



Stanley Black & Decker (SWK)

Updated October 28th, 2018 by Nate Parsh

Key Metrics

Current Price:	\$110	5 Year CAGR Estimate:	13.5%	Volatility Percentile:	29.0%
Fair Value Price:	\$128	5 Year Growth Estimate:	8.0%	Momentum Percentile:	5.5%
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Growth Percentile:	71.3%
Dividend Yield:	2.4%	5 Year Price Target	\$188	Valuation Percentile:	69.8%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	74.7%

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. 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. Stanley Black & Decker trades with a market capitalization of nearly \$17 billion.

Stanley Black & Decker reported 3rd quarter earnings results October 25th. The company earned \$2.08, \$0.04 above estimates and improving almost 7% year over year. Revenue grew 4.2% to \$3.5 billion, missing estimates by \$80 million. Tools & Storage, which accounted for almost 70% of sales, saw volumes increase 5%. Revenues from emerging markets were up 10% with North America sales improved 6%. E-commerce and pricing helped drive growth in EMs and the Craftsman brand continues to help sales grow in North America. Industrial sales grew 10%, largely due to acquisitions such as Nelson Fasteners. Lower pipeline activity resulted in a 6% drop in Oil & Gas revenues. Security grew 1% as acquisitions and price were offset by currency and lower volumes. Stanley Black & Decker had 4% organic growth, but margins decreased 210 basis points due to cost of materials, currency and tariffs. These headwinds directly contributed to the company lowering the midpoint for earnings guidance to \$8.15, down from \$8.40 previously.

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	\$8.15	\$11.98
DPS	\$1.26	\$1.30	\$1.34	\$1.64	\$1.80	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$3.79
Shares	78.9	80.6	167.2	169.6	160.3	155.6	157.4	153.9	152.6	154	152	145

Stanley Black & Decker has seen earnings-per-share grow at a rate of 8% over the past ten years. As many of the company's products are used in home improvement and new home construction, Stanley Black & Decker was especially impacted by the last recession. Earnings declined 15% in 2008 and 20% in 2009. In the years since, Stanley Black & Decker has generally seen its EPS rise.

Stanley Black & Decker 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 Stanley Black & Decker will continue to pay and raise its dividend each year based on the company's track record. The company raised its dividend by 4.8% on July 18th.

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	13.5	15.7
Avg. Yld.	2.9%	3.4%	2.3%	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	2.4%	2.0%

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Shares of Stanley Black & Decker have decreased \$34, or 24%, since our July 20th update. Based on revised earnings guidance, the stock now trades with a P/E of 13.5. If shares were to revert to their 10-year average valuation, then the stock would see an additional 3.1% in annual returns.

Few companies in the market can top Stanley Black & Decker's 5 decades of dividend growth. While a cyclical company, Stanley Black & Decker has proven that it can be counted on for dividend growth in a tough economic environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

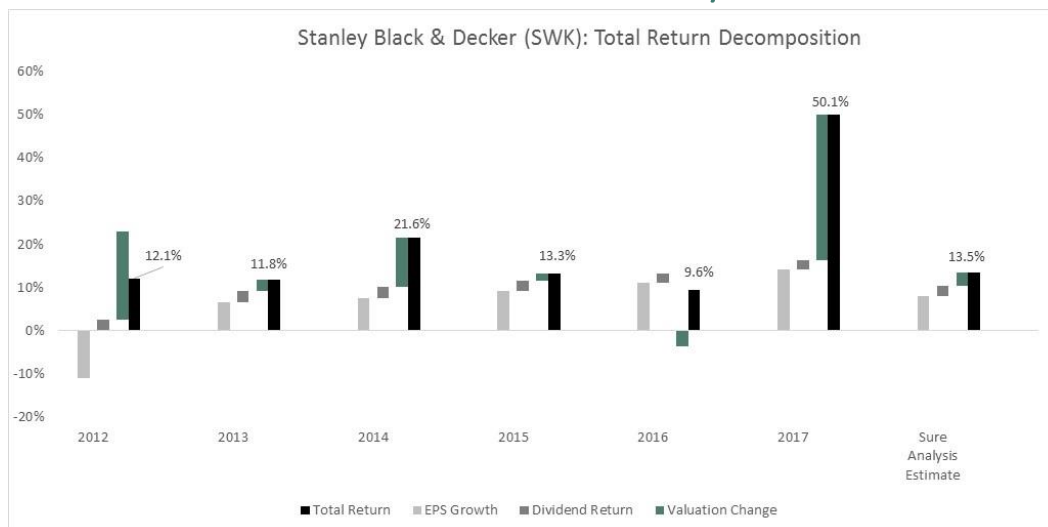
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	34.3%	31.6%	17.8%	21.6%	23.1%	23.6%	25.9%	26.9%	27.3%	25%	25.7%	25.7%
Debt/A	64.9%	58.4%	53.7%	56.1%	57.9%	58.9%	59.4%	61.6%	59.3%	56.5%	54%	59.1%
Int. Cov.	4.6	5.7	2.8	7	5.1	5.1	7.7	8.1	8.3	9.6	7.8	6.4
Payout	37%	47.8%	33.8%	31.3%	38.5%	39.8%	38.1%	36.5%	34.7%	32.6%	31.7%	31.6%
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, 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 almost 450%. Stanley Black & Decker is attempting to diversify its business for the future. While this does not make the company recession proof, it does help Stanley Black & Decker to diversify its revenue streams. The company is an aggressive acquirer. Most recently, Stanley Black & Decker purchased Nelson Fastener Systems for \$440 million last December. Even with multiple purchases, the company has seen its debt to assets ratio decline in recent years. The company also have a low payout ratio.

