



Newell Brands (NWL)

Updated February 17th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	15.9%	Volatility Percentile:	94.0%
Fair Value Price:	\$22	5 Year Growth Estimate:	5.0%	Momentum Percentile:	3.5%
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.5%	Growth Percentile:	34.5%
Dividend Yield:	5.4%	5 Year Price Target	\$29	Valuation Percentile:	89.8%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	91.9%

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 \$8 billion.

Newell reported Q4 earnings on 2/15/19 and while results were fine, guidance for 2019 spooked investors and sent the stock tumbling more than 20% on the day of the report. Total sales were down 6% in Q4 as adoption of a new revenue recognition standard weighed, in addition to forex translation moving against it. Core sales were down 1.2%, although the company's reporting segments did post sequential improvements in sales.

Adjusted gross margins rose 170bps to 34.7% of revenue during the quarter thanks to productivity gains, better pricing, lower integration costs, and lower restructuring costs. Some of this was offset by unfavorable moves in input costs, tariffs and transport costs, but overall, Newell's margin profile looked strong in Q4. Indeed, adjusted operating margins came in at 11.4% of revenue against 10.7% in the year-ago period.

Adjusted earnings-per-share came in at 71 cents against 68 cents in the comparable period of 2017. However, earnings from continuing operations only rose from 28 cents to 47 cents, highlighting the improvements Newell is making.

Newell continues its considerable balance sheet transformation, having repaid \$2.6 billion in debt in Q4 alone. It also paid \$100+ million in dividends, plus \$1 billion in share buybacks (which is a *tremendous* number relative to market cap).

Management guided for \$1.50 to \$1.65 in earnings-per-share for 2019; our initial estimate is \$1.60.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.97	\$0.96	\$1.17	\$1.36	\$1.44	\$1.33	\$0.96	\$1.25	\$5.63	\$2.68	\$1.60	\$2.04
DPS	\$0.26	\$0.20	\$0.29	\$0.43	\$0.60	\$0.66	\$0.76	\$0.76	\$0.88	\$0.92	\$0.92	\$1.10
Shares	279	291	288	287	279	269	267	483	485	423	350	250

While Newell's guidance does warrant some caution, we continue to think the future is bright. We see annual earnings-per-share growth averaging 5% 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. For context, Q4 operating margins were 11.4%. 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. The buyback has the potential to drive outsized earnings-per-share growth, but the exact timing and size of repurchases is still very much a variable at this point. 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.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	11.7	16.9	13.8	13.8	18.6	24.3	42.8	37.3	8.1	9.1	10.7	14.0
Avg. Yld.	2.3%	1.2%	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	3.8%

Newell's price-to-earnings multiple is well below its historical average and we see it rising back towards 14, resulting in a sizable 5.5% tailwind to total annual returns going forward as the current valuation is quite low. A rising multiple should see the yield fall as well, to near 4% from the current, inflated yield of 5.4%, which is the product of the low price-to-earnings multiple at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	25%	19%	25%	32%	41%	49%	80%	62%	16%	34%	58%	54%

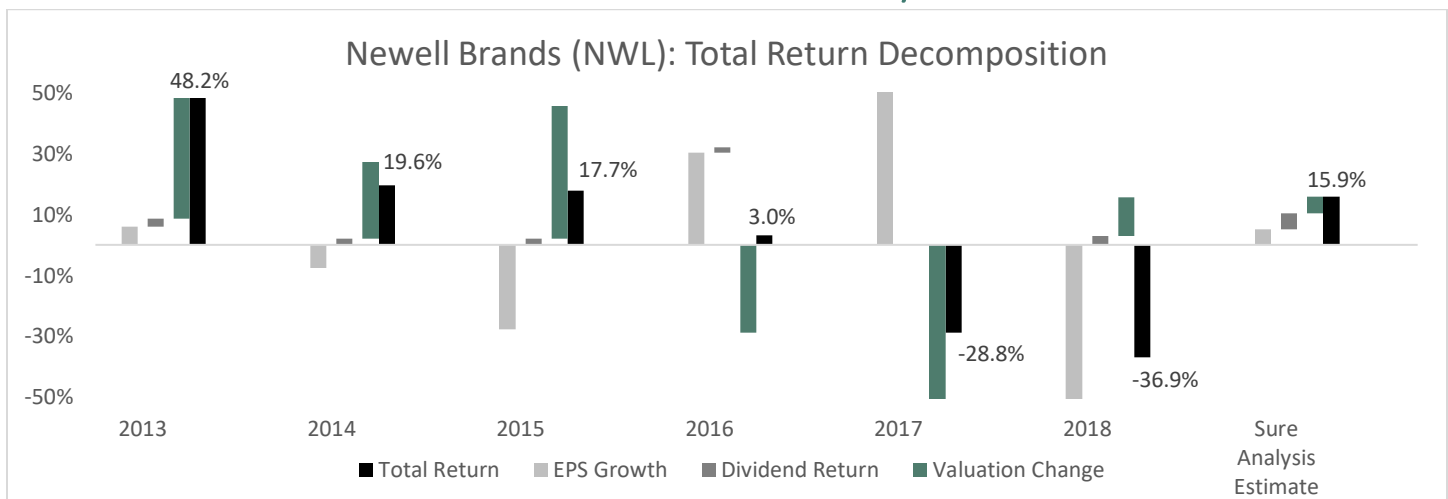
Newell's payout ratio should remain about where it is today as the dividend keeps pace with earnings, but stays in management's preferred range. The CFO noted on the Q4 earnings call that there are currently no plans to change the dividend, so we see any sort of growth as at least a couple of years out. The important thing for now is that the payout is safe and should not be cut.

