



Newell Brands Inc. (NWL)

Updated August 13th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	5.3%	Market Cap:	\$10.9 B
Fair Value Price:	\$23	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	08/30/21
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	09/15/21
Dividend Yield:	3.5%	5 Year Price Target	\$29	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 in excess of \$10 billion, and it trades with a market capitalization of \$10.9 billion after a recent pullback.

Newell reported second quarter earnings on July 30th, 2021, and results were excellent for Q2. However, guidance for the back half of the year spooked investors and sent the stock falling. Total sales were \$2.7 billion, a 28% increase year-over-year. Core sales grew 25.4%, giving Newell net sales that were 9.2% above the comparable period in 2019, pre-pandemic. Gross margin was 32.6% of revenue, up 110bps year-over-year, as the benefit from leveraging down costs, productivity savings, and mix and pricing more than offset the "significant" headwind from input cost inflation, as well as inflation in labor and transportation costs. Newell said it expects to see more unfavorable margin developments from ongoing supply shortages and cost inflation in the second half of the year.

Operating income was \$341 million on an adjusted basis, or 12.6% sales, up from \$215 million and 10.2%, respectively, in the year-ago period. Net income came to \$239 million, or 56 cents per share, on an adjusted basis in Q2. These compared quite favorably to \$127 million, and 30 cents per share, respectively, a year ago.

Following Q2 results and offsetting guidance, we're reiterating \$1.75 in earnings-per-share for this year.

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	\$1.75	\$2.23
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	425	430

We continue to think the future is bright for Newell, despite struggles in recent years. We see annual earnings-per-share growth averaging 5% 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 \$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; Newell is at ~12% 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 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 items in 2019 and 2020 that has continued into this year. This should aid the debt reduction effort given that Newell shouldn't have to borrow as much to fund operations as cash conversion improves.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	14.9	13.0
Avg. Yld.	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	5.5%	3.5%	3.2%

Newell's price-to-earnings multiple remains above its historical average despite a recent pullback in the stock. We see fair value around 13 times earnings. The stock yields 3.5% today, which could move slightly lower over time even if the valuation retreats towards our estimate of fair value, given we expect no dividend increases.

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%	53%	41%

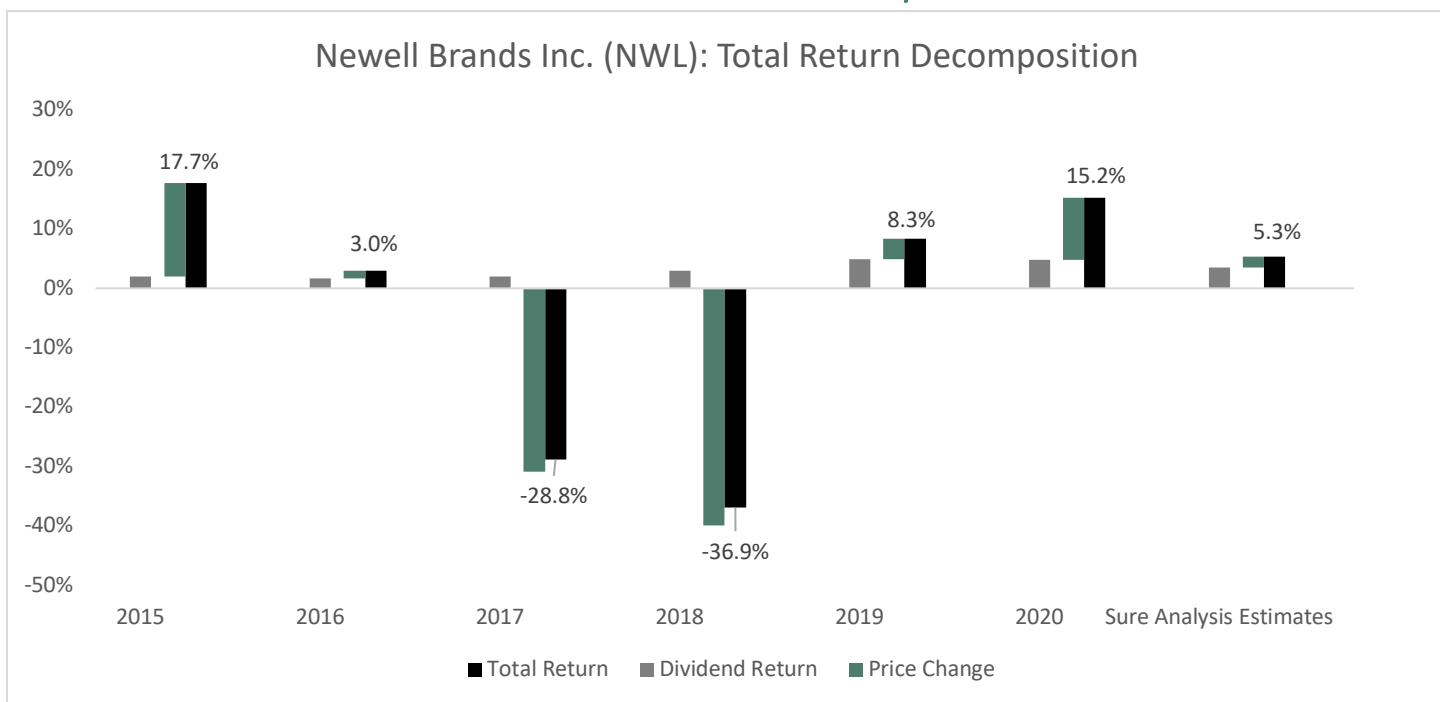
Newell's payout ratio should decline given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, with a 3.5% yield.

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 valuation still has it trading above our estimate of fair value. We forecast 5.3% total annual returns in the coming years following Q2 results. We see the valuation as more tenable today given the recent pullback, and with improved total return prospects, we're upgrading Newell from sell to hold. The stock's yield is now nearly three times that of the S&P 500, but we note shares are still somewhat overvalued in our view.

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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