



# Stanley Black & Decker, Inc. (SWK)

Updated July 23<sup>rd</sup>, 2019 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$150	<b>5 Year CAGR Estimate:</b>	7.8%	<b>Volatility Percentile:</b>	48.9%
<b>Fair Value Price:</b>	\$135	<b>5 Year Growth Estimate:</b>	8.0%	<b>Momentum Percentile:</b>	40.2%
<b>% Fair Value:</b>	111%	<b>5 Year Valuation Multiple Estimate:</b>	-2.0%	<b>Growth Percentile:</b>	76.2%
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$198	<b>Valuation Percentile:</b>	39.6%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	43.3%

## 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 \$23 billion, with annual revenues of \$14+ billion.

Stanley Black & Decker reported financial results for the second quarter on 7/23/2019. The company's adjusted earnings-per-share came to \$2.66 in the quarter, which was \$0.11 above estimates and a 3.5% improvement from the previous year. Revenue increased 3.3% to \$3.8 billion, but was \$50 million lower than expected.

Organic growth and acquisitions each added 3% to revenue results, more than offsetting a 3% headwind from currency translation. The Tools & Storage segment had 5% organic growth, let by a 7% increase in North America and a 5% improvement in Europe. The Craftsman Brand and other new products were the primary contributors to growth in North America. The Industrial segment saw organic growth decline 3%. A 2% increase for infrastructure was more than offset by a 4% drop in engineered fastening. The company's infrastructure business had stronger demand for oil and gas projects while the engineered fastening business was hampered by a decline in its automotive and industrial markets. The Security segment was down 1% year-over-year due to flat growth in North America and a 2% decline in Europe. In N.A., this segment had higher volumes for its healthcare business which was offset by lower automatic door installations. In Europe, declines in Sweden and the U.K. outweighed gains made in France. Stanley Black & Decker reaffirmed its adjusted earnings-per-share guidance for the year in the range of \$8.50 to \$8.70. Shares increased as much as 7% following the release of results.

## 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>\$8.60</b>	<b>\$12.64</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>\$2.76</b>	<b>\$4.06</b>
<b>Shares</b>	81	167	170	160	156	157	154	153	154	152	<b>150</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 15% in 2008 and 20% in 2009. In the years since, Stanley Black & Decker has generally seen its earnings-per-share rise consistently. We expect the company to continue to grow earnings-per-share at a rate of 8% annually due to organic revenue growth and contributions from acquisitions such as Craftsman.

Stanley Black & Decker has an impressive dividend growth streak, having raised its dividend for 51 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 most recently raised its dividend by 4.5% for the upcoming 9/17/2019 payment.

*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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## 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	17.4	15.7
Avg. Yld.	3.4%	2.3%	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	2.4%	1.8%	2.0%

Shares of Stanley Black & Decker have increased \$4, or 2.7%, since our 4/24/2019 update. Based on earnings guidance, the stock now trades with a price-to-earnings ratio, or P/E of 17.4. If shares were to revert to their 10-year average P/E of 15.7 by 2024, then valuation would be a 2.0% headwind to annual returns over this time. Using the new annualized dividend, Stanley Black & Decker's stock yields 1.8%.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	48%	34%	31%	39%	40%	38%	37%	35%	33%	32%	32%	32%

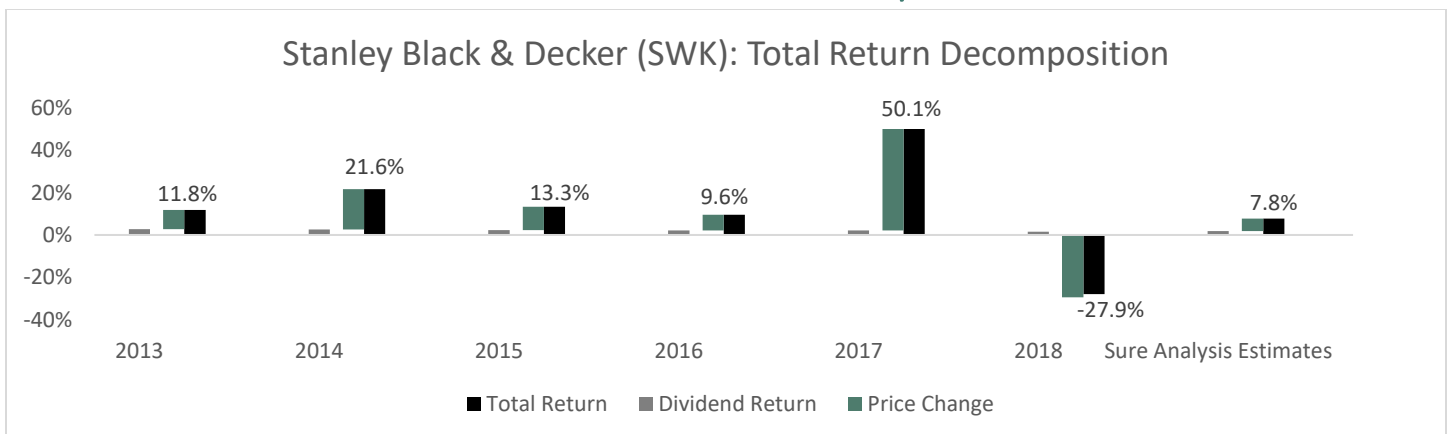
As seen during the 2008/2009-time period, Stanley Black & Decker is not recession proof, but investors who were willing to hold shares of the company from the 2008 lows have seen their shares grow almost 450%. The company's low payout ratio does make it likely that dividends will continue rising even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

Stanley Black & Decker's key competitive advantage is that its products are well-known and respected by customers. This was why the company was able to increase prices in certain product categories and not see a decline in sales. Stanley Black & Decker has also been very active in making strategic acquisitions to help grow the company. For example, adding the Craftsman Brand helped drive double digit organic growth in North America during the first quarter of 2019.

## Final Thoughts & Recommendation

After second quarter results, we expect that Stanley Black & Decker will offer a total annual return of 7.8% through 2024, down slightly from our previous forecast of 8.2%. The company had a mixed quarter. Tools & Storage, the company's largest contributor to revenue and earnings, performed very well in large part to its Craftsman Brand. On the other hand, the two smaller segments, Industrial and Security, declined from the previous year. The company's dividend track record is very impressive, but the yield is slightly below that of the S&P 500, so income investors may choose to pass on this name. Due to the expected returns, Stanley Black & Decker continues to receive a hold recommendation from Sure Dividend. We maintain our 2024 price target of \$198 and encourage investors to wait for a slight pullback before purchasing.

## 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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