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 15.9% total annual returns going forward, consisting of the current 5.4% yield, 5% earnings growth and a 5.5% 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, despite the murky outlook for 2019. The company's ability to convert operating cash flows as well as divestiture proceeds into growth will be tested in 2019, but we are optimistic. A much lower share count will help boost earnings-per-share and we believe the margin reflation story is alive and well.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5577.6	5658.2	5511.7	5508.5	5607	5727	5915.7	13264	14742	8630.9
Gross Profit	2049.5	2148.7	2101.1	2094.1	2124.9	2203.4	2304.6	4398.8	5089.3	3008.8
Gross Margin	36.7%	38.0%	38.1%	38.0%	37.9%	38.5%	39.0%	33.2%	34.5%	34.9%
SG&A Exp.	1374.6	1447.8	1422.3	1403.5	1399.5	1480.5	1573.9	3221.1	3669.1	2434.8
D&A Exp.	175.1	172.3	161.6	163.7	158.9	156.1	171.6	437.2	635.6	433.9
Operating Profit	674.9	700.9	678.8	690.6	725.4	722.9	730.7	1177.7	1420.2	574
Op. Margin	12.1%	12.4%	12.3%	12.5%	12.9%	12.6%	12.4%	8.9%	9.6%	6.7%
Net Profit	285.5	292.8	125.2	401.3	474.6	377.8	350	527.8	2748.8	-6918
Net Margin	5.1%	5.2%	2.3%	7.3%	8.5%	6.6%	5.9%	4.0%	18.6%	-80.2%
Free Cash Flow	449.5	417.9	338.4	441.3	467	472.2	381.5	1399	525.8	295.6
Income Tax	142.7	5.6	21.3	161.5	120	89.1	78.2	286	-1320	-1505

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	6423.9	6405.3	6160.9	6222	6069.7	6564.3	7259.5	33838	33136	17716
Cash & Equivalents	278.3	139.6	170.2	183.8	226.3	199.4	274.8	587.5	485.7	495.7
Acc. Receivable	894.1	997.9	1002	1112.4	1105.1	1248.2	1250.7	2746.9	2674	1850.7
Inventories	688.2	701.6	699.9	696.4	684.4	708.5	721.8	2116	2498.8	1583.1
Goodwill & Int.	3400.5	3397.8	3032.1	3024.3	2975.6	3433.2	3854.9	24331	24796	8549.8
Total Liabilities	4641.7	4499.8	4308.3	4221.8	3994.7	4709.4	5433.1	22453	18954	12439
Accounts Payable	433.6	472.5	468.5	527.4	558.9	674.1	642.4	1518.9	1761.6	1019.5
Long-Term Debt	2508.8	2368.9	2176.8	1918.4	1836.4	2481.9	3057.9	11893	10552	7015
Total Equity	1778.7	1902	1849.1	1996.7	2071.5	1851.4	1822.9	11349	14145	5243
D/E Ratio	1.41	1.25	1.18	0.96	0.89	1.34	1.68	1.05	0.75	1.34

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.3%	4.6%	2.0%	6.5%	7.7%	6.0%	5.1%	2.6%	8.2%	-27.2%
Return on Equity	17.0%	15.9%	6.7%	20.9%	23.3%	19.3%	19.1%	8.0%	21.6%	-71.4%
ROIC	6.5%	6.8%	3.0%	10.1%	12.1%	9.2%	7.6%	3.7%	11.5%	-37.4%
Shares Out.	279	291	288	287	279	269	267	483	485	423
Revenue/Share	18.95	18.53	18.61	18.76	19.22	20.53	21.79	31.35	30.21	18.22
FCF/Share	1.53	1.37	1.14	1.50	1.60	1.69	1.41	3.31	1.08	0.62

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

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