



Stanley Black & Decker, Inc. (SWK)

Updated February 1st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$173	5 Year CAGR Estimate:	7.5%	Market Cap:	\$27.8 billion
Fair Value Price:	\$157	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	3/2/2021 ¹
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	3/17/2021 ²
Dividend Yield:	1.6%	5 Year Price Target	\$231	Years Of Dividend Growth:	53
Dividend Risk Score:	A	Retirement Suitability Score:	A	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 reported fourth quarter earnings results on 1/28/2021. Revenue increased 18.6% to \$4.4 billion, a \$300 million beat of estimates. Adjusted earnings-per-share grew 51% to \$3.29, which was \$0.27 ahead of expectations. Full year revenues grew 1% to \$14.5 billion while adjusted earnings-per-share improved 7.6% to \$9.04.

For the quarter, organic growth was 16% compared to consensus estimates of 9.9% and company guidance of 10%. Tools & Storage, the largest segment within the company, had a 25% increase in organic growth, the second consecutive double-digit quarter. Each region had at least 15% organic growth, with North America up 27% and emerging markets improving 32%. North America benefited from a strong retail market, emerging markets growth was due to strong construction demand and Europe benefited from growth in all regions. Industrial organic growth declined 2%, though this was an improvement from the 25% decline this segment suffered in the third quarter of the year. Engineered Fastening was down 2%, but saw improvements in the automotive business. Infrastructure was down 5% as attachment tool growth was more than offset by a weak oil and gas market. Security was down 4%, mostly due to a 5% decline in North America. This region had high growth rates in health and safety, but was offset by a decline in automatic door installations. Europe was lower by 1% as weaker volumes in the U.K. related to COVID-19 offset gains made in France. The operating margin improved 290 basis points to fourth quarter record 16.5%. Free cash flow grew 55% to a company record \$1.7 billion for the year. Stanley Black & Decker believes each segment will produce organic growth in 2021, with total company organic growth in a range of 4% to 8%. The company expects adjusted earnings-per-share in a range of \$9.70 to \$10.30 for 2021. We have initiated our estimates for 2021 accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$5.24	\$4.67	\$4.98	\$5.36	\$5.86	\$6.51	\$7.43	\$8.15	\$8.40	\$9.04	\$10.00	\$14.69
DPS	\$1.64	\$1.80	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$2.76	\$2.78	\$2.80	\$4.11
Shares³	170	160	156	157	154	153	154	152	153	157	157	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 Estimated date

² Estimated date

³ 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.9	15.2	16.3	16.2	17.1	17.2	20.5	13.5	19.7	19.8	17.3	15.7
Avg. Yld.	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	2.4%	1.7%	1.6%	1.6%	1.8%

Shares of Stanley Black & Decker have increased \$6, or 3.6%, since our 10/27/2020 update. Based on earnings-per-share guidance for 2021, the stock now trades with a price-to-earnings ratio, or P/E, of 17.3. If shares were to revert to our target P/E of 15.7 by 2026, then valuation would be a 1.9% headwind to annual returns over this time. Stanley Black & Decker's stock yields 1.6%, which is below than the stock's 10-year average yield of 2.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

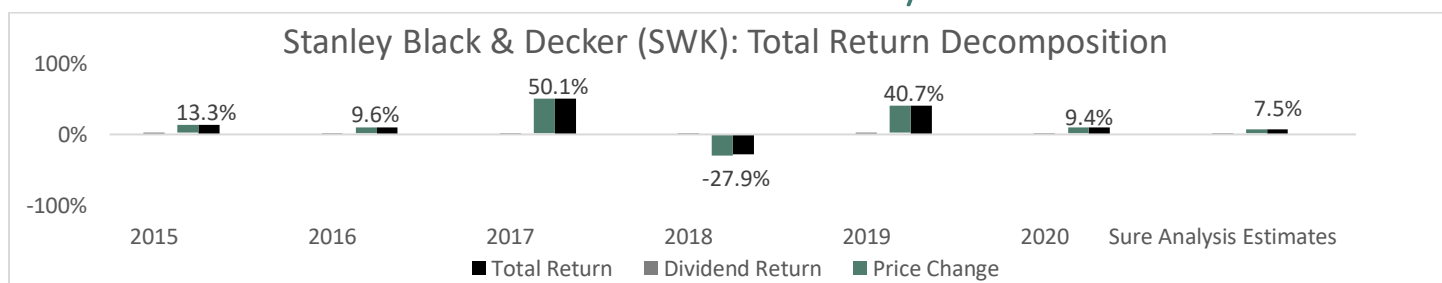
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	31%	39%	40%	38%	37%	35%	33%	32%	33%	31%	28%	28%

