



Stanley Black & Decker, Inc. (SWK)

Updated February 4th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$94	5 Year CAGR Estimate:	-1.2%	Market Cap:	\$13.9 B
Fair Value Price:	\$44	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	3/07/23 ¹
% Fair Value:	212%	5 Year Valuation Multiple Estimate:	-13.9%	Dividend Payment Date:	3/22/23 ²
Dividend Yield:	3.4%	5 Year Price Target	\$71	Years Of Dividend Growth:	55
Dividend Risk Score:	F	Retirement Suitability Score:	F	Rating:	Sell

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 July 20th, 2022, Stanley Black & Decker announced it was raising its quarterly dividend 1.3% to \$0.80, extending the company's dividend growth streak to 55 consecutive years. The company is one of just 46 Dividend Kings.

On February 2nd, 2023 Stanley Black & Decker announced fourth quarter and full year results for the period ending December 31st, 2022. For the quarter, revenue declined 1.5% to \$4 billion, but beat estimates by \$120 million. Adjusted earnings-per-share of -\$0.10 compared very unfavorably to \$2.14 in the prior year, but was \$0.24 above expectations. For the year, revenue grew 11% to \$16.9 billion. Adjusted earnings-per-share of \$4.62 was down from \$11.20 in 2021, but at the high end of the company's guidance.

Organic sales for Tools & Outdoor, the largest segment within the company, declined 5% as a 7% benefit from pricing was once again more than offset by a decline in volume. North America fell 7%, Europe was lower by 3% and Emerging Markets improved 1%. Industrial organic growth remained strong, improving 10%. Attachment Tools improved 18% while Engineered Fastening was up 9%. Adjusted gross margin contracted 950 basis points to 19.5% as higher prices were more than offset by higher commodity inflation, lower volume, and higher supply chain costs. The company's cost reduction program remains on track and delivered \$200 million in pre-tax savings during the second half of the year. The company's goal is to reduce expenses by \$1 billion by the end of 2023 and by \$2 billion within three years. Inventory was reduced by \$500 million during the quarter.

Stanley Black & Decker offered guidance for 2023. Due to inflationary pressures and lower demand, the company expects adjusted earnings-per-share in a range of \$0.00 to \$2.00. However, we believe that the company has earnings power of \$2.69 per share. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.98	\$5.36	\$5.86	\$6.51	\$7.43	\$8.15	\$8.40	\$9.04	\$11.20	\$4.62	\$1.00	\$4.33
DPS	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$2.76	\$2.78	\$2.98	\$3.18	\$3.20	\$3.53
Shares³	156	157	154	153	154	152	153	157	159	148	148	145

Stanley Black & Decker's earnings-per-share are flat over the last decade. The company 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 before 2022.

¹ Estimated date

² Estimated date

³ Share count in millions

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We now expect the company to grow earnings-per-share at a rate of 10% annually going forward as Stanley Black & Decker's results are starting from a low base. Combined with the leading brands that the company offers; this should help propel growth once supply chain constraints and higher inflationary pressures ease. That said, we have lowered our dividend growth forecast to 2% annually as the company works through its present challenges.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.3	16.2	17.1	17.2	19.1	17.5	16.9	17.6	16.8	16.3	34.9	16.5
Avg. Yld.	2.4%	2.3%	2.1%	2.0%	1.7%	1.8%	1.9%	1.9%	1.6%	4.2%	3.4%	4.9%

Shares of Stanley Black & Decker have increased \$16, or 20.5%, since our October 28th, 2022 update. Based on our earnings power estimate for 2023, the stock now trades with a price-to-earnings ratio, or P/E, of 34.9. 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 2028, then valuation would be a 13.9% headwind to annual returns over this time. Stanley Black & Decker's current yield is one of the stock's highest over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

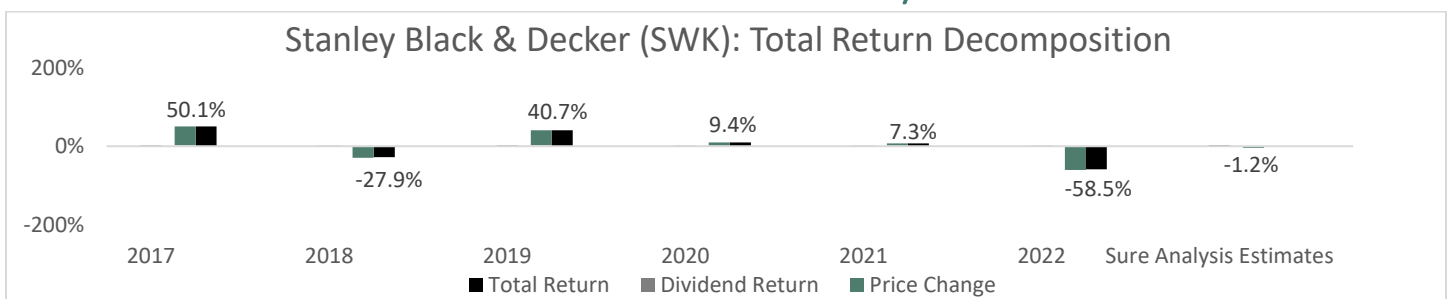
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	40%	38%	37%	35%	33%	32%	33%	31%	27%	69%	119%	82%

