



# Stanley Black & Decker, Inc. (SWK)

Updated February 1<sup>st</sup>, 2022 by Nathan Parsh

## Key Metrics

|                             |       |  |       |                                  |                        |
|-----------------------------|-------|--|-------|----------------------------------|------------------------|
| <b>Current Price:</b>       | \$177 | <b>5 Year CAGR Estimate:</b>               | 12.4% | <b>Market Cap:</b>               | \$29 billion           |
| <b>Fair Value Price:</b>    | \$202 | <b>5 Year Growth Estimate:</b>             | 8.0%  | <b>Ex-Dividend Date:</b>         | 3/8/2022 <sup>1</sup>  |
| <b>% Fair Value:</b>        | 88%   | <b>5 Year Valuation Multiple Estimate:</b> | 2.7%  | <b>Dividend Payment Date:</b>    | 3/21/2022 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 1.8%  | <b>5 Year Price Target</b>                 | \$297 | <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.

On 12.8/2021, the company announced that it would sell the majority of its security segment to Securitas AB for \$3.2 billion in cash. The transaction is expected to be completed in the first half of 2022.

Stanley Black & Decker announced fourth quarter results on 10/28/2021. For the quarter, revenue grew 1.5% to \$4.1 billion, missing estimates by \$370 million. Adjusted earnings-per-share of \$2.14 compared unfavorably to adjusted earnings-per-share of \$3.29 in the prior year, but came in \$0.10 higher than expected. For the year, revenue grew 20% to \$15.6 billion with adjusted earnings-per-share increased 24% to \$11.20 per share.

Organic growth was down low single-digits for the quarter, but reached 17% for the full year. Sales for Tools & Storage, the largest segment within the company, fell 3% due to tough comparison in the prior year. North America and Europe were down slightly, but emerging markets had 7% growth. Full year organic growth was 20% for this segment. Industrial organic growth decreased 6%. Infrastructure grew 3% due to high demand for attachment tools. Engineered Fastening was down 9% due to lower OEM vehicle production and aerospace weakness. This segment grew 3% in 2021. The adjusted gross margin contracted 630 basis points to 29% as raw material, transportation, and labor costs more than offset a benefit from higher prices.

Stanley Black & Decker offered guidance for 2022. The company expects adjusted earnings-per-share in a range of \$12.00 to \$12.50 for the year. Organic revenue is projected in a range of 7% to 8%. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021    | 2022           | 2027           |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|----------------|----------------|
| <b>EPS</b>                | \$4.67 | \$4.98 | \$5.36 | \$5.86 | \$6.51 | \$7.43 | \$8.15 | \$8.40 | \$9.04 | \$11.20 | <b>\$12.25</b> | <b>\$18.00</b> |
| <b>DPS</b>                | \$1.80 | \$1.98 | \$2.04 | \$2.14 | \$2.26 | \$2.42 | \$2.58 | \$2.76 | \$2.78 | \$2.98  | <b>\$3.16</b>  | <b>\$4.64</b>  |
| <b>Shares<sup>3</sup></b> | 160    | 156    | 157    | 154    | 153    | 154    | 152    | 153    | 157    | 159     | <b>159</b>     | <b>145</b>     |

Stanley Black & Decker has seen earnings-per-share grow at a rate of more than 10% over both the last five- and 10-year periods of time. 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 going forward due to a high starting base for earnings-per-share as well as the quality of the company.

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> 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      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now  | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 15.2 | 16.3 | 16.2 | 17.1 | 17.2 | 19.1 | 17.5 | 16.9 | 17.6 | 16.8 | 14.4 | 16.5 |
| Avg. Yld. | 2.5% | 2.4% | 2.3% | 2.1% | 2.0% | 1.7% | 1.8% | 1.9% | 1.9% | 1.6% | 1.8% | 1.6% |

Shares of Stanley Black & Decker have decreased \$3, or 1.7%, since our 10/31/2021 update. Based on earnings-per-share guidance for 2022, the stock now trades with a price-to-earnings ratio, or P/E, of 14.4. We reaffirm our target P/E of 16.5, which is in-line with the long-term average. If shares were to revert to our target P/E by 2027, then valuation would be a 2.7% 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 2.0%.

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

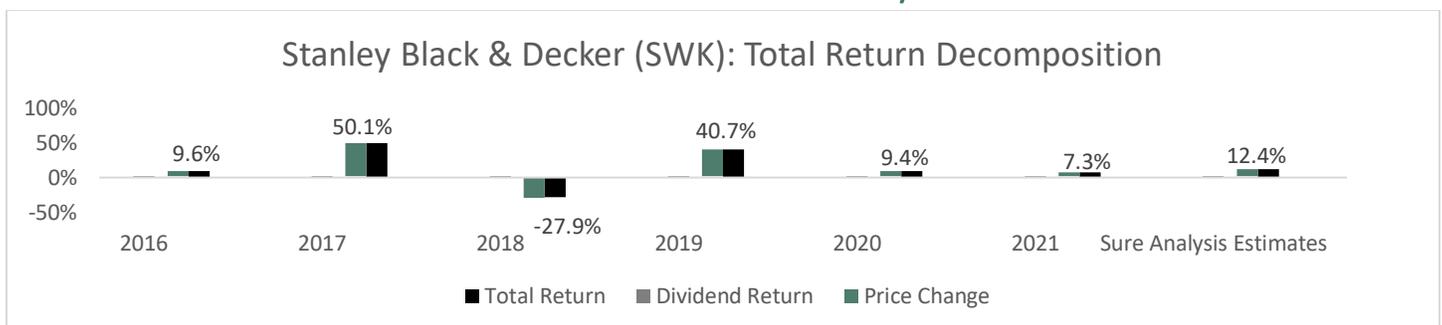
| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 39%  | 40%  | 38%  | 37%  | 35%  | 33%  | 32%  | 33%  | 31%  | 27%  | 26%  | 26%  |

