



# Stanley Black & Decker, Inc. (SWK)

Updated May 24<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$80	<b>5 Year CAGR Estimate:</b>	15.5%	<b>Market Cap:</b>	\$12.1 B
<b>Fair Value Price:</b>	\$101	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	6/02/23
<b>% Fair Value:</b>	80%	<b>5 Year Valuation Multiple Estimate:</b>	4.7%	<b>Dividend Payment Date:</b>	6/20/23
<b>Dividend Yield:</b>	4.0%	<b>5 Year Price Target</b>	\$148	<b>Years Of Dividend Growth:</b>	55
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## 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 20<sup>th</sup>, 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 48 Dividend Kings.

On May 4<sup>th</sup>, 2023 Stanley Black & Decker announced first quarter results for the period ending March 31<sup>st</sup>, 2023. For the quarter, revenue declined 11.6% to \$3.9 billion, which was \$78 million below estimates. Adjusted earnings-per-share of -\$0.10 compared very unfavorably to \$2.10 in the prior year, but was \$0.33 above expectations.

Companywide organic growth fell 9% as a 2% improvement in pricing was more than offset by weaker volume. Organic sales for Tools & Outdoor, the largest segment within the company, declined 11% as a 2% benefit from pricing was once again more than offset by a decline in volume. North America and Europe both fell 12%, while Emerging Markets, excluding Russia, improved 6%. A colder spring was cited as a reason for slower DIY and professional channels. U.S. point of sales were higher compared to 2019 levels. The Industrial segment grew 3%, led by 5% growth in Attachment Tools and a 3% increase in Engineered Fastening. Pricing added 5% to results, with strong growth seen in aerospace and automotive. Adjusted gross margin contracted 360 basis points to 23.1% as higher prices were more than offset by inflationary pressures, production impairments, and destocking activity. The company's cost reduction program remains on track and delivered \$230 million in pre-tax savings during the first quarter. To date, the cost reduction program has generated \$430 million in run-rate savings. 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 \$202 million during the quarter.

Stanley Black & Decker offered revised guidance for 2023 as well. Due to inflationary pressures and lower demand, the company expects adjusted earnings-per-share in a range of -\$1.65 to \$0.60, down from \$0.00 to \$2.00 previously. However, we believe that the company has earnings power of \$8.38 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
<b>EPS</b>	\$4.98	\$5.36	\$5.86	\$6.51	\$7.43	\$8.15	\$8.40	\$9.04	\$11.20	\$4.62	<b>\$0.08</b>	<b>\$12.31</b>
<b>DPS</b>	\$1.98	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$2.76	\$2.78	\$2.98	\$3.18	<b>\$3.20</b>	<b>\$3.53</b>
<b>Shares<sup>1</sup></b>	156	157	154	153	154	152	153	157	159	148	<b>150</b>	<b>145</b>

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.

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

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We now expect the company to grow earnings-per-share at a rate of 8% 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	9.5	12.0
Avg. Yld.	2.4%	2.3%	2.1%	2.0%	1.7%	1.8%	1.9%	1.9%	1.6%	4.2%	4.0%	2.4%

Shares of Stanley Black & Decker have declined \$14, or 14.9%, since our February 4<sup>th</sup>, 2023 update. Based on our earnings power estimate for 2023, the stock now trades with a price-to-earnings ratio, or P/E, of 9.5. We have lowered our five-year price target to 12 from 16.5 given the ongoing struggles with the company. If shares were to revert to our target P/E by 2028, then valuation would add 4.7% 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

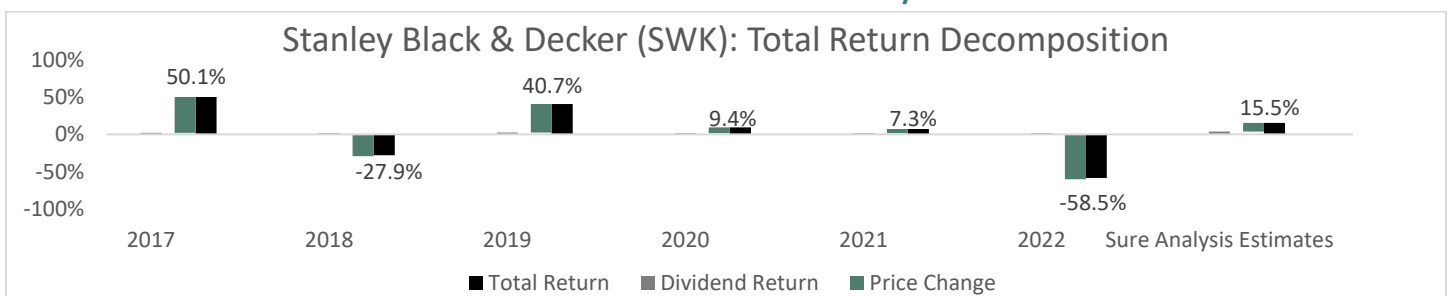
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	40%	38%	37%	35%	33%	32%	33%	31%	27%	69%	38%	29%

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 nearly every quarter in North America since the 2017 acquisition.

## Final Thoughts & Recommendation

Stanley Black & Decker is now expected to produce an annual return of 15.5% through 2028. This projection stems from an 8% earnings growth, a starting yield of 4.0%, and a mid-single-digit tailwind from multiple expansion. Lower demand and higher inflation costs continue to impact Stanley Black & Decker, 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. While the near-term is likely to be painful for the company and investors, we note that Stanley Black & Decker's earnings power is strong. We also note that the company has an impressive dividend growth history and a high yield we believe is safe. Therefore, Stanley Black & Decker now earns a buy recommendation from Sure Dividend.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	16,535	15,849	15,128	15,635	19,098	19,408	20,597	23,566	28,198	24,963
<b>Cash &amp; Equivalents</b>	496	497	465	1,132	638	289	298	1,381	142	396
<b>Accounts Receivable</b>	1,366	1,205	1,165	1,137	1,388	1,437	1,284	1,346	1,561	1,231
<b>Inventories</b>	1,473	1,563	1,526	1,478	2,018	2,374	2,255	2,737	5,447	5,861
<b>Goodwill &amp; Int. Ass.</b>	10,600	10,027	9,626	8,994	12,284	12,441	12,859	14,094	13,491	12,978
<b>Total Liabilities</b>	9,655	9,337	9,269	9,261	10,793	11,568	11,454	12,500	16,605	15,249
<b>Accounts Payable</b>	1,553	1,579	1,533	1,640	2,021	2,233	2,088	2,446	3,439	2,344
<b>Long-Term Debt</b>	4,202	3,847	3,800	3,827	3,811	4,198	3,517	4,247	6,596	7,457
<b>Shareholder's Equity</b>	6,799	6,429	5,812	6,367	7,552	7,086	7,906	9,689	11,591	9,712
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	3.0%	4.7%	5.7%	6.3%	7.1%	3.1%	4.8%	5.6%	6.5%	4.0%
<b>Return on Equity</b>	7.3%	11.5%	14.4%	15.9%	17.6%	8.3%	12.8%	14.0%	15.9%	10.3%
<b>ROIC</b>	4.6%	7.1%	8.8%	9.7%	11.0%	5.0%	7.7%	8.8%	10.1%	6.0%
<b>Shares Out.</b>	156	157	154	153	154	152	153	157	159	148
<b>Revenue/Share</b>	68.58	70.98	73.16	78.23	85.06	89.18	92.35	89.48	94.64	108.25
<b>FCF/Share</b>	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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