



Newell Brands Inc. (NWL)

Updated November 18th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	6.1%	Market Cap:	\$10 B
Fair Value Price:	\$23	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/29/21
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Dividend Payment Date:	12/15/21
Dividend Yield:	4.0%	5 Year Price Target	\$26	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 in excess of \$10 billion, and it trades with a market capitalization of \$10 billion after a recent pullback.

Newell reported third quarter earnings on October 29th, 2021, and results were better than expected on both the top and bottom lines. Total revenue was \$2.8 billion, which was 3.3% higher than the year-ago period, as Newell reported strong demand across most of its categories. All five operating segments posted net sales growth when compared with the third quarter of 2019, which was pre-COVID. Core sales were up 3.2% year-over-year, and five of the eight business units saw core sales higher year-over-year.

Adjusted operating margin was 11.4% of revenue, down from 14.9% in the year-ago period. The decline was due to cost inflation, as well as higher advertising and promotion expense. These more than offset the benefit from lower overhead costs, productivity savings, as well as mix and pricing.

Adjusted earnings-per-share came to 54 cents, down from 84 cents in the year-ago period. The company redeemed a €300 million note that was scheduled to mature in October. Newell also announced its intention to retire an additional \$250 million in debt scheduled to mature in June of 2022 as it continues its long deleveraging process.

Newell raised its revenue guidance for this year to \$10.38 billion to \$10.46 billion, up from \$10.1 billion to \$10.35 billion previously. We've left our estimate of earnings-per-share unchanged following largely in-line Q3 results.

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	\$2.03
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 3% for the foreseeable future, comprised mainly of margin improvements and small revenue increases. 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 and progress so far since then.

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 in the low double digits 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

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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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.

Newell has paused dividend increases, so we're reiterating our dividend estimate at 92 cents for the next five years as the company focuses instead of reducing leverage.

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	13.1	13.0
Avg. Yld.	1.8%	2.3%	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	5.5%	4.0%	3.5%

Newell's price-to-earnings multiple is now essentially in line with our estimate of fair value after a recent pullback in the stock. We see fair value around 13 times earnings. The stock yields 4% today, which could move lower over time 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%	45%

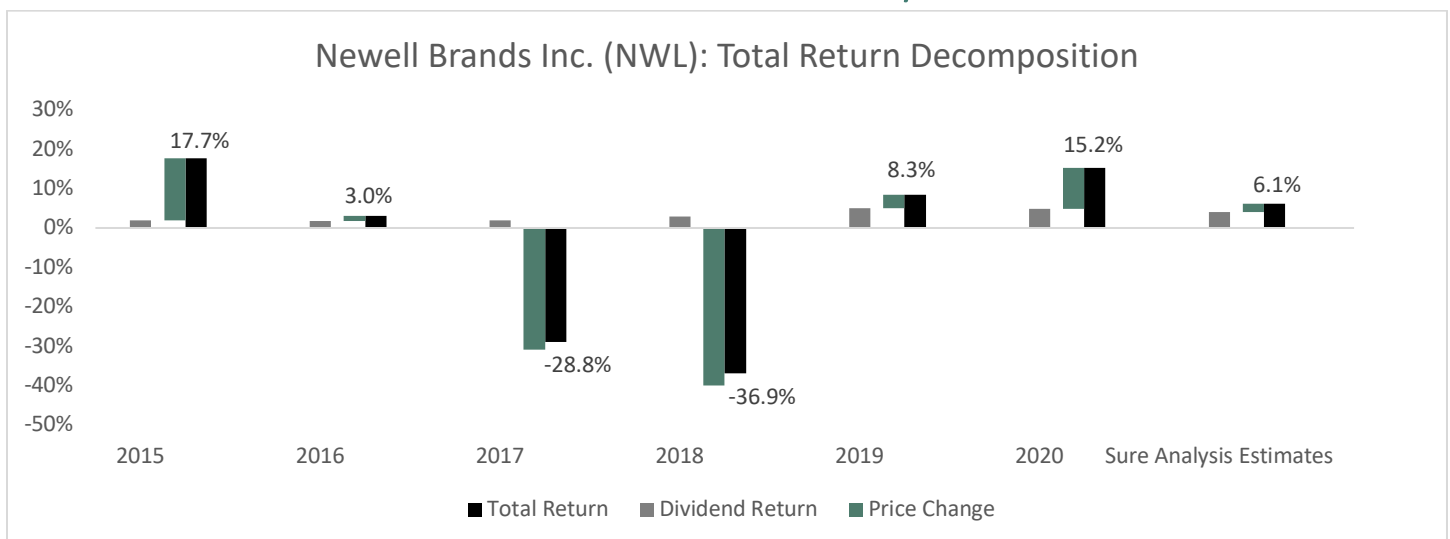
Newell's payout ratio should decline given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, with a 4% yield.

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, particularly as the valuation has come back to fair value. We forecast 6.1% total annual returns in the coming years following Q3 results. We see the valuation as more tenable today given the recent pullback, and with improved total return prospects, we're reiterating the stock at a hold rating. The stock's yield is now about three times that of the S&P 500.

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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