983	3,144	3,008	3,049	3,240
D&A Exp.	445	441	450	414	408	461	507	560	578	577
Operating Profit	887	929	1,267	1,364	1,450	1,510	1,392	1,515	1,616	1,832
Operating Margin	8.8%	8.5%	11.2%	12.2%	12.5%	11.6%	10.0%	10.5%	11.1%	11.7%
Net Profit	884	490	761	884	968	1,227	605	956	1,234	1,689
Net Margin	8.8%	4.5%	6.7%	7.9%	8.3%	9.5%	4.3%	6.6%	8.5%	10.8%
Free Cash Flow	593	528	1,005	871	839	226	769	1,081	1,674	144
Income Tax	76	69	227	249	262	301	416	161	41	61

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	15,844	16,535	15,849	15,128	15,635	19,098	19,408	20,597	23,566	28,198
Cash & Equivalents	716	496	497	465	1,132	638	289	298	1,381	142
Accounts Receivable	1,329	1,366	1,205	1,165	1,137	1,388	1,437	1,284	1,346	1,561
Inventories	1,305	1,473	1,563	1,526	1,478	2,018	2,374	2,255	2,737	5,447
Goodwill & Int. Ass.	9,947	10,600	10,027	9,626	8,994	12,284	12,441	12,859	14,094	13,491
Total Liabilities	9,117	9,655	9,337	9,269	9,261	10,793	11,568	11,454	12,500	16,605
Accounts Payable	1,346	1,553	1,579	1,533	1,640	2,021	2,233	2,088	2,446	3,439
Long-Term Debt	3,538	4,202	3,847	3,800	3,827	3,811	4,198	3,517	4,247	6,596
Shareholder's Equity	6,667	6,799	6,429	5,812	6,367	7,552	7,086	7,906	9,689	11,591
LTD/E Ratio	0.53	0.62	0.60	0.65	0.60	0.46	0.54	0.38	0.38	0.57

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.6%	3.0%	4.7%	5.7%	6.3%	7.1%	3.1%	4.8%	5.6%	6.5%
Return on Equity	12.9%	7.3%	11.5%	14.4%	15.9%	17.6%	8.3%	12.8%	14.0%	15.9%
ROIC	8.5%	4.6%	7.1%	8.8%	9.7%	11.0%	5.0%	7.7%	8.8%	10.1%
Shares Out.	160	156	157	154	153	154	152	153	157	159
Revenue/Share	60.12	68.58	70.98	73.16	78.23	85.06	89.18	92.35	89.48	94.64
FCF/Share	3.56	3.32	6.29	5.70	5.66	1.48	4.90	6.91	10.31	0.87

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

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