



# Stanley Black & Decker (SWK)

Updated January 22<sup>nd</sup>, 2018 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$117	<b>5 Year CAGR Estimate:</b>	13.1%	<b>Volatility Percentile:</b>	43.5%
<b>Fair Value Price:</b>	\$134	<b>5 Year Growth Estimate:</b>	8.0%	<b>Momentum Percentile:</b>	14.2%
<b>% Fair Value:</b>	87%	<b>5 Year Valuation Multiple Estimate:</b>	2.8%	<b>Growth Percentile:</b>	73.2%
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$197	<b>Valuation Percentile:</b>	67.0%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	70.9%

## 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 \$21 billion.

Stanley Black & Decker reported financial results for the fourth quarter and full year 2018 on January 22<sup>nd</sup>. The company had earnings-per-share (EPS) of \$2.11, \$0.01 above estimates, but a 3.2% decline from the previous year. Revenue grew 4.9% to \$3.63 billion, beating estimates by \$10 million. For the year, Stanley Black & Decker earned \$8.15 per share, matching the company's downward revised guidance from the previous quarter. This was 9.7% higher than 2017's results. Revenue grew nearly 8% to \$14 billion for the year. Organic sales growth reached 5% for 2018. Stanley Black & Decker saw companywide volumes improve 5% in the quarter with acquisitions contributing an additional 2% and price increases adding another 1%. This growth more than offset a 3% currency headwind. Tools & Storage had organic growth of 4% overall, with 10% organic growth in North America. The rollout of the Craftsman brand helped lead to the strong organic growth totals. Organic sales growth for the Industrial division was 16%, with acquisitions (especially Nelson Fasteners) adding 12% to this total. Security sales decreased 1% as currency translation and lower volumes more than offset acquisitions and price increases. Lower volumes for commercial electronic security systems were also the cause of the year-over-year declines.

Shares of Stanley Black & Decker were down dramatically (more than 16%) following the results release as the company guided towards a midpoint for adjusted EPS for 2019 of \$8.55. This would represent an increase of 5% from 2018's results if achieved. Based on this guidance, we have raised our EPS expectations for 2024 to \$12.56 from \$11.98. Included in the adjusted EPS projection was an expected negative impact of \$0.90-\$1.00 from tariff and commodity costs, which was the likely cause of the steep decline that shares experienced.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$2.72	\$3.96	\$5.24	\$4.67	\$4.98	\$5.36	\$5.86	\$6.51	\$7.43	\$8.15	<b>\$8.55</b>	<b>\$12.56</b>
<b>DPS</b>	\$1.30	\$1.34	\$1.64	\$1.80	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	<b>\$2.64</b>	<b>\$3.79</b>
<b>Shares</b>	80.6	167.2	169.6	160.3	155.6	157.4	153.9	152.6	154	152	<b>151</b>	<b>145</b>

Stanley Black & Decker has seen earnings-per-share grow at a rate of 8% over the past ten years. Stanley Black & Decker remained profitable over the Great Recession but saw earnings decline. 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 an impressive dividend growth streak. The company has raised its dividend for 50 consecutive years. While shares likely won't have a significantly 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 18<sup>th</sup>.

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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.1	14.7	12.9	15.2	16.3	16.2	17.1	17.2	20.5	13.5	<b>13.7</b>	<b>15.7</b>
Avg. Yld.	3.4%	2.3%	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	2.4%	<b>2.2%</b>	<b>2.0%</b>

Shares of Stanley Black & Decker have actually increased \$7, or 6.4%, since our October 25<sup>th</sup> update. Based on revised earnings guidance, the stock now trades with a P/E of 13.7. If shares were to revert to their 10-year average valuation, then the stock would see an additional 2.8% gain in annual returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	47.8%	33.8%	31.3%	38.5%	39.8%	38.1%	36.5%	34.7%	32.6%	31.7%	<b>35.2%</b>	<b>30.2%</b>

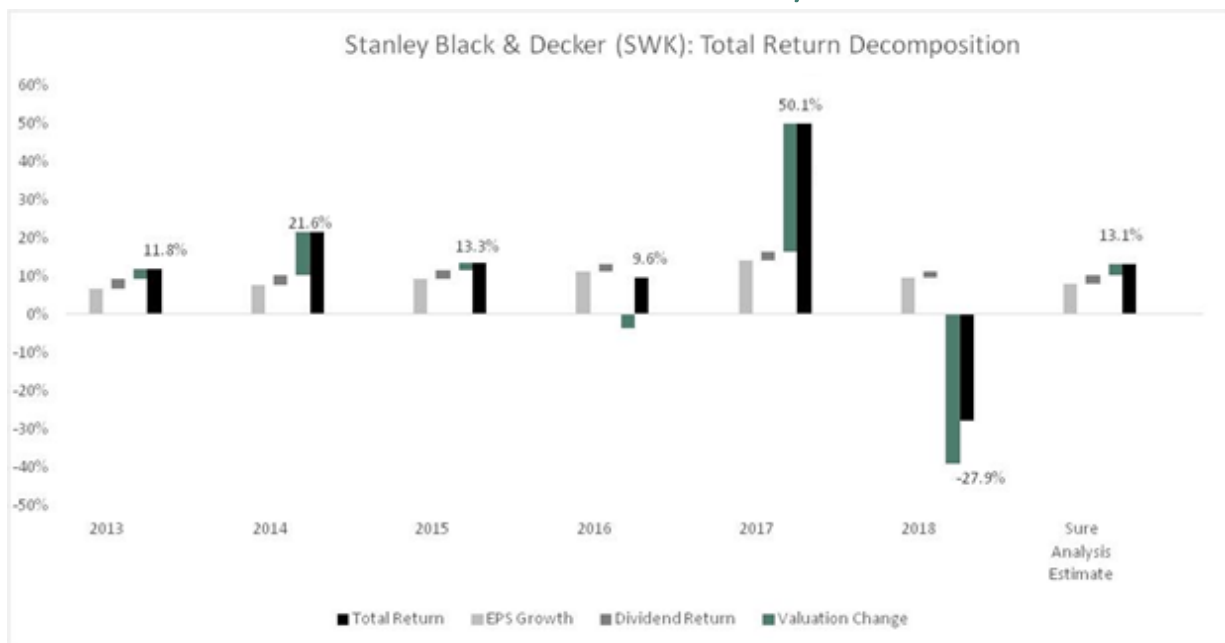
As seen during the 2008/2009-time period, Stanley Black & Decker is not recession proof, but investors who were willing to hold shares of the company from the 2008 lows have seen their shares grow almost 450%. The company's low payout ratio does make it likely that dividends will continue rising even through a serious recession.

