



Newell Brands Inc. (NWL)

Updated February 22nd, 2020 by Josh Arnold

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	6.2%	Market Cap:	\$8.1B
Fair Value Price:	\$17	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/27/20
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date:	03/13/20
Dividend Yield:	4.8%	5 Year Price Target	\$21	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

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 \$8.1 billion.

Newell reported Q4 and full-year earnings on February 14th and results beat expectations on the top and bottom lines. Net sales for the year came to \$9.7 billion, a decline of -4.3% over 2018. Core sales declined -1.9%, which excludes the impact of divestitures.

Reported gross margin was 33.1%, down from 34.6% in 2018. Normalized gross margins was 33.8%, down -50bps from 34.3% in the prior year. Operating profit came to \$1.0 billion on an adjusted basis, unchanged from the prior year thanks to cost controls that helped offset the gross margin headwind. Normalized operating margin was up 50bps to 10.8% year-over-year.

Interest expense was down significantly, falling from \$446 million in 2018 to \$303 million. The decline was due to a sizable reduction in outstanding debt. Debt is still measured at a leverage ratio of 4.0x normalized EBITDA.

Earnings came to \$1.70 on an adjusted basis, down from \$2.46 in the prior year. Newell has completed very significant divestitures in the past couple of years, leading to lower revenue and lower earnings. Proceeds have been used to pay down debt and repurchase stock, but earnings haven't yet recovered.

Newell offered guidance of ~\$9.5 billion in revenue for this year and normalized earnings-per-share of \$1.46 to \$1.56. As a result, our initial estimate is for \$1.52.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.96	\$1.17	\$1.36	\$1.44	\$1.33	\$0.96	\$1.25	\$5.63	\$2.68	\$1.70	\$1.52	\$1.94
DPS	\$0.20	\$0.29	\$0.43	\$0.60	\$0.66	\$0.76	\$0.76	\$0.88	\$0.92	\$0.92	\$0.92	\$0.92
Shares¹	291	288	287	279	269	267	483	485	423	425	425	425

We continue to think the future is bright for Newell, despite recent struggles. 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 timing and size of repurchases is still very much a variable at this point. Indeed, essentially no repurchases have been made in the past year. We see Newell as a turnaround play and certainly not a growth stock, although the pieces are in

¹ Share count in millions

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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 2019. 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.

Newell has paused dividend increases, so we've revised our dividend estimate to remain flat at 92 cents.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.9	13.8	13.8	18.6	24.3	42.8	37.3	8.1	9.1	10.1	12.7	11.0
Avg. Yld.	1.2%	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	4.8%	4.3%

Newell's price-to-earnings multiple is well below its historical average, but we see it as fairly valued around 11 times earnings. This is a reduction from our prior target of 12 times earnings, as we note that the valuation should reflect the uncertainty of the company's turnaround efforts. Still, one gets a 4.8% yield today, even after the sizable rally.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	19%	25%	32%	41%	49%	80%	62%	16%	34%	54%	61%	47%

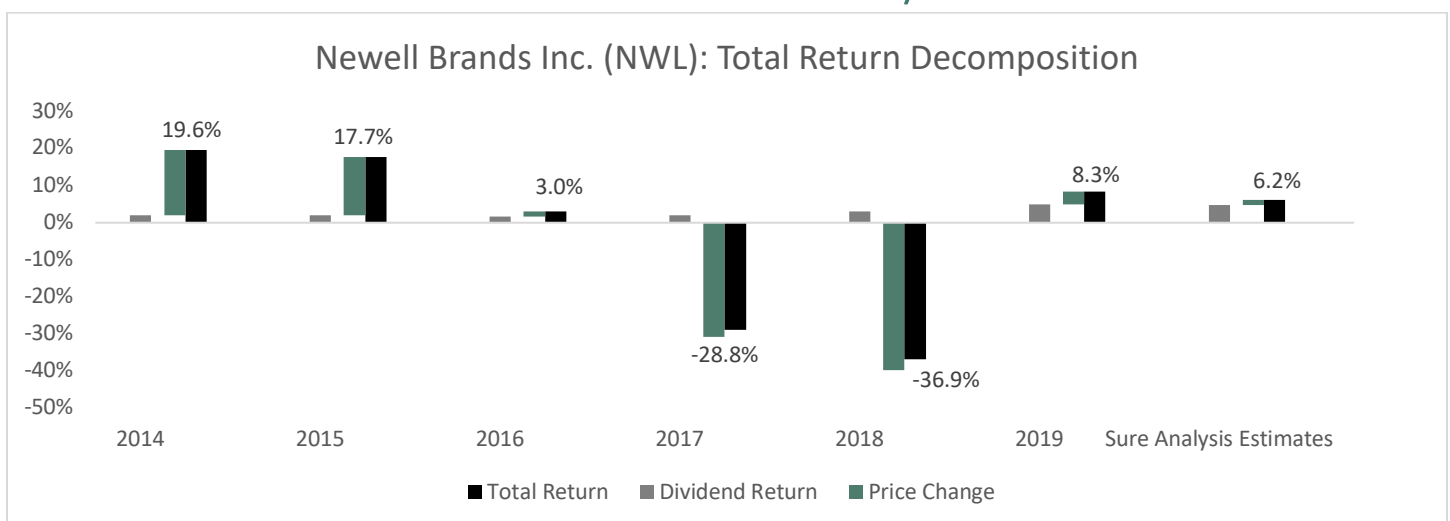
Newell's payout ratio should decline given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, and you still get a nearly-5% yield.