Final Thoughts & Recommendation

After 3rd quarter earnings and the resulting stock price decrease since our last update, we now estimate that Stanley Black & Decker can offer annual returns of 13.5% through 2023, up from 8% previously. This estimate is a combination of earnings growth (8%), dividends (2.4%) and multiple expansion (3.1%). Input costs, currency and tariffs knocked \$0.25 off of the company's expected EPS for 2018. Even with this reduction in guidance, Stanley Black & Decker expects earnings to grow almost 10% from last year. We have decreased our 2023 price target \$6 to \$188 accordingly, but we suggest that investors with long term horizon consider buying shares of Stanley Black & Decker. The company offers a combination of growth, solid dividend yields and the potential for multiple expansion that is hard to find in this market.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	4426	3737	7497	9377	10022	10890	11339	11172	11407	12747
Gross Profit	1671.4	1508.3	2690.3	3450.8	3657.3	3903.7	4102.7	4072	4267.2	4778
Gross Margin	37.8%	40.4%	35.9%	36.8%	36.5%	35.8%	36.2%	36.4%	37.4%	37.5%
SG&A Exp.	1090	1014.4	1993.5	2342.4	2462.5	2676.4	2575	2459.1	2602	2965.7
D&A Exp.	183	200.1	348.7	410.1	445.3	441.3	449.8	414	408	460.7
Operating Profit	461.6	384.6	686.3	1093.3	1182.9	1213.1	1506.8	1585.6	1643.3	1797.9
Op. Margin	10.4%	10.3%	9.2%	11.7%	11.8%	11.1%	13.3%	14.2%	14.4%	14.1%
Net Profit	306.9	224.3	198.2	674.6	883.8	490.3	760.9	883.7	965.3	1226
Net Margin	6.9%	6.0%	2.6%	7.2%	8.8%	4.5%	6.7%	7.9%	8.5%	9.6%
Free Cash Flow	375.8	446	553.8	696.8	593.3	527.7	1004.9	870.9	1138.2	976.2
Income Tax	72.5	54.5	18	52.3	75.8	68.6	227.1	248.6	261.2	300.5

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	4867	4769	15139	15949	15844	16535	15849	15128	15635	19080
Cash & Equivalents	212	401	1745	907	716	496	497	465	1132	638
Accounts Receivable	679	518	1412	1345	1466	1501	1321	1274	1240	1550
Inventories	515	366	1272	1271	1305	1473	1563	1526	1478	2018
Goodwill & Int. Ass.	2596	2595	8814	9382	9947	10600	10027	9626	8994	12284
Total Liabilities	3142	2758	8070	8882	9117	9655	9337	9269	9261	10780
Accounts Payable	462	410	999	1199	1346	1553	1579	1533	1640	2021
Long-Term Debt	1612	1383	3436	3452	3538	4202	3847	3800	3827	3832
Shareholder's Equity	1706	1986	7017	7004	6667	6799	6429	5812	6367	7547
D/E Ratio	0.94	0.70	0.49	0.49	0.53	0.62	0.60	0.65	0.60	0.46

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	6.4%	4.7%	2.0%	4.3%	5.6%	3.0%	4.7%	5.7%	6.3%	7.1%
Return on Equity	17.9%	12.1%	4.4%	9.6%	12.9%	7.3%	11.5%	14.4%	15.9%	17.6%
ROIC	9.3%	6.7%	2.9%	6.4%	8.5%	4.6%	7.1%	8.8%	9.7%	11.0%
Shares Out.	78.9	80.6	167.2	169.6	160.3	155.6	157.4	153.9	152.6	154
Revenue/Share	55.41	46.48	49.92	55.12	60.12	68.58	70.98	73.16	76.97	83.62
FCF/Share	4.70	5.55	3.69	4.10	3.56	3.32	6.29	5.70	7.68	6.40

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

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