



Stanley Black & Decker (SWK)

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Key Metrics

Current Price: \$152	5 Year CAGR Estimate: 6.9%	Quality Percentile: N/A
Fair Value Price: \$127	5 Year Growth Estimate: 8.0%	Momentum Percentile: N/A
% Fair Value: 120%	5 Year Valuation Multiple Estimate: -2.8%	Total Return Percentile: N/A
Dividend Yield: 1.7%	5 Year Price Target: \$194	Valuation Percentile: N/A

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. SWK 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. Stanley Works traces its history back to 1843, when Frederick Stanley opened a small shop hardware shop in Connecticut. Black & Decker was founded in Baltimore, MD in 1910 and manufactured the world's first portable power tool. Today, SWK has a market cap of more than \$12 billion and had sales of almost \$12.8 billion in 2017.

SWK reported adjusted 4th quarter 2017 earnings on 1/24/2018. The company earned \$2.18 per share in the quarter. Revenue grew almost 17% from the previous year to \$3.41 billion. Both results came in ahead of expectations. Acquisitions contributed 9% of growth while currency added 3%. SWK had organic sales growth of 8%.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$3.41	\$2.72	\$3.96	\$5.24	\$4.67	\$4.98	\$5.36	\$5.86	\$6.51	\$7.43	\$8.40	\$12.34
DPS	\$1.26	\$1.30	\$1.34	\$1.64	\$1.80	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.52	\$3.70

SWK has seen earnings per share rise at an 8% rate over the past ten years. As many of the company's products are used in home improvement and new home construction, SWK was especially impacted by the last recession. Earnings declined 15% in 2008 and 20% in 2009. In the years since, SWK has generally seen its EPS rise. Earnings per share have risen at almost a double digit rate in the past few years and that trend is expected to continue in 2018. Improving business fundamentals and a lowered effective tax rate (expected to drop 5 points to 18%) equates to a midpoint guidance of \$8.40 for 2018. This would be a 13% gain from 2017. Even without the lowered tax rate, EPS is expected to climb more than 10%. Applying the average growth rate to the expected 2018 EPS, SWK could earn \$12.34 a share in 2023.

SWK has a very impressive dividend growth streak. The company has raised its dividend for 50 consecutive years. While shares likely won't have an above average yield, shareholders can reasonably expect that SWK will continue to pay and raise its dividend each year. The company has increased its dividend 7% per year over the past decade. Based off of expected 2018 dividends, shareholders could be looking at \$3.70 in DPS by 2023. Note: SWK usually raises its dividend for the September payment, so dividends for 2018 are just an estimate.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.9	14.1	14.7	12.9	15.2	16.3	16.2	17.1	17.2	20.5	18.1	15.7
Avg. Yld.	2.9%	3.4%	2.3%	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	1.7%	1.9%

SWK saw its multiple compress as the housing crisis unfolded. In the years since, the stock has seen the multiple grow as the economy has improved. This has led to a higher year end closing price every year since 2008. If the stock were to revert to the average multiple by 2023, shares would see its P/E compressed 2.8% annually. If the economy remains strong, SWK would be in a good position to maintain its multiple or even experience expansion.

Shareholders who maintained their position in 2008/2009 were paid a high yield until the company saw a return to earnings growth. Few companies in the market can top SWK's 5 decades of dividend growth. While a cyclical company, SWK has proven that it can be counted on for dividend growth in a tough economic environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	34.3%	31.6%	17.8%	21.6%	23.1%	23.6%	25.9%	26.9%	27.3%	25%	25.7%	25.7%
Debt/A	64.9%	58.4%	53.7%	56.1%	57.9%	58.9%	59.4%	61.6%	59.3%	56.5%	54%	59.1%
Int. Cov.	4.6	5.7	2.8	7	5.1	5.1	7.7	8.1	8.3	9.6	7.8	6.4
Payout	37%	47.8%	33.8%	31.3%	38.5%	39.8%	38.1%	36.5%	34.7%	32.6%	30%	30%
Std. Dev.	49.4%	45.4%	30%	39.3%	27.7%	23.6%	17.5%	19.7%	20%	14.4%	17.3%	28.7%

As seen during the 2008/2009-time period, SWK isn't recession proof. The company needs a growing economy to see earnings rise. On the other hand, investors who were willing to hold shares of the company from the 2008 lows have seen their shares grow almost 450%. SWK is attempting to diversify its business for the future. Last year, tools and storage made up 70% of total sales. The company is aiming for this total to drop to below 60%, with SWK's engineering/industrial business capturing more of the revenue share. While this doesn't make the company recession proof, it does help SWK to diversify its revenue streams.

SWK has been aggressive in acquiring attractive assets. Most recently, SWK purchased Nelson Fastener Systems for \$440 million last December. Even with multiple purchases, the company has seen its debt decline in recent years.

SWK has a stated goal to payout between 30%-35% of earnings in the form of dividends. Based on 2023 estimates, the company will have a payout ratio below 29%. Since EPS growth outpaces DPS growth, the company has room to increase its dividend growth rate in future years.

Final Thoughts & Recommendation

Shares of Stanley Black and Decker have the potential to return 6.9% per year through 2023. This total is arrived at by a combination of earnings growth (8%), dividends (1.7%) and multiple reversion (2.8%). If the economy remains strong, demand for products continues to be high and the multiple expands, SWK has room for even more growth. While SWK doesn't offer a robust yield, shareholders should remain confident that the company will increase its dividend each year.

Total Return Breakdown by Year

