



Stanley Black & Decker, Inc. (SWK)

Updated July 27th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$200	5 Year CAGR Estimate:	8.4%	Market Cap:	\$33 billion
Fair Value Price:	\$190	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	9/7/2021
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	9/21/2021
Dividend Yield:	1.6%	5 Year Price Target	\$279	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	12.9%

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, though the company can trace its history back to 1843. Black & Decker was founded in Baltimore, MD in 1910 and manufactured the world's first portable power tool.

Stanley Black & Decker reported second quarter results on 7/22/2021. Revenue grew 36.5% to \$4.3 billion, topping estimates by \$70 million. Adjusted earnings-per-share of \$3.08 compared very favorably to adjusted earnings-per-share of \$1.60 in the prior year and was \$0.19 better than expected.

Organic growth remains elevated with a 33% increase in the second quarter. Sales for Tools & Storage, the largest segment within the company, were higher by 46%, the fourth consecutive double-digit and the second 40%+ quarter. All regions had at least 30% organic growth. As with prior quarters, new products, demand from professionals and home and garden continue to be bright spots for the company. Industrial organic growth was 16% led by a 26% improvement in Engineered Fastening. This business saw high demand in automotive and general industrial end markets. Offsetting this was a 11% decline in Infrastructure as weakness in pipeline activity more than made up for a double-digit improvement in attachment tools. Security also grew 16%, with North America and Europe both posting low to mid-double-digit growth. Automatic doors and healthcare in North America and data driven solutions in France and the Nordic countries led the way for this segment. The adjusted operating margin expanded 270 basis points to 15.5% while the adjusted gross margin improved 240 basis points to 35.9%. Stanley Black & Decker expects higher commodity costs for 2021, up to \$300 million from \$235 million previously. Much of this impact will be felt in the second half of the year. Pricing and productivity are expected to offset nearly half of this headwind.

Stanley Black & Decker offered revised guidance once again. The company now expects adjusted earnings-per-share in a range of \$11.35 to \$11.65 for 2021, up from \$10.70 to \$11.00 and \$9.70 to \$10.30 previously. We have updated 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	\$11.50	\$16.90
DPS	\$1.64	\$1.80	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$2.76	\$2.78	\$3.16	\$4.64
Shares¹	170	160	156	157	154	153	154	152	153	157	159	145

Stanley Black & Decker has seen earnings-per-share grow at a rate of 6.2% 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 to grow earnings-per-share at a rate of 8% annually due to organic revenue growth and contributions from acquisitions such as Craftsman.

¹ Share count in millions

Disclosure: This analyst has a long position in the security discussed in this research report.



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Stanley Black & Decker has an impressive dividend growth streak, having raised its dividend for 54 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 raised its dividend 12.9% increase for the upcoming 9/21/2021 payment date, its largest raise since 2012.

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	19.1	17.5	16.9	17.6	17.4	16.5
Avg. Yld.	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	1.8%	1.9%	1.9%	1.6%	1.7%

Shares of Stanley Black & Decker have decreased \$10, or 4.8%, since our 4/28/2021 update. Based on earnings-per-share guidance for 2021, the stock now trades with a price-to-earnings ratio, or P/E, of 17.4. We reaffirm our target P/E of 16.5 to match the stock's average valuation since 2011. If shares were to revert to our target P/E by 2026, then valuation would be a 1.0% 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 2.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

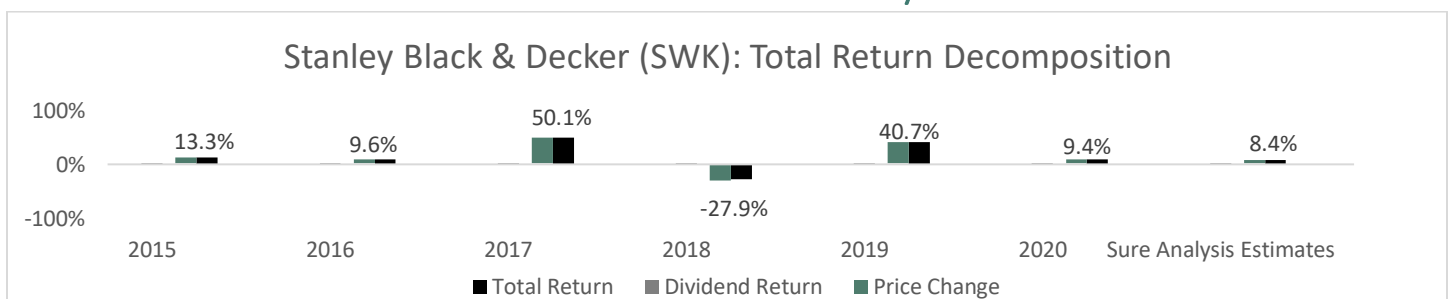
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	31%	39%	40%	38%	37%	35%	33%	32%	33%	31%	27%	27%

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 8.4% through 2026, up from our previous estimate of 6.0%. This projection stems from an 8% earnings growth and a starting yield of 1.6% offset by a low single-digit headwind from valuation. Stanley Black & Decker had another strong quarter even as the company was going up against its weakest showing of 2020. Inflation costs continue to rise, but the company does expect to offset half of these expenses. The most recent dividend raise was the most in almost a decade. We have raised our 2026 price target \$16 to \$279 due to revised EPS estimates for the year. We continue to rate shares as a hold, but would be a buyer of Stanley Black & Decker on a pullback.

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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