



Newell Brands Inc. (NWL)

Updated December 1st, 2020 by Josh Arnold

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	1.4%	Market Cap:	\$9 B
Fair Value Price:	\$17	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	02/28/21 ¹
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.1%	Dividend Payment Date:	03/15/21 ²
Dividend Yield:	4.4%	5 Year Price Target	\$18	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 just over \$9 billion, and it trades with a market capitalization of \$9 billion.

Newell reported third quarter earnings on October 30th, 2020 and results were well ahead of expectations, sending the stock flying higher. Net sales were up 5.1% year-over-year to \$2.7 billion, with core sales growth of 7.2%, which was partially offset by forex translation.

Reported gross margin was 33.9%, up from 33% in the year-ago period. Normalized operating income was \$403 million, or 14.9% of revenue. These were up sharply from \$326 million, or 12.7% of revenue. Interest expense was \$71 million, down slightly from \$75 million driven by lower debt balances.

Net income was \$356 million, or \$0.84 per diluted share on a normalized basis. These were up from \$307 million, or \$0.73 per share in the year-ago period, driven by higher revenue and better operating margins.

Guidance is now for operating cash flow of \$1.1 billion to \$1.2 billion, and full-year sales of \$9.2 billion to \$9.3 billion following a terrific Q3. We've updated our earnings-per-share estimate for this year to \$1.70 as Newell's recovery is progressing much more quickly than expected.

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	\$1.70	\$1.79
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
Shares³	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 1% 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, consistent with 2020 results. 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 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, and 2020 is showing more signs of improvement. This, in

¹ Estimated date

² Estimated date

³ Share count in millions

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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	12.4	10.0
Avg. Yld.	1.2%	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	4.4%	5.1%

Newell's price-to-earnings multiple is now back above its historical average after a strong rally in the stock. We see fair value around 10 times earnings. The stock yields 4.4% today, which could move higher over time if the valuation retreats back towards our estimate of fair value.

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%	54%	52%

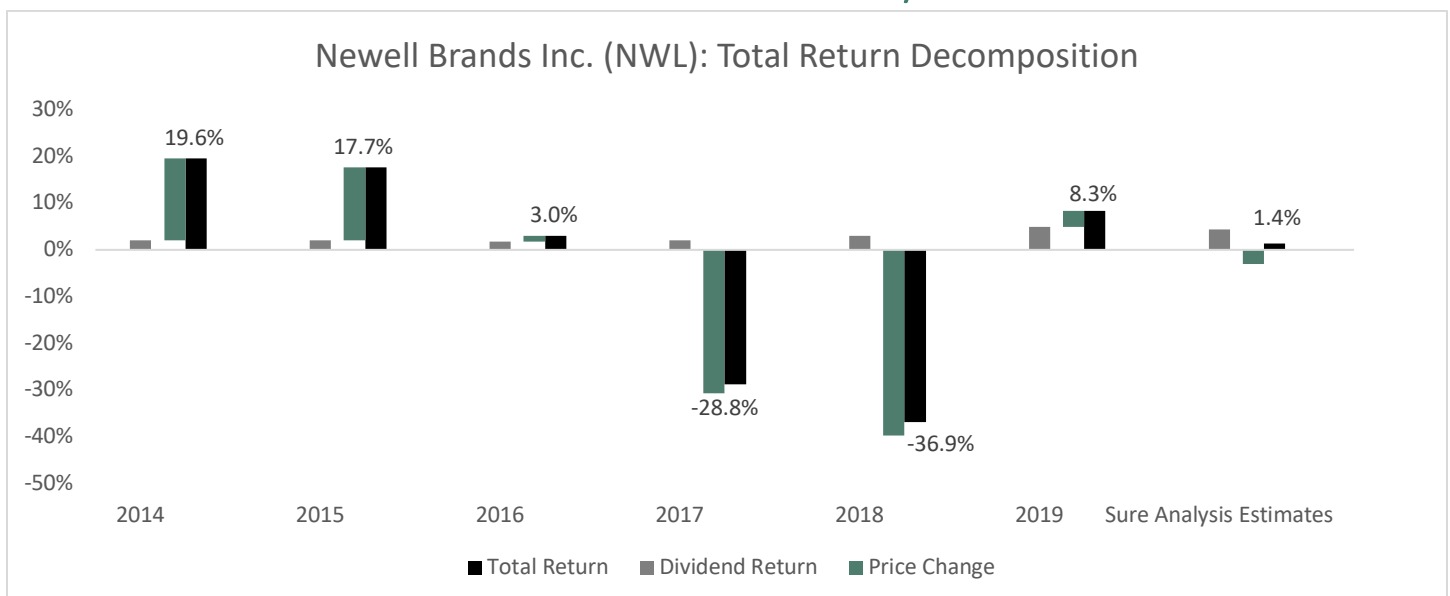
Newell's payout ratio should decline given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, with a 5%+ yield.

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 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 above our estimate of fair value. The ample yield could see it produce 1.4% total annual returns in the coming years. While we see some attractive traits in Newell, the recent rally in the share price has produced an overvalued stock, and we believe years of growth are now already priced in. As a result, we are downgrading Newell from hold to sell.

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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