



# Stanley Black & Decker, Inc. (SWK)

Updated October 31<sup>st</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$180	<b>5 Year CAGR Estimate:</b>	9.8%	<b>Market Cap:</b>	\$29 billion
<b>Fair Value Price:</b>	\$182	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	11/30/2021
<b>% Fair Value:</b>	99%	<b>5 Year Valuation Multiple Estimate:</b>	0.2%	<b>Dividend Payment Date:</b>	12/21/2021
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$267	<b>Years Of Dividend Growth:</b>	54
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 announced third quarter results on 10/28/2021. Revenue grew 9.2% to \$4.3 billion, matching estimates. Adjusted earnings-per-share of \$2.77 compared unfavorably to adjusted earnings-per-share of \$2.89 in the prior year, but came in \$0.30 above expectations.

Organic growth remains high with 10% growth in the third quarter. Sales for Tools & Storage, the largest segment within the company, grew 14%, the fifth consecutive quarter of double-digit gains. Compared to Q3 2019, organic growth was 25%. All regions had at least 9% 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 inched higher by 1%.

Infrastructure was up 7% as strength in attachment tools offset a weaker pipeline activity. Engineered Fastening fell 1% as aerospace decline and lower automotive OEM production offset better demand for general industrial products. Security grew 5%, with North America seeing low double-digit growth. Commercial electronic security, automatic doors and healthcare were all areas of strength. Data driven solutions in France remains strong. The adjusted gross margin contracted 310 basis points to 32.8% as raw material, transportation and labor costs offset increases in volume, price and productivity. Stanley Black & Decker expects higher commodity costs for 2021, up to \$690 million from \$300 million and \$235 million previously. 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 \$10.90 to \$11.10 for 2021, down from \$11.35 to \$11.65 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
<b>EPS</b>	\$5.24	\$4.67	\$4.98	\$5.36	\$5.86	\$6.51	\$7.43	\$8.15	\$8.40	\$9.04	<b>\$11.00</b>	<b>\$16.16</b>
<b>DPS</b>	\$1.64	\$1.80	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$2.76	\$2.78	<b>\$3.16</b>	<b>\$4.64</b>
<b>Shares<sup>1</sup></b>	170	160	156	157	154	153	154	152	153	157	<b>159</b>	<b>145</b>

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.

<sup>1</sup> Share count in millions

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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	16.4	16.5
Avg. Yld.	2.4%	2.5%	2.4%	2.3%	2.1%	2.0%	1.7%	1.8%	1.9%	1.9%	1.8%	1.7%

Shares of Stanley Black & Decker have decreased \$20, or 10%, since our 7/27/2021 update. Based on earnings-per-share guidance for 2021, the stock now trades with a price-to-earnings ratio, or P/E, of 16.4. 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 marginal tailwind to annual returns over this time. Stanley Black & Decker's stock yields 1.8%, which is below the stock's 10-year average yield of 2.1%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

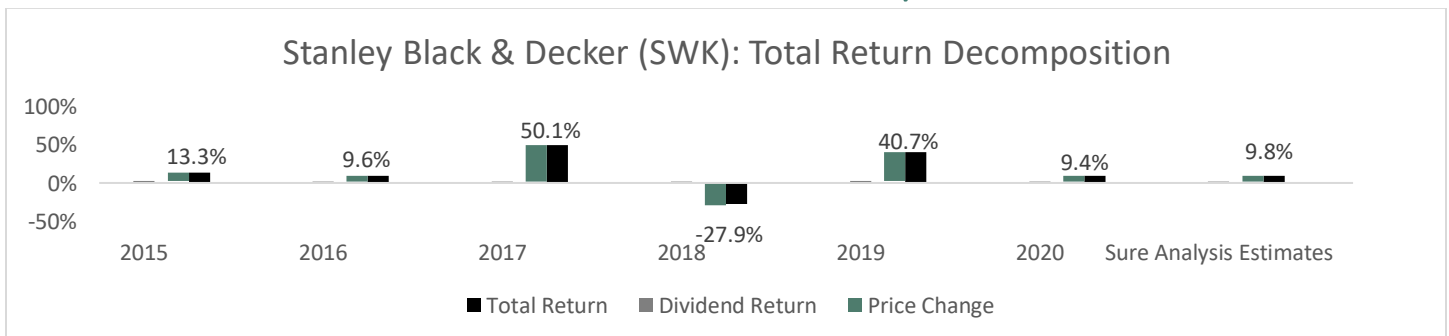
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	31%	39%	40%	38%	37%	35%	33%	32%	33%	31%	29%	29%

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 9.8% through 2026, up from our previous estimate of 8.4%. This projection stems from an 8% earnings growth, a starting yield of 1.8% and a small contribution from multiple expansion. Stanley Black & Decker had another strong quarter of organic growth. However, the company expects higher inflationary costs as well. We have lowered our 2026 price target of \$12 to \$267 as a result of revised guidance. We now view shares of Stanley Black & Decker as a buy given projected returns and the length of the company's dividend growth streak.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	15,949	15,844	16,535	15,849	15,128	15,635	19,098	19,408	20,597	23,566
<b>Cash &amp; Equivalents</b>	907	716	496	497	465	1,132	638	289	298	1,381
<b>Accounts Receivable</b>	1,345	1,329	1,366	1,205	1,165	1,137	1,388	1,437	1,284	1,512
<b>Inventories</b>	1,271	1,305	1,473	1,563	1,526	1,478	2,018	2,374	2,255	2,737
<b>Goodwill &amp; Int. Ass.</b>	9,382	9,947	10,600	10,027	9,626	8,994	12,284	12,441	12,860	14,094
<b>Total Liabilities</b>	8,882	9,117	9,655	9,337	9,269	9,261	10,793	11,568	11,454	12,500
<b>Accounts Payable</b>	1,199	1,346	1,553	1,579	1,533	1,640	2,021	2,233	2,088	2,446
<b>Long-Term Debt</b>	3,452	3,538	4,202	3,847	3,800	3,827	3,811	4,198	3,517	4,247
<b>Shareholder's Equity</b>	7,004	6,667	6,799	6,429	5,812	6,367	7,552	7,086	7,636	11,060
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	4.3%	5.6%	3.0%	4.7%	5.7%	6.3%	7.1%	3.1%	4.8%	5.6%
<b>Return on Equity</b>	9.6%	12.9%	7.3%	11.5%	14.4%	15.9%	17.6%	8.3%	13.0%	13.2%
<b>ROIC</b>	6.4%	8.5%	4.6%	7.1%	8.8%	9.7%	11.0%	5.0%	7.7%	8.8%
<b>Shares Out.</b>	170	160	156	157	154	153	154	152	153	157
<b>Revenue/Share</b>	55.12	60.12	68.58	70.98	73.16	78.23	85.06	92.21	95.92	93.25
<b>FCF/Share</b>	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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