Newell Brands (NWL)

Updated November 6th, 2018 by Josh Arnold

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	23.6%	**Volatility Percentile:**	88.6%
Fair Value Price:	$38	**5 Year Growth Estimate:**	5.4%	**Momentum Percentile:**	3.3%
% Fair Value:	53%	**5 Year Valuation Multiple Estimate:**	13.6%	**Growth Percentile:**	44.7%
Dividend Yield:	4.6%	**5 Year Price Target**	$49	**Valuation Percentile:**	99.1%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	98.4%

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 about $9 billion, and it trades with a market capitalization of $9.5 billion.

Newell reported Q3 earnings on 11/2/18 and given the extreme underperformance of the stock heading into the report, shares flew higher. The company is still in the midst of a major transformation where it is divesting non-core brands, leading to lower revenue year-over-year. Indeed, sales fell 7.7% against the year-ago quarter while gross margins slipped fractionally, but operating margin was up 10bps to 13% of revenue. Strength in Latin America was offset by weakness in North America during Q3, and adjusted earnings-per-share came in at 81 cents against 86 cents in last year's Q3. In addition, Newell has reduced its debt year-over-year by $2.5 billion and has reduced the float by 4%, both of which are thanks to the influx of cash from its divestitures. Newell gave some rather bullish guidance and boosted revenue and earnings-per-share estimates for this year; we've raised our earnings estimate to $2.70 per share in sympathy. While Q3 was a bit messy, Newell's transformation is well underway, and management is bullish.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.79	$0.97	$0.96	$1.17	$1.36	$1.44	$1.33	$0.96	$1.25	$5.63	***$2.70***	***$3.50***
DPS	$0.84	$0.26	$0.20	$0.29	$0.43	$0.60	$0.66	$0.76	$0.76	$0.88	***$0.92***	***$1.10***
Shares	277	279	291	288	287	279	269	267	483	485	***472***	***455***

The transformation is clearly working for Newell as management saw fit to meaningfully boost estimates for this year after the Q3 report. We have moved to a more bullish stance following the Q3 report and guidance raise as the company's new assortment of brands should provide long-term revenue and margin expansion. We see annual earnings-per-share growth averaging 5.4% for the foreseeable future, comprised mainly of margin improvements and share repurchases offsetting lost revenue from divestitures. Timing will be key in terms of what gets sold and when, but revenue should fall meaningfully in the coming years as part of Newell's plan. 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. In addition, the reduced leverage on the balance sheet as well as the potential for material share repurchases should improve earnings-per-share from a smaller float. We see Newell as a turnaround play and certainly 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. The dividend should grow rather slowly as it has in recent years, staying within management's guided range of 30% to 35% of earnings. We therefore see modest growth to $1.10 per share in five years from today's 92 cents.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	23.5	11.7	16.9	13.8	13.8	18.6	24.3	42.8	37.3	8.1	***7.4***	***14.0***
Avg. Yld.	4.5%	2.3%	1.2%	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	***4.6%***	***2.2%***

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Newell's price-to-earnings multiple is well below its historical average and we see it rising back towards the mid-teens, resulting in a sizable 13.6% tailwind to total annual returns going forward as the current trough valuation is unsustainable. A rising multiple should see the yield fall as well as it nears 2% from the current, inflated yield of 4.6%, which is the product of the very low price-to-earnings multiple at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	32.8%	36.7%	37.3%	35.8%	35.5%	37.3%	38.5%	39.0%	33.2%	34.5%	***34.0%***	***35.0%***
Debt/A	77%	72%	70%	70%	68%	66%	72%	75%	66%	57%	***50%***	***40%***
Int. Cov.	1.1	4.1	3.5	3.4	8.3	9.9	10.9	8.5	2.9	3.0	***3.5***	***4.0***
Payout	107%	25%	19%	25%	32%	41%	49%	80%	62%	16%	***34%***	***31%***
Std. Dev.	39%	76%	27%	40%	21%	16%	15%	11%	29%	37%	***33%***	***31%***