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 has been able to increase prices in certain product categories over the years 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 produce annual returns of 7.5% through 2026, up from our previous estimate of 4.0%. This projection stems from an 8% earnings growth and a starting yield of 1.6% offset by a low single-digit headwind from valuation. The quick turnaround and organic growth posted in the fourth quarter is very impressive, showing the strength of the company the brand loyalty amongst consumers. We have increased our five-year price target \$46 to \$231, but maintain our hold rating on Stanley Black & Decker. On a pullback, this Dividend King would look very attractive given its results in the fourth quarter and guidance for the current year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	9,377	10,022	10,890	11,339	11,172	11,594	12,967	13,982	14,442	14,535
Gross Profit	3,451	3,657	3,904	4,103	4,072	4,268	4,778	4,851	4,806	4,968
Gross Margin	36.8%	36.5%	35.8%	36.2%	36.4%	36.8%	36.9%	34.7%	33.3%	34.2%
SG&A Exp.	2,342	2,463	2,676	2,575	2,459	2,609	2,983	3,144	3,008	3,090
D&A Exp.	410	445	441	450	414	408	461	507	560	578
Operating Profit	1,093	1,183	1,213	1,507	1,586	1,636	1,779	1,679	1,765	1,878
Operating Margin	11.7%	11.8%	11.1%	13.3%	14.2%	14.1%	13.7%	12.0%	12.2%	12.9%
Net Profit	675	884	490	761	884	968	1,227	605	956	1,234
Net Margin	7.2%	8.8%	4.5%	6.7%	7.9%	8.3%	9.5%	4.3%	6.6%	8.5%
Free Cash Flow	697	593	528	1,005	871	839	226	769	1,081	1,674
Income Tax	52	76	69	227	249	262	301	416	161	41

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	15,949	15,844	16,535	15,849	15,128	15,635	19,098	19,408	20,597	23,566
Cash & Equivalents	907	716	496	497	465	1,132	638	289	298	1,381
Accounts Receivable	1,345	1,329	1,366	1,205	1,165	1,137	1,388	1,437	1,284	1,512
Inventories	1,271	1,305	1,473	1,563	1,526	1,478	2,018	2,374	2,255	2,737
Goodwill & Int. Ass.	9,382	9,947	10,600	10,027	9,626	8,994	12,284	12,441	12,860	14,094
Total Liabilities	8,882	9,117	9,655	9,337	9,269	9,261	10,793	11,568	11,454	12,500
Accounts Payable	1,199	1,346	1,553	1,579	1,533	1,640	2,021	2,233	2,088	2,446
Long-Term Debt	3,452	3,538	4,202	3,847	3,800	3,827	3,811	4,198	3,517	4,247
Shareholder's Equity	7,004	6,667	6,799	6,429	5,812	6,367	7,552	7,086	7,636	11,060
D/E Ratio	0.49	0.53	0.62	0.60	0.65	0.60	0.46	0.54	0.38	0.38

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.3%	5.6%	3.0%	4.7%	5.7%	6.3%	7.1%	3.1%	4.8%	5.6%
Return on Equity	9.6%	12.9%	7.3%	11.5%	14.4%	15.9%	17.6%	8.3%	13.0%	13.2%
ROIC	6.4%	8.5%	4.6%	7.1%	8.8%	9.7%	11.0%	5.0%	7.7%	8.8%
Shares Out.	170	160	156	157	154	153	154	152	153	157
Revenue/Share	55.12	60.12	68.58	70.98	73.16	78.23	85.06	92.21	95.92	93.25
FCF/Share	4.10	3.56	3.32	6.29	5.70	5.66	1.48	5.07	7.18	10.74

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

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