



# Newell Brands Inc. (NWL)

Updated February 14<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

|                             |      |  |      |                                  |          |
|-----------------------------|------|--|------|----------------------------------|----------|
| <b>Current Price:</b>       | \$24 | <b>5 Year CAGR Estimate:</b>               | 6.2% | <b>Market Cap:</b>               | \$10.4 B |
| <b>Fair Value Price:</b>    | \$24 | <b>5 Year Growth Estimate:</b>             | 3.0% | <b>Ex-Dividend Date:</b>         | 02/25/22 |
| <b>% Fair Value:</b>        | 100% | <b>5 Year Valuation Multiple Estimate:</b> | 0.0% | <b>Dividend Payment Date:</b>    | 03/15/22 |
| <b>Dividend Yield:</b>      | 3.8% | <b>5 Year Price Target</b>                 | \$28 | <b>Years Of Dividend Growth:</b> | 0        |
| <b>Dividend Risk Score:</b> | D    | <b>Retirement Suitability Score:</b>       | D    | <b>Last Dividend Increase:</b>   | 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 \$10.4 billion.

Newell reported fourth quarter and full-year earnings on February 11<sup>th</sup>, 2022, and results were very strong. The company beat earnings by 10 cents per share, coming to 42 cents on an adjusted basis. Revenue was also better than expected, rising 4% year-over-year to \$2.81 billion, which was \$160 million better than expected. Net sales grew due to a sizable 5.8% gain in core growth, which is akin to organic sales, which was partially offset by the impact of forex, and certain divestitures. Newell noted that sales were 6.9% better than the same period in 2019, pre-pandemic.

Adjusted gross margin was 30.1% of revenue, off from 32.9% in the year-ago period. The decline was due to cost inflation, as well as transportation and labor costs, partially offset by productivity savings and better pricing. Operating income was \$279 million, or 9.9% of sales, both of which were off from \$307 million, or 11.4% in the year-ago period. Headwinds included cost inflation, which was partially offset by productivity savings and pricing adjustments.

Newell continues its deleveraging journey, with interest expense declining from \$69 million to \$59 million year-over-year in the fourth quarter. Net income came to \$180 million, or 42 cents per share, in the fourth quarter, off from \$238 million, or 56 cents per share, on an adjusted basis year-over-year.

Our initial estimate for this year is \$1.85, which would mark a very small increase in earnings. We remain concerned about cost inflation and supply availability for Newell, but note demand remains strong.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.36 | \$1.44 | \$1.33 | \$0.96 | \$1.25 | \$5.63 | \$2.68 | \$1.70 | \$1.79 | \$1.82 | <b>\$1.85</b> | <b>\$2.14</b> |
| <b>DPS</b>                | \$0.43 | \$0.60 | \$0.66 | \$0.76 | \$0.76 | \$0.88 | \$0.92 | \$0.92 | \$0.92 | \$0.92 | <b>\$0.92</b> | <b>\$0.92</b> |
| <b>Shares<sup>1</sup></b> | 287    | 279    | 269    | 267    | 483    | 485    | 423    | 425    | 426    | 426    | <b>426</b>    | <b>426</b>    |

We continue to think the future is bright for Newell, despite struggles in recent years. We forecast annual earnings-per-share growth averaging 3% for the foreseeable future, comprised mainly of margin improvements and small revenue increases. We note that the near-term is likely to see more margin weakness, but that this should be transitory. We think the bulk of Newell's planned divestitures have been made at this point, so revenue has stabilized in the area of \$10 billion, consistent with 2020 and 2021 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 in the low double digits under normalized conditions, but there are short-term headwinds. 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

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

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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, 2020, and 2021. 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      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now         | 2027        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | 13.8 | 18.6 | 24.3 | 42.8 | 37.3 | 8.1  | 9.1  | 10.1 | 9.4  | 13.8 | <b>13.0</b> | <b>13.0</b> |
| Avg. Yld. | 2.3% | 2.2% | 2.0% | 1.8% | 1.6% | 1.9% | 3.8% | 5.4% | 5.5% | 3.7% | <b>3.8%</b> | <b>3.3%</b> |

Newell's price-to-earnings multiple is 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 3.8% today, which could move lower over time given we expect no dividend increases.