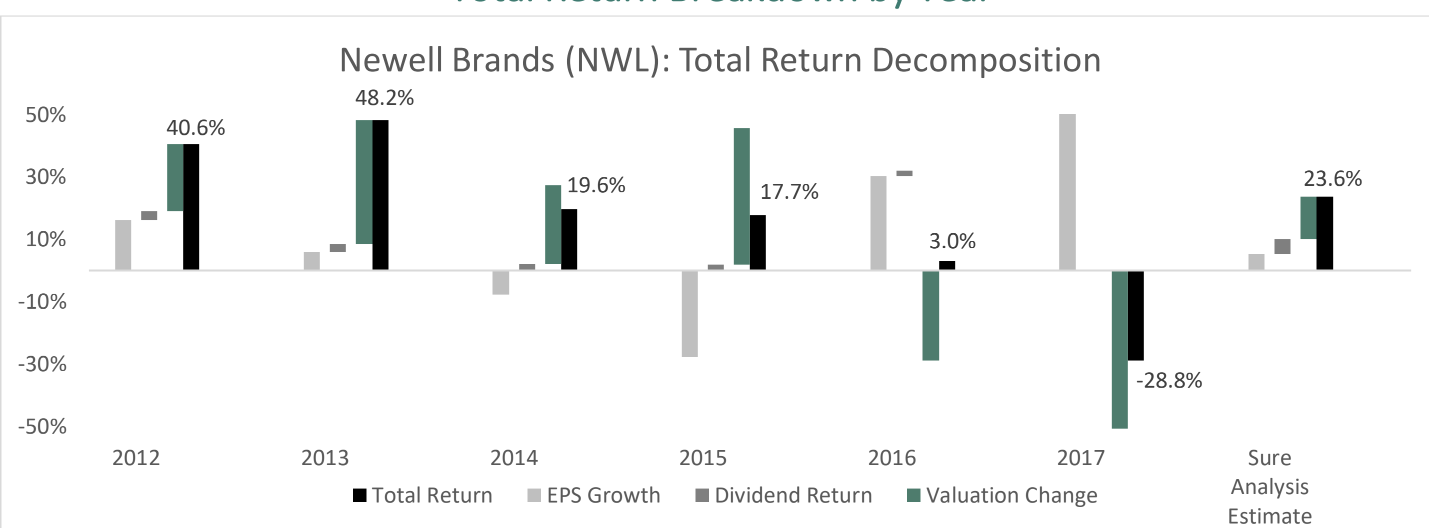
Newell's quality metrics have generally improved in recent years. Gross margins shift with the various acquisitions and divestitures made by the company, but we see margins rising over time, following a dip this year due to the restructuring as well as volume challenges. Leverage should come well off its current levels in the coming years pending how much is spent on share buybacks, but we see it falling meaningfully in the coming years. Likewise, despite lower revenue totals, we see interest coverage improving as leverage falls. The payout ratio should remain about where it is today as the dividend keeps pace with earnings but stays in management's preferred range.

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 should help it prepare for the next recession as well, building upon significant earnings growth that occurred during the Great Recession, illustrating the staying power of the model.

Final Thoughts & Recommendation

Overall, we see Newell as an interesting but potentially drawn out turnaround story. We are forecasting 23.6% total annual returns going forward, consisting of the current 4.6% yield, 5.4% earnings growth and a 13.6% tailwind from the rising valuation. Two years of subpar returns from the stock has made it much cheaper than it has been in the past, but Newell is certainly not without its risks. We see it as a higher risk, high potential reward buy at current prices, as it is even cheaper than it was at the time of our last report, before guidance was raised.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	6471	5578	5658	5512	5509	5607	5727	5916	13264	14742
Gross Profit	2123	2050	2149	2101	2094	2125	2203	2305	4399	5089
Gross Margin	32.8%	36.7%	38.0%	38.1%	38.0%	37.9%	38.5%	39.0%	33.2%	34.5%
SG&A Exp.	1503	1375	1448	1422	1404	1400	1546	1626	3224	3667
D&A Exp.	183	175	172	162	164	159	156	172	437	636
Operating Profit	621	675	701	679	691	725	658	679	1175	1423
Operating Margin	9.6%	12.1%	12.4%	12.3%	12.5%	12.9%	11.5%	11.5%	8.9%	9.6%
Net Profit	-52	286	293	125	401	475	378	350	528	2749
Net Margin	-0.8%	5.1%	5.2%	2.3%	7.3%	8.5%	6.6%	5.9%	4.0%	18.6%
Free Cash Flow	297	450	418	338	441	467	472	382	1399	526
Income Tax	54	143	6	21	162	120	89	78	286	-1320

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	6793	6424	6405	6161	6222	6070	6564	7260	33838	33136
Cash & Equivalents	275	278	140	170	184	226	199	275	588	486
Accounts Receivable	969	894	998	1002	1112	1105	1248	1251	2747	2674
Inventories	912	688	702	700	696	684	709	722	2116	2499
Goodwill & Int. Ass.	3339	3401	3398	3032	3024	2976	3433	3855	24331	24796
Total Liabilities	5204	4642	4500	4308	4222	3995	4709	5433	22453	18954
Accounts Payable	536	434	473	469	527	559	674	642	1519	1762
Long-Term Debt	2879	2509	2369	2177	1918	1836	2482	3058	11893	10552
Shareholder's Equity	1586	1779	1902	1849	1997	2072	1851	1823	11349	14145
D/E Ratio	1.82	1.41	1.25	1.18	0.96	0.89	1.34	1.68	1.05	0.75

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-0.8%	4.3%	4.6%	2.0%	6.5%	7.7%	6.0%	5.1%	2.6%	8.2%
Return on Equity	-2.7%	17.0%	15.9%	6.7%	20.9%	23.3%	19.3%	19.1%	8.0%	21.6%
ROIC	-1.2%	6.5%	6.8%	3.0%	10.1%	12.1%	9.2%	7.6%	3.7%	11.5%
Shares Out.	277	279	291	288	287	279	269	267	483	485
Revenue/Share	23.12	18.95	18.53	18.61	18.76	19.22	20.53	21.79	31.35	30.21
FCF/Share	1.06	1.53	1.37	1.14	1.50	1.60	1.69	1.41	3.31	1.08

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