



# Newell Brands Inc. (NWL)

Updated February 20<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$15	<b>5 Year CAGR Estimate:</b>	7.2%	<b>Market Cap:</b>	\$6.2 B
<b>Fair Value Price:</b>	\$10	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	02/27/23
<b>% Fair Value:</b>	146%	<b>5 Year Valuation Multiple Estimate:</b>	-7.2%	<b>Dividend Payment Date:</b>	03/15/23
<b>Dividend Yield:</b>	6.1%	<b>5 Year Price Target</b>	\$17	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## 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 merger with Jarden as well as its purchase of Sistema. The company’s annual revenue is over \$8 billion, and it trades with a market capitalization of \$6.2 billion.

Newell reported fourth quarter and full-year earnings on February 10<sup>th</sup>, 2023, and results were better than expected on both the top and bottom lines. However, guidance was weaker than expected and the company noted it was transitioning CEOs.

Adjusted earnings-per-share was \$0.16, which was a nickel better than expected. Revenue plummeted 18.5% year-over-year to \$2.28 billion, but still beat estimates by \$50 million.

The company initiated full-year guidance for this year of revenue of ~\$8.5 billion, and adjusted earnings-per-share of \$0.95 to \$1.08. That was far behind the prior expectations of \$1.42. We have initiated our forecast for this year accordingly.

The company noted Q4 results were negatively impacted by inflation and currency, which saw gross margins contract by 350 basis points.

The company said its CEO was transitioning effective May 16, as the current CEO is retiring.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.44	\$1.33	\$0.96	\$1.25	\$5.63	\$2.68	\$1.70	\$1.79	\$1.82	\$1.57	<b>\$1.03</b>	<b>\$1.66</b>
<b>DPS</b>	\$0.60	\$0.66	\$0.76	\$0.76	\$0.88	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92	<b>\$0.92</b>	<b>\$0.92</b>
<b>Shares<sup>1</sup></b>	279	269	267	483	485	423	425	426	426	414	<b>414</b>	<b>414</b>

We continue to think the future is bright for Newell, despite struggles in recent years. We forecast 10% annual earnings-per-share growth for the foreseeable future, as revenue and margins continue to suffer, offset by share repurchases. We have boosted our growth estimate to 10% because of the very low base for 2023. We note that the near-term is likely to see more margin weakness, but that this should be transitory. 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 note that Q3 saw an increase in leverage, and was a step backwards. Newell has once again resumed share repurchases, which will help EPS growth. 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, 2020, and 2021.

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

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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 on reducing leverage.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.6	24.3	42.8	37.3	8.1	9.1	10.1	9.4	13.8	8.3	14.6	10.0
Avg. Yld.	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	5.5%	3.7%	7.0%	6.1%	5.5%

Newell's price-to-earnings multiple is higher than our fair value estimate at 14.6 times earnings, which is based upon prior valuation ranges. We note that Newell's valuation has moved around a lot in the past decade. We see fair value around 10 times earnings. The stock yields 6.1% today, which could move lower over time given we expect no dividend increases.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	41%	49%	80%	62%	16%	34%	54%	51%	51%	59%	89%	56%

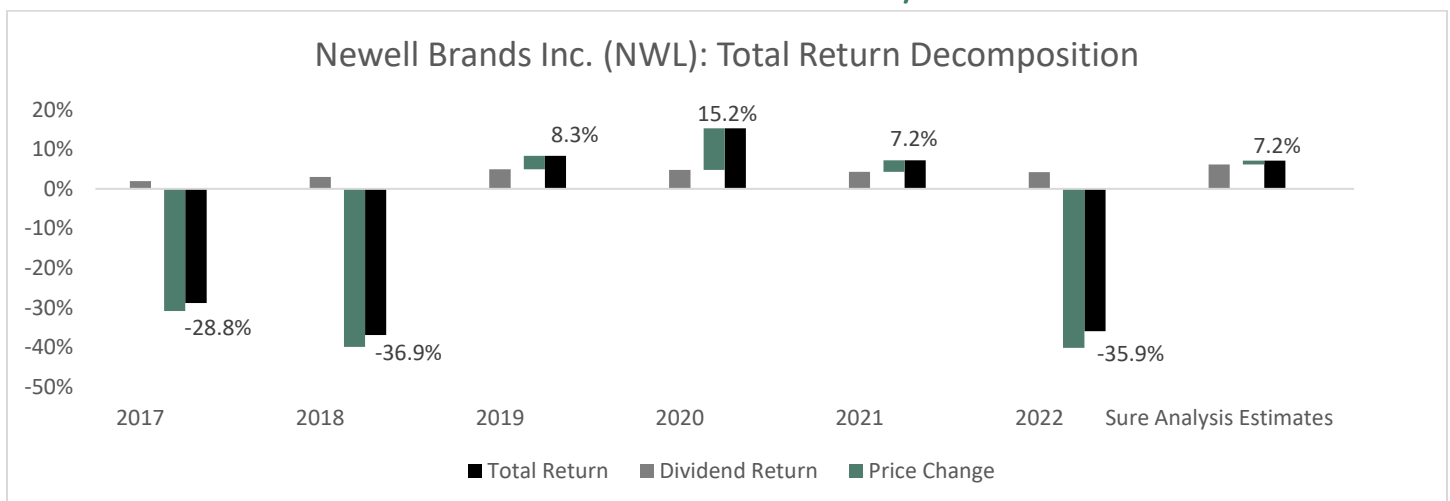
Newell's payout ratio should remain about where it is given raises have been suspended. The important thing for now is that the payout appears safe and should not be cut, with a sizable yield.

