Stanley Black & Decker, Inc. (SWK)

Updated January 29th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$162	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$25.3 billion
Fair Value Price:	$140	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	3/4/2020[1]
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	3/19/2020[2]
Dividend Yield:	1.7%	**5 Year Price Target**	$205	**Years Of Dividend Growth:**	52
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.5%

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 reported earnings results for the fourth quarter and full-year on 1/29/2019. Adjusted earnings-per-share totaled $2.18 for the quarter, which was $0.01 below estimates, but was a 3.3% improvement from the previous year. Revenue grew 2.2% to $3.7 billion, which was $80 million lower than expected. For 2019, adjusted earnings-per-share grew 3% to $8.40, which was the midpoint for the company's guidance. Revenue was higher by 3% to $14.4 billion.

Stanley Black & Decker had 2% organic growth during the quarter and 3% for the year. Tools & Storage had 2% organic growth due to strength in both North America and Europe. Growth in Craftsman and new product innovation overcame weakness in Canada and the industrial focused business. Sales for the Industrial segment had 9% net sales growth as contributions from acquisitions were partially offset by lower volumes. Organic sales were down 4% for the quarter as Engineered Fastening was flat and Infrastructure was lower by 17% due to challenging markets in oil & gas pipelines and scrap steel. Security organic sales were up 4% as North America produced 7% growth. Higher volumes in commercial electronic security and automatic doors helped drive improvements in this segment. France and Sweden showed improvements while the U.K. continues to be a weak area for Stanley Black & Decker. Stanley Black & Decker gave initial guidance for 2020 as well. The company expects adjusted earnings-per-share of $8.80 to $9.00 for the year while organic growth is projected to grow 3%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.96	$5.24	$4.67	$4.98	$5.36	$5.86	$6.51	$7.43	$8.15	$8.40	***$8.90***	***$13.08***
DPS	$1.34	$1.64	$1.80	$1.98	$2.04	$2.14	$2.26	$2.42	$2.58	$2.76	***$2.76***	***$4.06***
Shares[3]	167	170	160	156	157	154	153	154	152	151	***151***	***145***

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.

[1] Estimated date
[2] Estimated dividend payment date
[3] 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.7	12.9	15.2	16.3	16.2	17.1	17.2	20.5	13.5	19.7	***18.2***	***15.7***
Avg. Yld.	2.3%	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	2.4%	1.7%	***1.7%***	***2.0%***

Shares of Stanley Black & Decker have increased $16, or 11%, since our 10/24/2019 update. Based on adjusted earnings-per-share guidance for 2020, the stock now trades with a price-to-earnings ratio, or P/E, of 18.2. If shares were to revert to the 10-year average P/E of 15.7 by 2025, then valuation would be a 2.9% headwind to annual returns over this time. Stanley Black & Decker's stock yields 1.7%, in-line with the average yield for the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

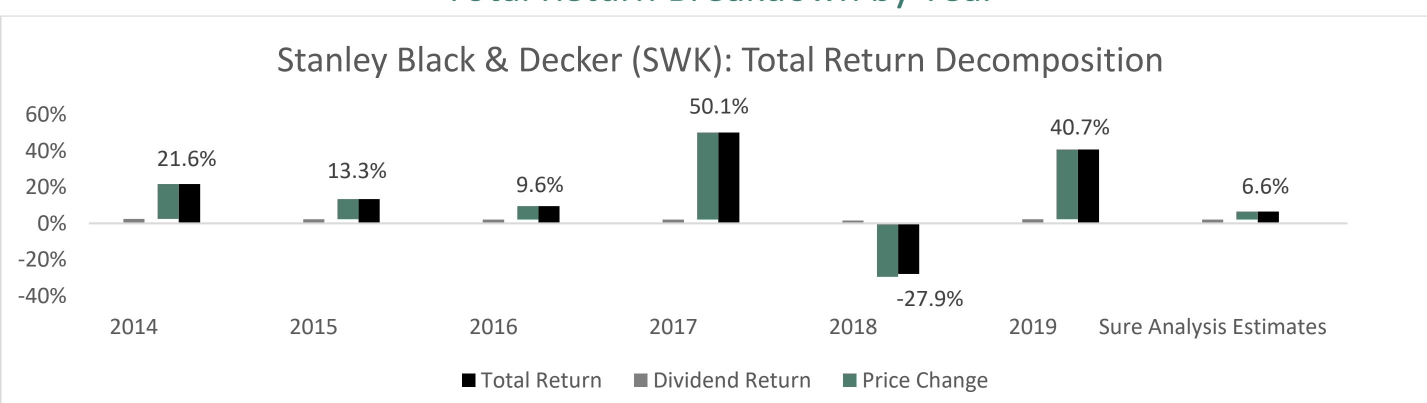
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	34%	31%	39%	40%	38%	37%	35%	33%	32%	33%	***31%***	***31%***

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 fourth quarter and full-year results, Stanley Black & Decker is expected to return 6.6% annually through 2025, down from our previous estimate of 7.7%. Stanley Black & Decker saw solid results in most businesses, though the Industrial segment, and in particular, infrastructure, remains challenged. Despite these headwinds, Stanley Black & Decker still managed top and bottom-line growth for both the quarter and full year. We have increased our 2025 price target $9 to $205 due to guidance for the current year. Due to projected returns over the next five year, Stanley Black & Decker continues to receive a hold rating from Sure Dividend.

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.