



Newell Brands Inc. (NWL)

Updated February 20th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	1.3%	Market Cap:	\$10 B
Fair Value Price:	\$18	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	02/25/21
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	03/15/21
Dividend Yield:	3.8%	5 Year Price Target	\$21	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	D	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 under \$10 billion, and it trades with a market capitalization of \$10 billion after a sustained rally.

Newell reported fourth quarter and full-year earnings on February 12th, 2021 with results beating expectations on the top and bottom lines. Total revenue was \$2.7 billion, an increase of 2.5% against the same period a year ago. Core sales – which excludes non-comparable items like acquisitions and divestitures – rose 4.9% as six of the company's eight business units saw core sales gains, and every major geographic region did the same. This is a sizable improvement against some of the struggles Newell has faced in recent years.

Operating margin was 11.4% on an adjusted basis, essentially equal with the 11.3% showing in the same period a year ago. Earnings-per-share came to \$0.56 on an adjusted basis, up strongly from 42 cents in the year-ago period.

Newell produced \$1.4 billion in operating cash flow in 2020, up from \$1 billion in 2019, as it made particular progress on working capital initiatives. Leverage is down as well as the company's effort to reduce leverage is working, and its leverage ratio stood at 3.5x at the end of the year, versus 4.0x at the end of 2019. The company tendered for \$300 million of its senior notes due in 2023 during the fourth quarter.

Our initial estimate is for \$1.65 in earnings-per-share for 2021, representing the top of the company's guidance range as we see the turnaround progressing nicely on the back of higher core sales and strong operating margins.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.17	\$1.36	\$1.44	\$1.33	\$0.96	\$1.25	\$5.63	\$2.68	\$1.70	\$1.79	\$1.65	\$1.91
DPS	\$0.29	\$0.43	\$0.60	\$0.66	\$0.76	\$0.76	\$0.88	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92
Shares¹	288	287	279	269	267	483	485	423	425	426	427	430

We continue to think the future is bright for Newell, despite struggles in recent years. We see annual earnings-per-share growth averaging 3% 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. We believe Q4 results support this view. 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; Newell is at ~11% today. 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

¹ Share count in millions

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improving its cash conversion cycle, which will help bolster its working capital position, as evidenced by its improving operating cash flow numbers. There was progress on both of these items in 2019 and 2020. This should aid the debt reduction effort given that Newell shouldn't have to borrow as much to fund operations as 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.8	13.8	18.6	24.3	42.8	37.3	8.1	9.1	10.1	9.4	14.5	11.0
Avg. Yld.	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	5.5%	3.8%	4.4%

Newell's price-to-earnings multiple remains above its historical average after another strong rally in the stock. We see fair value around 11 times earnings. The stock yields 3.8% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25%	32%	41%	49%	80%	62%	16%	34%	54%	51%	56%	48%

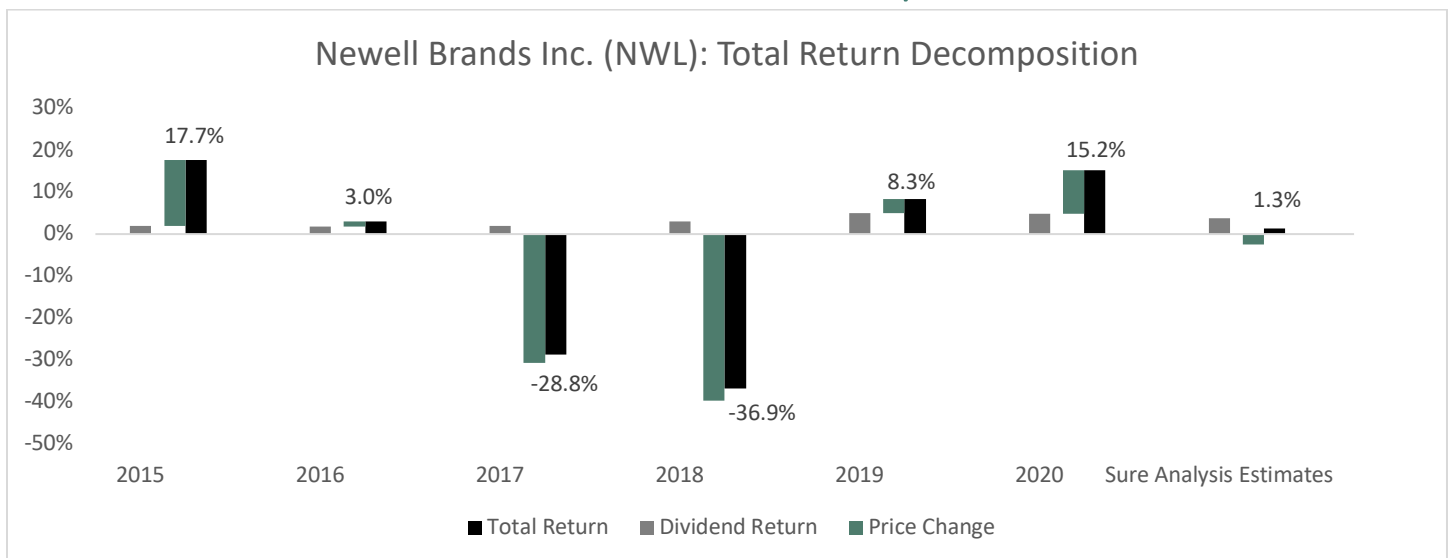
Newell's payout ratio should decline given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, with a nearly-4% yield.

