



Stanley Black & Decker, Inc. (SWK)

Updated August 1st, 2023 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--------------------------------------------|-------|----------------------------------|----------|
| Current Price: | \$102 | 5 Year CAGR Estimate: | 10.1% | Market Cap: | \$15.6B |
| Fair Value Price: | \$101 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 09/01/23 |
| % Fair Value: | 101% | 5 Year Valuation Multiple Estimate: | -0.3% | Dividend Payment Date: | 09/19/23 |
| Dividend Yield: | 3.2% | 5 Year Price Target | \$148 | Years Of Dividend Growth: | 56 |
| Dividend Risk Score: | A | Retirement Suitability Score: | A | Rating: | 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 28th, 2023, Stanley Black & Decker announced it was raising its quarterly dividend 1.3% to \$0.81, extending the company's dividend growth streak to 56 consecutive years. The company is one of just 50 Dividend Kings.

On August 1st, 2023, Stanley Black & Decker announced second quarter results for the period ending June 30th, 2023. For the quarter, revenue fell 5.3% to \$4.2 billion, but this was \$70 million more than expected. Adjusted earnings-per-share of -\$0.11 compared very unfavorably to \$1.77 in the prior year, but was \$0.25 above expectations.

Companywide organic growth fell 4%. Organic sales for Tools & Outdoor, the largest segment within the company, declined 5% as a 1% benefit from pricing was once again more than offset by a decline in volume. North America was down 6% while Europe was lower by 3%, but both results were a deceleration from a double-digit decline in the preceding quarter. DIY demand continues to be weak, but U.S. point of sales remain higher compared to 2019 levels. The Industrial segment grew 3%, as an 8% improvement in Engineered Fastening more than offset a 14% decrease for Attachment Tools. Adjusted gross margin expanded 50 basis points to 23.6% due to cost controls. The company's cost reduction program remains on track and delivered \$230 million in pre-tax savings during the second quarter. 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 \$373 million during the quarter and has been reduced by \$1.4 billion since the middle of 2022.

Stanley Black & Decker provided revised guidance for 2023 as well. The company expects adjusted earnings-per-share in a range of \$0.70 to \$1.30 compared to \$0.00 to \$2.00 previously. However, we continue to believe that the company has earnings power of \$8.38 per share.

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 | \$12.31 |
| DPS | \$1.98 | \$2.04 | \$2.14 | \$2.26 | \$2.42 | \$2.58 | \$2.76 | \$2.78 | \$2.98 | \$3.18 | \$3.24 | \$3.58 |
| Shares¹ | 156 | 157 | 154 | 153 | 154 | 152 | 153 | 157 | 159 | 148 | 150 | 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.

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

¹ Share count in millions

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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 | 12.2 | 12.0 |
| Avg. Yld. | 2.4% | 2.3% | 2.1% | 2.0% | 1.7% | 1.8% | 1.9% | 1.9% | 1.6% | 4.2% | 3.2% | 2.4% |

Shares of Stanley Black & Decker have increased \$22, or 27.5%, since our May 24th, 2023 update. Based on our earnings power estimate for 2023, the stock now trades with a price-to-earnings ratio, or P/E, of 12.2. We reaffirm our five-year price target of 12 times earnings given the ongoing struggles with the company. If shares were to revert to our target P/E by 2028, then valuation would reduce annual returns by 0.3% annually over this period. Stanley Black & Decker's current yield is one of the stock's highest over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

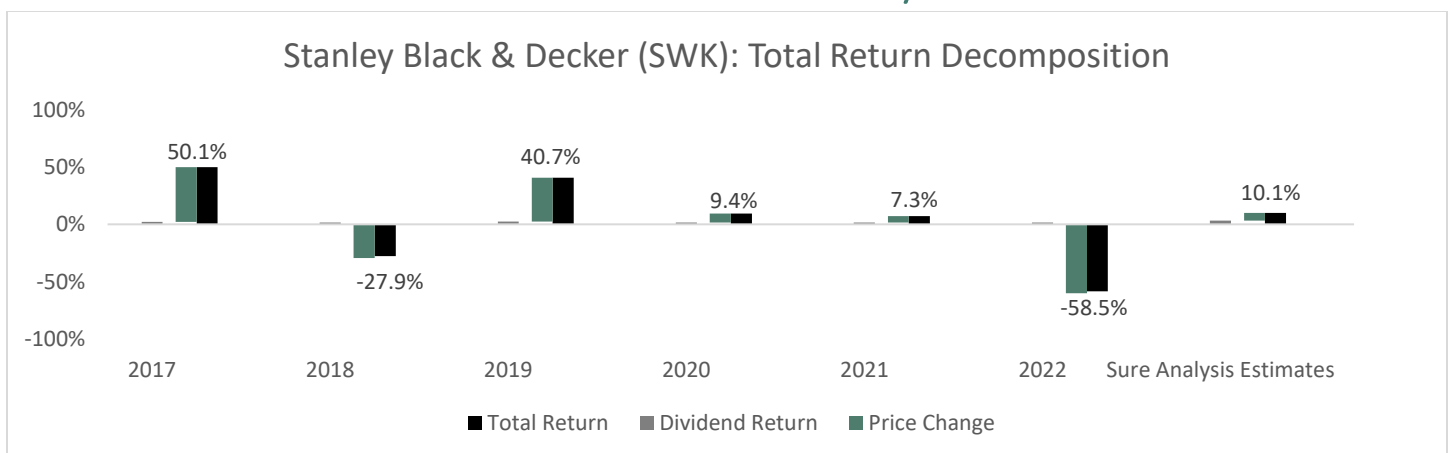
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 40% | 38% | 37% | 35% | 33% | 32% | 33% | 31% | 27% | 69% | 39% | 29% |

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 10.1% through 2028, down from 15.5% previously. This projection stems from an 8% earnings growth and a starting yield of 3.2%, offset by a small valuation headwind. Demand in certain areas continues to be weak and inflationary pressures remain. However, the company has seen some sequential improvements. We also note that the company has an impressive dividend growth history and a solid yield we believe is safe. Therefore, Stanley Black & Decker continues to earn a buy recommendation.

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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