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 now expected to produce annual returns of 12.4% through 2027, up from our previous estimate of 9.8%. This projection stems from an 8% earnings growth, a starting yield of 1.8%, and a small contribution from multiple expansion. Stanley Black & Decker's fourth quarter was its weakest of the year, mostly due to a difficult year-over-year comparison. That said, organic growth for the year was strong. We have raised our five-year price target \$30 to \$297 as a result of guidance for the year. We reiterate our buy rating on Stanley Black & Decker and note that the stock is trading near its 52-week low.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue          | 10,022 | 10,890 | 11,339 | 11,172 | 11,594 | 12,967 | 13,982 | 14,442 | 14,535 | 15,617 |
| Gross Profit     | 3,657  | 3,904  | 4,103  | 4,072  | 4,268  | 4,778  | 4,851  | 4,806  | 4,968  | 5,194  |
| Gross Margin     | 36.5%  | 35.8%  | 36.2%  | 36.4%  | 36.8%  | 36.9%  | 34.7%  | 33.3%  | 34.2%  | 33.3%  |
| SG&A Exp.        | 2,463  | 2,676  | 2,575  | 2,459  | 2,609  | 2,983  | 3,144  | 3,008  | 3,049  | 3,240  |
| D&A Exp.         | 445    | 441    | 450    | 414    | 408    | 461    | 507    | 560    | 578    | 577    |
| Operating Profit | 887    | 929    | 1,267  | 1,364  | 1,450  | 1,510  | 1,392  | 1,515  | 1,616  | 1,832  |
| Operating Margin | 8.8%   | 8.5%   | 11.2%  | 12.2%  | 12.5%  | 11.6%  | 10.0%  | 10.5%  | 11.1%  | 11.7%  |
| Net Profit       | 884    | 490    | 761    | 884    | 968    | 1,227  | 605    | 956    | 1,234  | 1,689  |
| Net Margin       | 8.8%   | 4.5%   | 6.7%   | 7.9%   | 8.3%   | 9.5%   | 4.3%   | 6.6%   | 8.5%   | 10.8%  |
| Free Cash Flow   | 593    | 528    | 1,005  | 871    | 839    | 226    | 769    | 1,081  | 1,674  | 144    |
| Income Tax       | 76     | 69     | 227    | 249    | 262    | 301    | 416    | 161    | 41     | 61     |

## Balance Sheet Metrics

| Year                 | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets         | 15,844 | 16,535 | 15,849 | 15,128 | 15,635 | 19,098 | 19,408 | 20,597 | 23,566 | 28,198 |
| Cash & Equivalents   | 716    | 496    | 497    | 465    | 1,132  | 638    | 289    | 298    | 1,381  | 142    |
| Accounts Receivable  | 1,329  | 1,366  | 1,205  | 1,165  | 1,137  | 1,388  | 1,437  | 1,284  | 1,346  | 1,561  |
| Inventories          | 1,305  | 1,473  | 1,563  | 1,526  | 1,478  | 2,018  | 2,374  | 2,255  | 2,737  | 5,447  |
| Goodwill & Int. Ass. | 9,947  | 10,600 | 10,027 | 9,626  | 8,994  | 12,284 | 12,441 | 12,859 | 14,094 | 13,491 |
| Total Liabilities    | 9,117  | 9,655  | 9,337  | 9,269  | 9,261  | 10,793 | 11,568 | 11,454 | 12,500 | 16,605 |
| Accounts Payable     | 1,346  | 1,553  | 1,579  | 1,533  | 1,640  | 2,021  | 2,233  | 2,088  | 2,446  | 3,439  |
| Long-Term Debt       | 3,538  | 4,202  | 3,847  | 3,800  | 3,827  | 3,811  | 4,198  | 3,517  | 4,247  | 6,596  |
| Shareholder's Equity | 6,667  | 6,799  | 6,429  | 5,812  | 6,367  | 7,552  | 7,086  | 7,906  | 9,689  | 11,591 |
| D/E Ratio            | 0.53   | 0.62   | 0.60   | 0.65   | 0.60   | 0.46   | 0.54   | 0.38   | 0.38   | 0.57   |

## Profitability & Per Share Metrics

| Year             | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 5.6%  | 3.0%  | 4.7%  | 5.7%  | 6.3%  | 7.1%  | 3.1%  | 4.8%  | 5.6%  | 6.5%  |
| Return on Equity | 12.9% | 7.3%  | 11.5% | 14.4% | 15.9% | 17.6% | 8.3%  | 12.8% | 14.0% | 15.9% |
| ROIC             | 8.5%  | 4.6%  | 7.1%  | 8.8%  | 9.7%  | 11.0% | 5.0%  | 7.7%  | 8.8%  | 10.1% |
| Shares Out.      | 160   | 156   | 157   | 154   | 153   | 154   | 152   | 153   | 157   | 159   |
| Revenue/Share    | 60.12 | 68.58 | 70.98 | 73.16 | 78.23 | 85.06 | 89.18 | 92.35 | 89.48 | 94.64 |
| FCF/Share        | 3.56  | 3.32  | 6.29  | 5.70  | 5.66  | 1.48  | 4.90  | 6.91  | 10.31 | 0.87  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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