Newell Brands Inc. (NWL)

Updated November 13th, 2019 by Josh Arnold

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	9.1%	**Volatility Percentile:**	95.2%
Fair Value Price:	$20	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	23.0%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.1%	**Growth Percentile:**	41.0%
Dividend Yield:	4.6%	**5 Year Price Target**	$25	**Valuation Percentile:**	70.0%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	73.9%

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 in excess of $9 billion, and it trades with a market capitalization of $8.4 billion.

Newell reported third quarter earnings on November 1st and results were ahead of expectations on the top and bottom lines, as the company's turnaround is progressing nicely. Total sales were $2.5 billion, a decline of -3.8% with the same period last year. Core sales were down -2.5%, but increased at four of the seven operating divisions.

Operating margin was 12.7% of revenue on an adjusted basis, down from 13.2% in the comparable period last year. The decline was due to higher advertising spending in this year's Q3. Importantly, the decline in profitability was due to a discretionary expense item and not pricing or volume impairment, for example.

Adjusted earnings-per-share came to $0.73, down from $0.77 in the year-ago period, but ahead of expectations. The decline was due to businesses that have been divested in the past year. Year-to-date operating cash flow is $424 million, more than double the $182 million produced in the same period last year, reflecting strong progress on the company's working capital position.

We note that Newell has reduced its long-term debt by a billion dollars since the end of 2018, although it is still quite significant at $5.7 billion. Newell also said it was ending the divestiture process for the Mapa/Spontex and Quickie businesses, respectively, meaning those businesses will once again be included in continuing operations moving forward. Newell believes this will be accretive to earnings and cash flow in 2020.

Newell raised its adjusted earnings-per-share guidance to $1.63 to $1.68, up from $1.50 to $1.65, and we've boosted our estimate by six cents as a result, up to $1.66 for this year.

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	***$1.66***	***$2.12***
DPS	$0.26	$0.20	$0.29	$0.43	$0.60	$0.66	$0.76	$0.76	$0.88	$0.92	***$0.92***	***$1.12***
Shares[1]	279	291	288	287	279	269	267	483	485	423	***423***	***250***

We continue to think the future is bright for Newell. 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. We think the bulk of Newell's planned divestitures have been made at this point, so revenue should stabilize in the area of $9 billion to $10 billion. 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. The buyback has the potential to drive outsized earnings-per-share growth, but the exact

[1] Share count in millions

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.

timing and size of repurchases is still very much a variable at this point. Indeed, essentially no repurchases have been made this year. 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. We note that Newell is working hard to reduce its significant debt load, as well as improving its cash conversion cycle, which will help bolster its working capital position. There was progress on both of these items in Q3. This, in turn, should aid the debt reduction effort given that Newell shouldn't have to borrow as much to fund operations once cash conversion improves.

The dividend should grow rather slowly as it has in recent years. We therefore see modest growth to $1.12 per share in five years from today's 92 cents.

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	***11.9***	***12.0***
Avg. Yld.	2.3%	1.2%	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	***4.6%***	***4.4%***

Newell's price-to-earnings multiple is well below its historical average, but we see it as fairly valued around 12 times earnings. This is a reduction from our prior target of 14 times earnings, as we note that the valuation should reflect the uncertainty of the company's turnaround efforts. Still, one gets a 4.6% yield today, even after the sizable rally.

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%	***55%***	***53%***

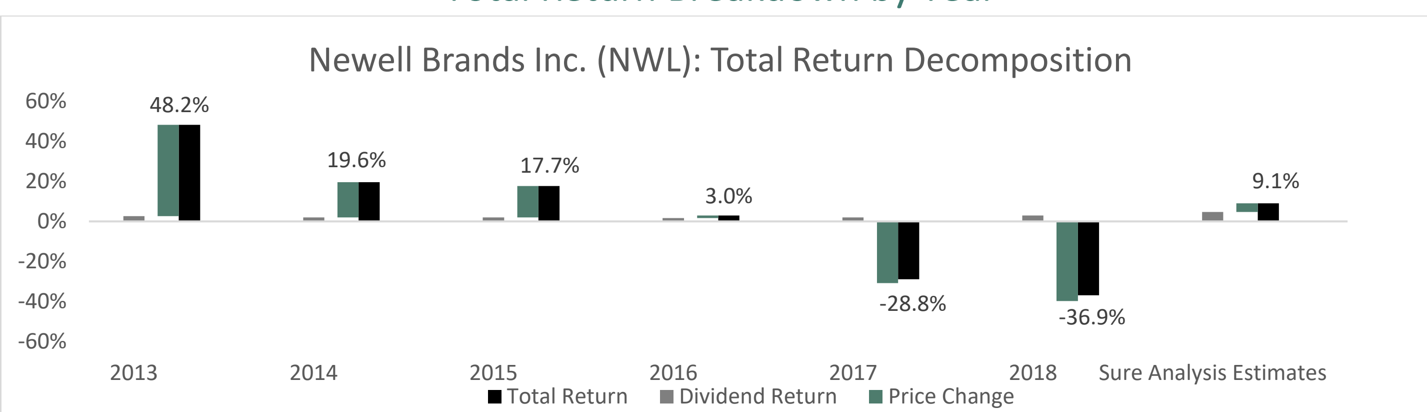
Newell's payout ratio should remain about where it is today as the dividend keeps pace with earnings, but stays in management's preferred range. The important thing for now is that the payout is appears safe and should not be cut.

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

In total, we see Newell as attractive, but the recent rally has it trading for our estimate of fair value. Even so, the ample yield and improving growth forecast could see it produce 9.1% total annual returns in the coming years. We are, however, downgrading Newell from buy to hold based simply on the higher valuation following the rally to $20. We remain bullish on Newell's future, but note that shares are just $5 away from our 2024 price target.

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.