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

| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022       | 2027       |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 32%  | 41%  | 49%  | 80%  | 62%  | 16%  | 34%  | 54%  | 51%  | 51%  | <b>50%</b> | <b>43%</b> |

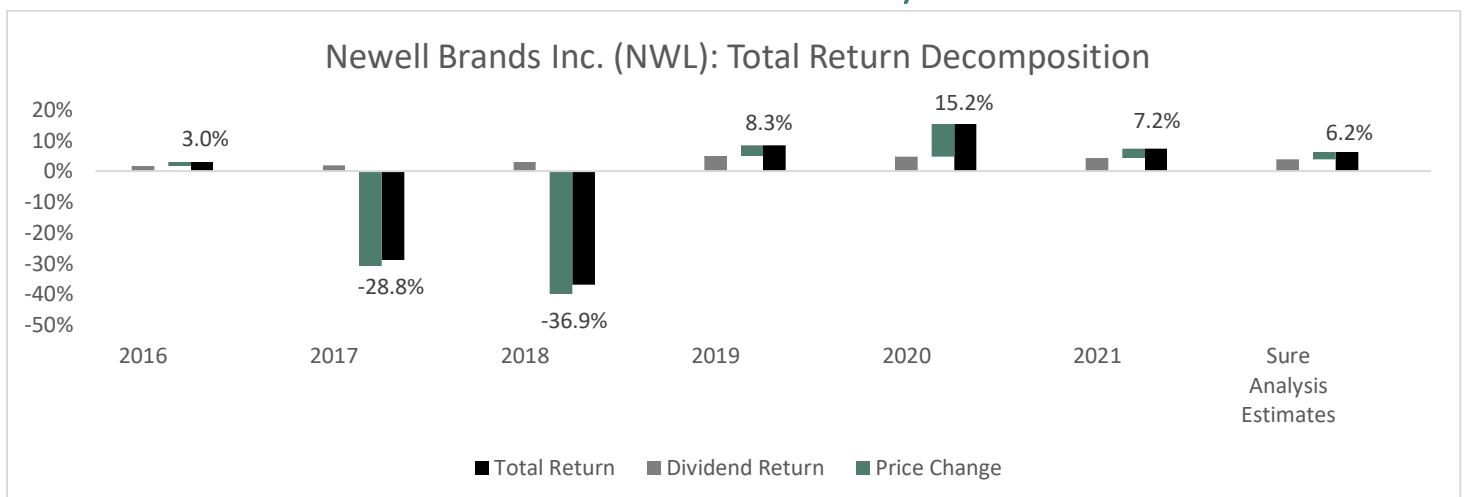
Newell's payout ratio should decline given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, with a sizable yield.

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 relatively attractive, particularly as the valuation is around fair value. We forecast 6.2% total annual returns in the coming years following Q4 results. We see the valuation as more tenable today, and with modest 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, and we note that the near-term offers up margin headwinds from cost inflation and supply availability.