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 sustained rally has it trading well above our estimate of fair value. The ample yield could see it produce 1.3% total annual returns in the coming years. While we see some attractive traits in Newell, the rally in the share price has produced an overvalued stock in our view, and we believe years of growth are now already priced in. As a result, we are reiterating the stock at a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5511.7	5508.5	5607	5727	5915.7	13264	14742	8630.9	9,715	9,385
Gross Profit	2101.1	2094.1	2124.9	2203.4	2304.6	4398.8	5089.3	3008.8	3,219	3,079
Gross Margin	38.1%	38.0%	37.9%	38.5%	39.0%	33.2%	34.5%	34.9%	33.1%	32.8%
SG&A Exp.	1422.3	1403.5	1399.5	1480.5	1573.9	3221.1	3669.1	2434.8	2,451	2,189
D&A Exp.	161.6	163.7	158.9	156.1	171.6	437.2	635.6	433.9	446	357
Operating Profit	678.8	690.6	725.4	722.9	730.7	1177.7	1420.2	574	768	890
Op. Margin	12.3%	12.5%	12.9%	12.6%	12.4%	8.9%	9.6%	6.7%	7.9%	9.5%
Net Profit	125.2	401.3	474.6	377.8	350	527.8	2748.8	-6918	107	-770
Net Margin	2.3%	7.3%	8.5%	6.6%	5.9%	4.0%	18.6%	-80.2%	1.1%	-8.2%
Free Cash Flow	338.4	441.3	467	472.2	381.5	1399	525.8	295.6	779	1,173
Income Tax	21.3	161.5	120	89.1	78.2	286	-1320	-1505	-1,038	-236

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	6160.9	6222	6069.7	6564.3	7259.5	33838	33136	17716	15,642	14,700
Cash & Equivalents	170.2	183.8	226.3	199.4	274.8	587.5	485.7	495.7	349	981
Acc. Receivable	1002	1112.4	1105.1	1248.2	1250.7	2746.9	2674	1850.7	1,842	1,678
Inventories	699.9	696.4	684.4	708.5	721.8	2116	2498.8	1583.1	1,607	1,638
Goodwill & Int.	3032.1	3024.3	2975.6	3433.2	3854.9	24331	24796	8549.8	8,625	7,117
Total Liabilities	4308.3	4221.8	3994.7	4709.4	5433.1	22453	18954	12439	10,646	10,800
Accounts Payable	468.5	527.4	558.9	674.1	642.4	1518.9	1761.6	1019.5	1,101	1,526
Long-Term Debt	2176.8	1918.4	1836.4	2481.9	3057.9	11893	10552	7015	5,724	5,607
Total Equity	1849.1	1996.7	2071.5	1851.4	1822.9	11349	14145	5243	4,963	3,874
D/E Ratio	1.18	0.96	0.89	1.34	1.68	1.05	0.75	1.34	1.15	1.45

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.0%	6.5%	7.7%	6.0%	5.1%	2.6%	8.2%	-27.2%	0.6%	-5.1%
Return on Equity	6.7%	20.9%	23.3%	19.3%	19.1%	8.0%	21.6%	-71.4%	2.1%	-17.4%
ROIC	3.0%	10.1%	12.1%	9.2%	7.6%	3.7%	11.5%	-37.4%	0.9%	-7.6%
Shares Out.	288	287	279	269	267	483	485	423	425	426
Revenue/Share	18.61	18.76	19.22	20.53	21.79	31.35	30.21	18.22	22.92	22.13
FCF/Share	1.14	1.50	1.60	1.69	1.41	3.31	1.08	0.62	1.84	2.77

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

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