



Stanley Black & Decker, Inc. (SWK)

Updated October 27th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$167	5 Year CAGR Estimate:	4.0%	Market Cap:	\$26.7 billion
Fair Value Price:	\$126	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/31/2020
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.5%	Dividend Payment Date:	12/15/2020
Dividend Yield:	1.7%	5 Year Price Target	\$185	Years Of Dividend Growth:	53
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	1.4%

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 released third quarter earnings results on 10/27/2020. Revenue increased 7.4% to \$3.9 billion, topping estimates by \$90 million. Adjusted earnings-per-share of \$2.89 was a 36% improvement from the prior year and \$0.19 above what analysts had expected.

Organic revenue increased 6%. Leading the way was the Tools & Storage segment, which posted an 11% increase in organic growth. This segment, the company's largest, had double-digit growth rates in nearly all geographic areas. North America saw elevated demand from both the professional and do-it-yourself customer. E-commerce sales also added to results. This was partially offset by weaker demand from industrial focused customers. Europe had similar strength in pro and DIY channels, leading to a 12% growth rate. Emerging markets grew 22% due to a strong recovery in Latin America. Industrial sales were down 18%, led lower by a 25% decline in infrastructure due to lower volumes in attachment tools and weak oil & gas pipeline market. Engineered Fastening fell 14% due to declines in light vehicles and industrial production. Auto end markets were down year-over-year, but much improved from the second quarter. Security sales fell 3%. North America was lower by 3% due to fewer commercial electronic security and healthcare installations. Europe was down 2% as lower volumes in the United Kingdom offset gains in France. Performance in the Industrial and Security segments were much improved on a sequential basis. Adjusted gross margins improved 160 basis points to 35.9% while adjusted operating margin was up 320 basis points to a record 17.7%. Cash from operations more than tripled to \$677.2 million, with free cash flow of \$615.1 million comparing very favorably to Q3 2019 free cash flow of \$96 million. The company has achieved ~\$350 million of its cost saving initiative and expects an additional ~\$150 million of cost savings in the fourth quarter. Analysts expect Stanley Black & Decker to earn \$8.03 per share in 2020, up from \$6.51 previously.

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	\$8.03	\$11.80
DPS	\$1.34	\$1.64	\$1.80	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$2.76	\$2.80	\$4.11
Shares¹	167	170	160	156	157	154	153	154	152	153	156	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

¹ Share count in millions

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to grow earnings-per-share at a rate of 8% annually due to organic revenue growth and contributions from acquisitions such as Craftsman.

Stanley Black & Decker has an impressive dividend growth streak, having raised its dividend for 53 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 1.4% for the 9/15/2020 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	20.8	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%	2.2%

Shares of Stanley Black & Decker have increased \$16, or 10.6%, since our 7/31/2020 update. Based on updated earnings-per-share guidance for 2020, the stock now trades with a price-to-earnings ratio, or P/E, of 20.8. If shares were to revert to the 10-year average P/E of 15.7 by 2025, then valuation would be a 5.5% headwind to annual returns over this time. Stanley Black & Decker's stock yields 1.7%, which is below than the stock's 10-year average yield of 2.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

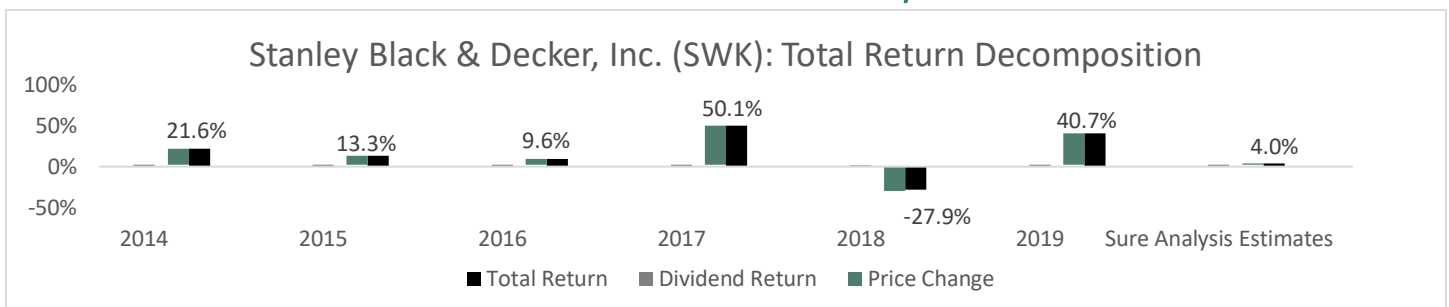
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	34%	31%	39%	40%	38%	37%	35%	33%	32%	33%	35%	35%