## 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>          | 5511.7 | 5508.5 | 5607   | 5727   | 5915.7 | 13264  | 14742  | 8630.9 | 9,715  | 9,385 |
| <b>Gross Profit</b>     | 2101.1 | 2094.1 | 2124.9 | 2203.4 | 2304.6 | 4398.8 | 5089.3 | 3008.8 | 3,219  | 3,079 |
| <b>Gross Margin</b>     | 38.1%  | 38.0%  | 37.9%  | 38.5%  | 39.0%  | 33.2%  | 34.5%  | 34.9%  | 33.1%  | 32.8% |
| <b>SG&amp;A Exp.</b>    | 1422.3 | 1403.5 | 1399.5 | 1480.5 | 1573.9 | 3221.1 | 3669.1 | 2434.8 | 2,451  | 2,189 |
| <b>D&amp;A Exp.</b>     | 161.6  | 163.7  | 158.9  | 156.1  | 171.6  | 437.2  | 635.6  | 433.9  | 446    | 357   |
| <b>Operating Profit</b> | 678.8  | 690.6  | 725.4  | 722.9  | 730.7  | 1177.7 | 1420.2 | 574    | 768    | 890   |
| <b>Op. Margin</b>       | 12.3%  | 12.5%  | 12.9%  | 12.6%  | 12.4%  | 8.9%   | 9.6%   | 6.7%   | 7.9%   | 9.5%  |
| <b>Net Profit</b>       | 125.2  | 401.3  | 474.6  | 377.8  | 350    | 527.8  | 2748.8 | -6918  | 107    | -770  |
| <b>Net Margin</b>       | 2.3%   | 7.3%   | 8.5%   | 6.6%   | 5.9%   | 4.0%   | 18.6%  | -80.2% | 1.1%   | -8.2% |
| <b>Free Cash Flow</b>   | 338.4  | 441.3  | 467    | 472.2  | 381.5  | 1399   | 525.8  | 295.6  | 779    | 1,173 |
| <b>Income Tax</b>       | 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   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>           | 6160.9 | 6222   | 6069.7 | 6564.3 | 7259.5 | 33838  | 33136  | 17716  | 15,642 | 14,700 |
| <b>Cash &amp; Equivalents</b> | 170.2  | 183.8  | 226.3  | 199.4  | 274.8  | 587.5  | 485.7  | 495.7  | 349    | 981    |
| <b>Acc. Receivable</b>        | 1002   | 1112.4 | 1105.1 | 1248.2 | 1250.7 | 2746.9 | 2674   | 1850.7 | 1,842  | 1,678  |
| <b>Inventories</b>            | 699.9  | 696.4  | 684.4  | 708.5  | 721.8  | 2116   | 2498.8 | 1583.1 | 1,607  | 1,638  |
| <b>Goodwill &amp; Int.</b>    | 3032.1 | 3024.3 | 2975.6 | 3433.2 | 3854.9 | 24331  | 24796  | 8549.8 | 8,625  | 7,117  |
| <b>Total Liabilities</b>      | 4308.3 | 4221.8 | 3994.7 | 4709.4 | 5433.1 | 22453  | 18954  | 12439  | 10,646 | 10,800 |
| <b>Accounts Payable</b>       | 468.5  | 527.4  | 558.9  | 674.1  | 642.4  | 1518.9 | 1761.6 | 1019.5 | 1,101  | 1,526  |
| <b>Long-Term Debt</b>         | 2176.8 | 1918.4 | 1836.4 | 2481.9 | 3057.9 | 11893  | 10552  | 7015   | 5,724  | 5,607  |
| <b>Total Equity</b>           | 1849.1 | 1996.7 | 2071.5 | 1851.4 | 1822.9 | 11349  | 14145  | 5243   | 4,963  | 3,874  |
| <b>D/E Ratio</b>              | 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   |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|--------|-------|--------|
| <b>Return on Assets</b> | 2.0%  | 6.5%  | 7.7%  | 6.0%  | 5.1%  | 2.6%  | 8.2%  | -27.2% | 0.6%  | -5.1%  |
| <b>Return on Equity</b> | 6.7%  | 20.9% | 23.3% | 19.3% | 19.1% | 8.0%  | 21.6% | -71.4% | 2.1%  | -17.4% |
| <b>ROIC</b>             | 3.0%  | 10.1% | 12.1% | 9.2%  | 7.6%  | 3.7%  | 11.5% | -37.4% | 0.9%  | -7.6%  |
| <b>Shares Out.</b>      | 288   | 287   | 279   | 269   | 267   | 483   | 485   | 423    | 425   | 426    |
| <b>Revenue/Share</b>    | 18.61 | 18.76 | 19.22 | 20.53 | 21.79 | 31.35 | 30.21 | 18.22  | 22.92 | 22.13  |
| <b>FCF/Share</b>        | 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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