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 in excess of our estimate of fair value. Even so, the ample yield and improving growth forecast could see it produce 6.2% total annual returns in the coming years. While we see some attractive traits in Newell, we're reiterating the stock at a hold rating. We like the yield and the progress made with reducing debt and improving margins, but this is still a turnaround story, and much work remains.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	5658.2	5511.7	5508.5	5607	5727	5915.7	13264	14742	8630.9	9,715
Gross Profit	2148.7	2101.1	2094.1	2124.9	2203.4	2304.6	4398.8	5089.3	3008.8	3,219
Gross Margin	38.0%	38.1%	38.0%	37.9%	38.5%	39.0%	33.2%	34.5%	34.9%	33.1%
SG&A Exp.	1447.8	1422.3	1403.5	1399.5	1480.5	1573.9	3221.1	3669.1	2434.8	2,451
D&A Exp.	172.3	161.6	163.7	158.9	156.1	171.6	437.2	635.6	433.9	446
Operating Profit	700.9	678.8	690.6	725.4	722.9	730.7	1177.7	1420.2	574	768
Op. Margin	12.4%	12.3%	12.5%	12.9%	12.6%	12.4%	8.9%	9.6%	6.7%	7.9%
Net Profit	292.8	125.2	401.3	474.6	377.8	350	527.8	2748.8	-6918	107
Net Margin	5.2%	2.3%	7.3%	8.5%	6.6%	5.9%	4.0%	18.6%	-80.2%	1.1%
Free Cash Flow	417.9	338.4	441.3	467	472.2	381.5	1399	525.8	295.6	779
Income Tax	5.6	21.3	161.5	120	89.1	78.2	286	-1320	-1505	-1,038

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	6405.3	6160.9	6222	6069.7	6564.3	7259.5	33838	33136	17716	15,642
Cash & Equivalents	139.6	170.2	183.8	226.3	199.4	274.8	587.5	485.7	495.7	349
Acc. Receivable	997.9	1002	1112.4	1105.1	1248.2	1250.7	2746.9	2674	1850.7	1,842
Inventories	701.6	699.9	696.4	684.4	708.5	721.8	2116	2498.8	1583.1	1,607
Goodwill & Int.	3397.8	3032.1	3024.3	2975.6	3433.2	3854.9	24331	24796	8549.8	8,625
Total Liabilities	4499.8	4308.3	4221.8	3994.7	4709.4	5433.1	22453	18954	12439	10,646
Accounts Payable	472.5	468.5	527.4	558.9	674.1	642.4	1518.9	1761.6	1019.5	1,101
Long-Term Debt	2368.9	2176.8	1918.4	1836.4	2481.9	3057.9	11893	10552	7015	5,724
Total Equity	1902	1849.1	1996.7	2071.5	1851.4	1822.9	11349	14145	5243	4,963
D/E Ratio	1.25	1.18	0.96	0.89	1.34	1.68	1.05	0.75	1.34	1.15

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.6%	2.0%	6.5%	7.7%	6.0%	5.1%	2.6%	8.2%	-27.2%	0.6%
Return on Equity	15.9%	6.7%	20.9%	23.3%	19.3%	19.1%	8.0%	21.6%	-71.4%	2.1%
ROIC	6.8%	3.0%	10.1%	12.1%	9.2%	7.6%	3.7%	11.5%	-37.4%	0.9%
Shares Out.	291	288	287	279	269	267	483	485	423	425
Revenue/Share	18.53	18.61	18.76	19.22	20.53	21.79	31.35	30.21	18.22	22.92
FCF/Share	1.37	1.14	1.50	1.60	1.69	1.41	3.31	1.08	0.62	1.84

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

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