



# Stanley Black & Decker, Inc. (SWK)

Updated October 24<sup>th</sup>, 2019 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$146	<b>5 Year CAGR Estimate:</b>	7.7%	<b>Volatility Percentile:</b>	56.1%
<b>Fair Value Price:</b>	\$132	<b>5 Year Growth Estimate:</b>	8.0%	<b>Momentum Percentile:</b>	78.4%
<b>% Fair Value:</b>	111%	<b>5 Year Valuation Multiple Estimate:</b>	-2.0%	<b>Growth Percentile:</b>	80.3%
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$194	<b>Valuation Percentile:</b>	38.9%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	44.8%

## 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 \$22 billion, with annual revenues of \$14+ billion.

Stanley Black & Decker reported earnings results for the third quarter on 10/24/2019. Adjusted earnings-per-share totaled \$2.13 for the quarter, topping estimates by \$0.10 and growing 2.4% from the previous year. Revenue was up 6% to \$3.6 billion, which was \$15 million below expectations.

Stanley Black & Decker had 4% organic growth during the quarter and acquisitions added 3%. Tools & Storage had 5% organic growth, with all regions outside of emerging markets showing improvements. Craftsman and product innovation continue to drive gains in North America. Industrial organic sales declined 2% though revenue was higher by 13%. Engineered Fastening dropped 4% to lower production levels among automotive and industrial customers. Stanley Black & Decker has, however, seen increased market share for fasteners. Infrastructure grew 4% due to strength in oil and gas projects. A declining scrap steel market negatively impacted volumes for hydraulic tools. Organic sales for the Security division were up 1% as a 3% improvement in North America was only partially offset by a 1% decline in Europe. Healthcare, electronic security and automatic doors were in high demand in North America, while market conditions in European countries were difficult. Tariffs, currency and commodity costs were a \$90 million headwind during the quarter. The adjusted operating margin of 14.5% was flat from the prior year. Adjusted SG&A expenses declined 120 bps to 19.8%. The company announced it was undergoing a new cost reduction program expected to reduce costs by \$200 million annually. Stanley Black & Decker lowered its full-year guidance and now expects adjusted earnings-per-share in a range of \$8.35 to \$8.45, down from \$8.50 to \$8.70 previously. The company 3.5% to 4% organic growth for the year. Shares closed the trading session down almost 5% following the earnings release.

## 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>\$8.40</b>	<b>\$12.34</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<sup>1</sup></b>	81	167	170	160	156	157	154	153	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 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.

<sup>1</sup> Share count in millions

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Stanley Black & Decker has an impressive dividend growth streak, having raised its dividend for 52 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 9/17/2019 payment.

## 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%	1.9%	2.1%

Shares of Stanley Black & Decker have decreased \$4, or 2.7%, since our 7/23/2019 update. Based on updated adjusted earnings-per-share 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 1.9%.

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

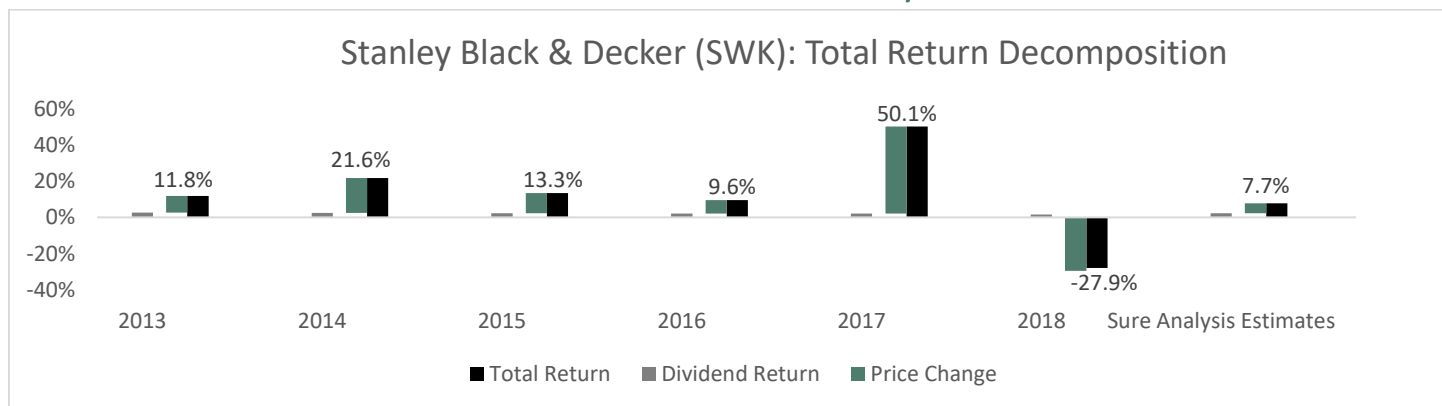
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	48%	34%	31%	39%	40%	38%	37%	35%	33%	32%	33%	33%

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 organic growth in North America every quarter since the 2017 acquisition.

## Final Thoughts & Recommendation

Following third quarter results, Stanley Black & Decker is expected to offer a total annual return of 7.7% through 2024, down slightly from our previous forecast of 7.8%. The company lowered the midpoint for adjusted earnings-per-share, but expects solid organic growth despite headwinds from tariffs, currency and higher input costs. Stanley Black & Decker's largest division continues to perform well as the Craftsman acquisition helps drive growth. We have lowered our 2024 price target \$4 to \$194 due to updated guidance, and maintain our hold rating on the stock. On a pullback, we'd be much more interested in owning this Dividend King.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	4769	15139	15949	15844	16535	15849	15128	15635	19080	19408
Cash & Equivalents	401	1745	907	716	496	497	465	1132	638	311
Accounts Receivable	518	1412	1345	1329	1366	1205	1165	1137	1422	1608
Inventories	366	1272	1271	1305	1473	1563	1526	1478	2018	2374
Goodwill & Int. Ass.	2595	8814	9382	9947	10600	10027	9626	8994	12284	12441
Total Liabilities	2758	8070	8882	9117	9655	9337	9269	9261	10780	11528
Accounts Payable	410	999	1199	1346	1553	1579	1533	1640	2021	2233
Long-Term Debt	1383	3436	3452	3538	4202	3847	3800	3827	3832	4198
Shareholder's Equity	1986	7017	7004	6667	6799	6429	5812	6367	7547	7876
D/E Ratio	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
Return on Assets	4.7%	2.0%	4.3%	5.6%	3.0%	4.7%	5.7%	6.3%	7.1%	3.4%
Return on Equity	12.1%	4.4%	9.6%	12.9%	7.3%	11.5%	14.4%	15.9%	17.6%	8.4%
ROIC	6.7%	2.9%	6.4%	8.5%	4.6%	7.1%	8.8%	9.7%	11.0%	5.3%
Shares Out.	80.6	167.2	169.6	160.3	155.6	157.4	153.9	152.6	154	152
Revenue/Share	46.48	49.92	55.12	60.12	68.58	70.98	73.16	76.97	83.62	92.21
FCF/Share	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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