## Final Thoughts & Recommendation

Factoring in fourth quarter and 2018 results as well as guidance for the current year, we forecast that Stanley Black & Decker can offer annual returns of 13.1% through 2023, down from 13.5% previously. This estimate is a combination of earnings growth (8%), dividends (2.3%) and multiple expansion (2.8%). Stanley Black & Decker had a solid quarter and was able to meet its revised guidance.

The stock had a major sell off, likely on the news that tariffs and commodity costs would have a major impact on earnings-per-share. Due to adjusted EPS guidance for 2019, we have increased our 2024 price target \$9 to \$197. We feel that the company offers a solid combination of growth, dividends and the potential for multiple expansion. Investors are encouraged to look past the steep share price decline and consider buying the stock at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	3737	7497	9377	10022	10890	11339	11172	11407	12747	13982
<b>Gross Profit</b>	1508	2690	3451	3657	3904	4103	4072	4267	4778	4902
<b>Gross Margin</b>	40.4%	35.9%	36.8%	36.5%	35.8%	36.2%	36.4%	37.4%	37.5%	35.1%
<b>SG&amp;A Exp.</b>	1014	1994	2342	2463	2676	2575	2459	2602	2966	3172
<b>D&amp;A Exp.</b>	200	349	410	445	441	450	414	408	461	507
<b>Operating Profit</b>	385	686	1093	1183	1213	1507	1586	1643	1798	1730
<b>Operating Margin</b>	10.3%	9.2%	11.7%	11.8%	11.1%	13.3%	14.2%	14.4%	14.1%	12.4%
<b>Net Profit</b>	224	198	675	884	490	761	884	965	1226	645
<b>Net Margin</b>	6.0%	2.6%	7.2%	8.8%	4.5%	6.7%	7.9%	8.5%	9.6%	4.6%
<b>Free Cash Flow</b>	446	554	697	593	528	1005	871	1138	976	769
<b>Income Tax</b>	55	18	52	76	69	227	249	261	301	427

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	4769	15139	15949	15844	16535	15849	15128	15635	19080	19408
<b>Cash &amp; Equivalents</b>	401	1745	907	716	496	497	465	1132	638	311
<b>Accounts Receivable</b>	518	1412	1345	1329	1366	1205	1165	1137	1422	1608
<b>Inventories</b>	366	1272	1271	1305	1473	1563	1526	1478	2018	2374
<b>Goodwill &amp; Int. Ass.</b>	2595	8814	9382	9947	10600	10027	9626	8994	12284	12441
<b>Total Liabilities</b>	2758	8070	8882	9117	9655	9337	9269	9261	10780	11528
<b>Accounts Payable</b>	410	999	1199	1346	1553	1579	1533	1640	2021	2233
<b>Long-Term Debt</b>	1383	3436	3452	3538	4202	3847	3800	3827	3832	4198
<b>Shareholder's Equity</b>	1986	7017	7004	6667	6799	6429	5812	6367	7547	7876
<b>D/E Ratio</b>	0.70	0.49	0.49	0.53	0.62	0.60	0.65	0.60	0.46	0.53

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	4.7%	2.0%	4.3%	5.6%	3.0%	4.7%	5.7%	6.3%	7.1%	3.4%
<b>Return on Equity</b>	12.1%	4.4%	9.6%	12.9%	7.3%	11.5%	14.4%	15.9%	17.6%	8.4%
<b>ROIC</b>	6.7%	2.9%	6.4%	8.5%	4.6%	7.1%	8.8%	9.7%	11.0%	5.3%
<b>Shares Out.</b>	80.6	167.2	169.6	160.3	155.6	157.4	153.9	152.6	154	152
<b>Revenue/Share</b>	46.48	49.92	55.12	60.12	68.58	70.98	73.16	76.97	83.62	92.21
<b>FCF/Share</b>	5.55	3.69	4.10	3.56	3.32	6.29	5.70	7.68	6.40	5.07

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

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