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 below fair value. We forecast 7.2% total annual returns in the coming years following Q4 results. We see the valuation as decent today, and with good total return prospects, we're reiterating the stock at a hold rating. We see a 7.2% valuation headwind, 10% growth, and a 6.1% yield contributing to returns. The stock's yield is now almost four 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5607	5727	5915.7	13264	14742	8630.9	9,715	9,385	10589	9459
Gross Profit	2124.9	2203.4	2304.6	4398.8	5089.3	3008.8	3,219	3,079	3296	2834
Gross Margin	37.9%	38.5%	39.0%	33.2%	34.5%	34.9%	33.1%	32.8%	31.1%	30.0%
SG&A Exp.	1399.5	1480.5	1573.9	3221.1	3669.1	2434.8	2,451	2,189	2274	2033
D&A Exp.	158.9	156.1	171.6	437.2	635.6	433.9	446	357	325	296
Operating Profit	725.4	722.9	730.7	1177.7	1420.2	574	768	890	1022	801
Op. Margin	12.9%	12.6%	12.4%	8.9%	9.6%	6.7%	7.9%	9.5%	9.7%	8.5%
Net Profit	474.6	377.8	350	527.8	2748.8	-6918	107	-770	572	197
Net Margin	8.5%	6.6%	5.9%	4.0%	18.6%	-80.2%	1.1%	-8.2%	5.4%	2.1%
Free Cash Flow	467	472.2	381.5	1399	525.8	295.6	779	1,173	595	-584
Income Tax	120	89.1	78.2	286	-1320	-1505	-1,038	-236	121	-40

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6069.7	6564.3	7259.5	33838	33136	17716	15,642	14,700	14179	13262
Cash & Equivalents	226.3	199.4	274.8	587.5	485.7	495.7	349	981	440	287
Acc. Receivable	1105.1	1248.2	1250.7	2746.9	2674	1850.7	1,842	1,678	1500	1250
Inventories	684.4	708.5	721.8	2116	2498.8	1583.1	1,607	1,638	1997	2203
Goodwill & Int.	2975.6	3433.2	3854.9	24331	24796	8549.8	8,625	7,117	6874	5947
Total Liabilities	3994.7	4709.4	5433.1	22453	18954	12439	10,646	10,800	10088	9743
Accounts Payable	558.9	674.1	642.4	1518.9	1761.6	1019.5	1,101	1,526	1680	1062
Long-Term Debt	1836.4	2481.9	3057.9	11893	10552	7015	5,724	5,607	4886	5377
Total Equity	2071.5	1851.4	1822.9	11349	14145	5243	4,963	3,874	4091	3519
LTD/E Ratio	0.89	1.34	1.68	1.05	0.75	1.34	1.15	1.45	1.19	1.528

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.7%	6.0%	5.1%	2.6%	8.2%	-27.2%	0.6%	-5.1%	4.0%	1.4%
Return on Equity	23.3%	19.3%	19.1%	8.0%	21.6%	-71.4%	2.1%	-17.4%	14.4%	5.1%
ROIC	12.1%	9.2%	7.6%	3.7%	11.5%	-37.4%	0.9%	-7.6%	6.2%	2.2%
Shares Out.	279	269	267	483	485	423	425	426	428	417
Revenue/Share	19.22	20.53	21.79	31.35	30.21	18.22	22.92	22.13	24.74	22.66
FCF/Share	1.60	1.69	1.41	3.31	1.08	0.62	1.84	2.77	1.39	-1.40

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

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