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 enormously. 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, outside of the first two quarters in 2020, since the 2017 acquisition.

Final Thoughts & Recommendation

Stanley Black & Decker is expected to return 4.0% annually through 2025, up from our previous estimate of 2.1%. The COVID-19 pandemic continues to impact results, primarily in the company's two smaller segments. Even these segments saw a sequential improvement. Tools & Storage produced double-digit organic growth. We have increased our 2025 price target \$35 to \$185 and Stanley Black & Decker has been raised to hold from sell due to a slightly higher projected return. We encourage investors to wait for a pullback before purchasing Stanley Black & Decker.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	7497	9377	10022	10890	11339	11172	11594	12967	13982	14442
Gross Profit	2690	3451	3657	3904	4103	4072	4268	4778	4851	4806
Gross Margin	35.9%	36.8%	36.5%	35.8%	36.2%	36.4%	36.8%	36.9%	34.7%	33.3%
SG&A Exp.	1994	2342	2463	2676	2575	2459	2609	2983	3144	3008
D&A Exp.	349	410	445	441	450	414	408	461	507	560
Operating Profit	686	1093	1183	1213	1507	1586	1636	1779	1679	1765
Operating Margin	9.2%	11.7%	11.8%	11.1%	13.3%	14.2%	14.1%	13.7%	12.0%	12.2%
Net Profit	198	675	884	490	761	884	968	1227	605	956
Net Margin	2.6%	7.2%	8.8%	4.5%	6.7%	7.9%	8.3%	9.5%	4.3%	6.6%
Free Cash Flow	554	697	593	528	1005	871	839	226	769	1081
Income Tax	18	52	76	69	227	249	262	301	416	161

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	15139	15949	15844	16535	15849	15128	15635	19098	19408	20597
Cash & Equivalents	1745	907	716	496	497	465	1132	638	289	298
Accounts Receivable	1412	1345	1329	1366	1205	1165	1137	1388	1437	1284
Inventories	1272	1271	1305	1473	1563	1526	1478	2018	2374	2255
Goodwill & Int. Ass.	8814	9382	9947	10600	10027	9626	8994	12284	12441	12860
Total Liabilities	8070	8882	9117	9655	9337	9269	9261	10793	11568	11454
Accounts Payable	999	1199	1346	1553	1579	1533	1640	2021	2233	2088
Long-Term Debt	3436	3452	3538	4202	3847	3800	3827	3811	4198	3517
Shareholder's Equity	7017	7004	6667	6799	6429	5812	6367	7552	7086	7636
D/E Ratio	0.49	0.49	0.53	0.62	0.60	0.65	0.60	0.46	0.54	0.38

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.0%	4.3%	5.6%	3.0%	4.7%	5.7%	6.3%	7.1%	3.1%	4.8%
Return on Equity	4.4%	9.6%	12.9%	7.3%	11.5%	14.4%	15.9%	17.6%	8.3%	13.0%
ROIC	2.9%	6.4%	8.5%	4.6%	7.1%	8.8%	9.7%	11.0%	5.0%	7.7%
Shares Out.	167	170	160	156	157	154	153	154	152	151
Revenue/Share	49.92	55.12	60.12	68.58	70.98	73.16	78.23	85.06	92.21	95.92
FCF/Share	3.69	4.10	3.56	3.32	6.29	5.70	5.66	1.48	5.07	7.18

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

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