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 nearly every quarter in North America since the 2017 acquisition.

Final Thoughts & Recommendation

Stanley Black & Decker is now expected to produce an annual loss of -1.2% through 2028, down from our previous estimate of a return of 10.2%. This projection stems from an 10% earnings growth and a starting yield of 3.4% that are more than offset by multiple contraction. Lower demand and higher inflation costs impacted Stanley Black & Decker's fourth quarter, just as they have over the past few periods. The further reduction in earnings guidance is reflective of the pressures that the company is experiencing. We have lowered our five-year price target \$36 to \$71 due to earnings power, but note that Stanley Black & Decker has an impressive dividend growth streak and a higher than usual yield. Shares now earns a sell rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	10,890	11,339	11,172	11,594	12,967	13,982	14,442	14,535	15,617	16,947
Gross Profit	3,904	4,103	4,072	4,268	4,778	4,851	4,806	4,968	5,194	4,284
Gross Margin	35.8%	36.2%	36.4%	36.8%	36.9%	34.7%	33.3%	34.2%	33.3%	25.3%
SG&A Exp.	2,676	2,575	2,459	2,609	2,983	3,144	3,008	3,049	3,240	3,370
D&A Exp.	441	450	414	408	461	507	560	578	577	572
Operating Profit	929	1,267	1,364	1,450	1,510	1,392	1,515	1,616	1,832	639
Operating Margin	8.5%	11.2%	12.2%	12.5%	11.6%	10.0%	10.5%	11.1%	11.7%	3.8%
Net Profit	490	761	884	968	1,227	605	956	1,234	1,689	1,063
Net Margin	4.5%	6.7%	7.9%	8.3%	9.5%	4.3%	6.6%	8.5%	10.8%	6.3%
Free Cash Flow	528	1,005	871	839	226	769	1,081	1,674	144	(1,990)
Income Tax	69	227	249	262	301	416	161	41	61	(132)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	16,535	15,849	15,128	15,635	19,098	19,408	20,597	23,566	28,198	24,963
Cash & Equivalents	496	497	465	1,132	638	289	298	1,381	142	396
Accounts Receivable	1,366	1,205	1,165	1,137	1,388	1,437	1,284	1,346	1,561	1,231
Inventories	1,473	1,563	1,526	1,478	2,018	2,374	2,255	2,737	5,447	5,861
Goodwill & Int. Ass.	10,600	10,027	9,626	8,994	12,284	12,441	12,859	14,094	13,491	12,978
Total Liabilities	9,655	9,337	9,269	9,261	10,793	11,568	11,454	12,500	16,605	15,249
Accounts Payable	1,553	1,579	1,533	1,640	2,021	2,233	2,088	2,446	3,439	2,344
Long-Term Debt	4,202	3,847	3,800	3,827	3,811	4,198	3,517	4,247	6,596	7,457
Shareholder's Equity	6,799	6,429	5,812	6,367	7,552	7,086	7,906	9,689	11,591	9,712
LTD/E Ratio	0.62	0.60	0.65	0.60	0.46	0.54	0.38	0.38	0.57	0.77

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.0%	4.7%	5.7%	6.3%	7.1%	3.1%	4.8%	5.6%	6.5%	4.0%
Return on Equity	7.3%	11.5%	14.4%	15.9%	17.6%	8.3%	12.8%	14.0%	15.9%	10.3%
ROIC	4.6%	7.1%	8.8%	9.7%	11.0%	5.0%	7.7%	8.8%	10.1%	6.0%
Shares Out.	156	157	154	153	154	152	153	157	159	148
Revenue/Share	68.58	70.98	73.16	78.23	85.06	89.18	92.35	89.48	94.64	108.25
FCF/Share	3.32	6.29	5.70	5.66	1.48	4.90	6.91	10.31	0.87	(12.71)

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

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