



# Newell Brands Inc. (NWL)

Updated May 26<sup>th</sup>, 2020 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$13	<b>5 Year CAGR Estimate:</b>	9.8%	<b>Market Cap:</b>	\$5.4B
<b>Fair Value Price:</b>	\$13	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	05/28/20
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.3%	<b>Dividend Payment Date:</b>	06/15/20
<b>Dividend Yield:</b>	7.2%	<b>5 Year Price Target</b>	\$16	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 under normalized conditions, and it trades with a market capitalization of \$5.4 billion.

Newell reported first quarter earnings on May 1<sup>st</sup>, with results coming in weaker than expected. Net sales came to \$1.9 billion, a -7.6% decline against the year-ago period. Core sales fell -5.1% while the balance of the decline was due to the unfavorable impact of forex translation.

Normalized gross margins was actually higher during the quarter, adding 110bps to 32.8% of revenue. Productivity initiatives and pricing increases more than offset headwinds from tariffs, inflation, and revenue mix.

Operating loss was -\$1.4 billion during the quarter, but that was due to a -\$1.5 billion impairment charge related to goodwill and intangible assets. These are non-cash charges, but impact reported earnings. Without these charges, operating income was \$113 million, down from \$124 million in the year-ago period, or 6% of revenue compared to 6.1% in last year's Q1. Overall, the margin picture was surprisingly strong given the environment.

Notably, Newell saw interest expense fall from \$80 million in last year's Q1 to \$63 million this year, thanks to a reduction in outstanding debt. Newell has been divesting non-core assets for some time and using the proceeds in part to reduce debt. It is now reaping the benefits of these moves.

Adjusted earnings-per-share were \$0.09, down from \$0.12 in the year-ago period. The company's continuing operations actually produced higher earnings year-over-year, but the foregone contribution from divested businesses weighed on results. We see \$1 in earnings-per-share for this year, but a relatively swift rebound back to normalized levels beginning in 2021.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$0.96	\$1.17	\$1.36	\$1.44	\$1.33	\$0.96	\$1.25	\$5.63	\$2.68	\$1.70	<b>\$1.00</b>	<b>\$1.58</b>
<b>DPS</b>	\$0.20	\$0.29	\$0.43	\$0.60	\$0.66	\$0.76	\$0.76	\$0.88	\$0.92	\$0.92	<b>\$0.92</b>	<b>\$0.92</b>
<b>Shares<sup>1</sup></b>	291	288	287	279	269	267	483	485	423	425	<b>425</b>	<b>425</b>

We continue to think the future is bright for Newell, despite recent struggles. We see annual earnings-per-share growth averaging 4% for the foreseeable future, comprised mainly of margin improvements 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 under normalized conditions. 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 should afford Newell more flexibility, as well as lower interest expense. We think Newell will resume share repurchases at some point, but have no indication when that may be. We

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

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see Newell as a turnaround play and 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 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're reiterating our dividend estimate at 92 cents for the next five years.

## 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	<b>9.8</b>	<b>10.0</b>
Avg. Yld.	1.2%	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	<b>7.2%</b>	<b>5.8%</b>

We are using an earnings power estimate of \$1.30 per share for our fair value and valuation calculations, instead of actual earnings estimates for 2020. Newell's price-to-earnings multiple is well below its historical average, but we see it as fairly valued around 10 times earnings. This is a reduction from our prior target of 11 times earnings, as we note that the valuation should reflect the uncertainty of the company's turnaround efforts. Still, the security yields 7.2% today.

## 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%	<b>71%</b>	<b>58%</b>

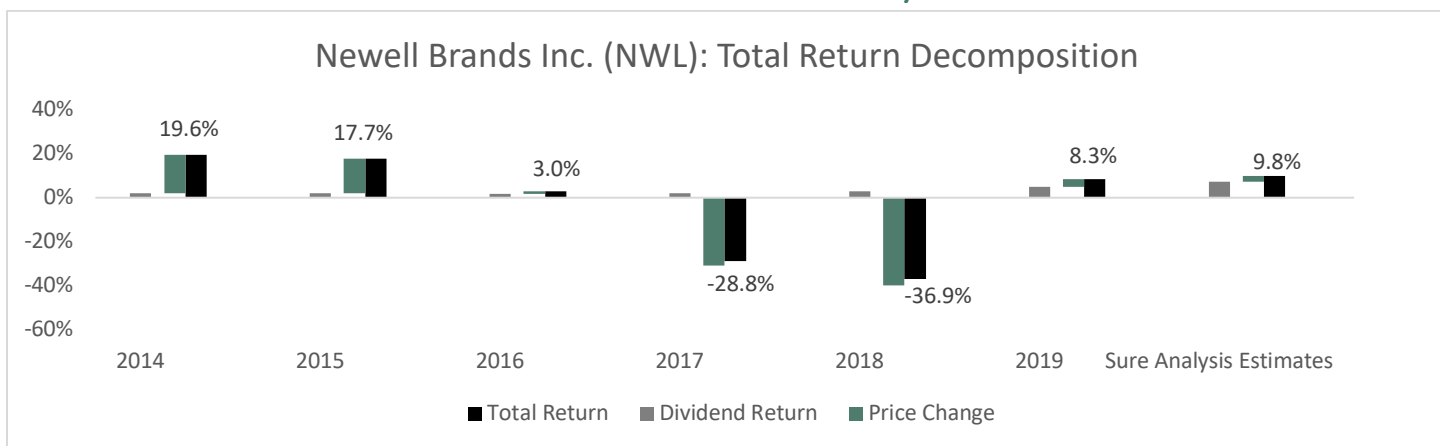
Newell's payout ratio should decline given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, and you still get a 7%+ yield.

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 has helped it prepare for this 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 even with our estimate of fair value. Even so, the ample yield could see it produce 9.8% 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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