Newell Brands Inc. (NWL)

Updated November 5th, 2023, by Josh Arnold

Key Metrics

Current Price:	$6.92	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$2.9 B
Fair Value Price:	$6.75	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	11/27/23[1]
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	12/15/23
Dividend Yield:	4.0%	**5 Year Price Target**	$9.47	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	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 about $8 billion, and it trades with a market capitalization of $2.9 billion.

Newell posted third quarter earnings on October 27th, 2023, and results were somewhat mixed once again, as we've become accustomed to from the constantly-transitioning company. Adjusted earnings-per-share came to 39 cents, which was an impressive 16 cents better than expected. Revenue, however, was off 9.3% year-over-year to $2.04 billion, and was $80 million light of estimates. Core sales declined 9.2%, and the company saw a slight headwind from category exits, as well as a small tailwind from forex exchange.

Adjusted gross margin was 31.3% of revenue, up from 29.6% a year ago. The company saw benefits from its cost saving and productivity program, as well as higher realized selling prices. That helped offset fixed cost deleveraging, as well as higher restructuring charges.

Adjusted operating income was $167 million, or 8.2% of sales. This was lower than $234 million, or 10.4% of revenue, a year ago. Newell continues to struggle mightily when it comes to generating both revenue and margins, and projected earnings of just 75 cents per share for this year will be the lowest in more than a decade for Newell.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.44	$1.33	$0.96	$1.25	$5.63	$2.68	$1.70	$1.79	$1.82	$1.57	***$0.75***	***$1.05***
DPS	$0.60	$0.66	$0.76	$0.76	$0.88	$0.92	$0.92	$0.92	$0.92	$0.92	***$0.28***	***$0.28***
Shares[2]	279	269	267	483	485	423	425	426	426	414	***414***	***414***

It has become apparent that Newell's turnaround plan that began a few years ago simply isn't working. It's struggling with revenue and margin generation, and frankly, has done nothing but move in the wrong direction since 2018. We forecast 7% annual earnings-per-share growth for the foreseeable future, as revenue and margins continue to suffer, offset by share repurchases. Our estimate of growth is lower, and on a lower base of earnings, as Newell simply isn't executing on its long-awaited plan to boost revenue and operating margins. We note that the near-term is likely to see more margin weakness. Margins may improve as management has committed to 15%+ operating margins in the future after the non-core assets are sold, but that looks to be overly ambitious at this point and not based in reality. In addition, the reduced leverage on the balance sheet should afford Newell more flexibility, as well as lower interest expense. We note that leverage has begun to creep higher again. 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. This should aid the debt reduction effort given that Newell shouldn't have to borrow as much to fund operations as cash conversion improves.

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[1] Estimated date

[2] Share count in millions

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Newell finally cut the dividend in 2023, and we see this as a big positive moving forward. The company can use that cash to reduce debt, invest in growth, or make acquisitions.

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	***9.2***	***9.0***
Avg. Yld.	2.2%	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	5.5%	3.7%	7.0%	***4.0%***	***3.0%***

Newell's price-to-earnings multiple is now in line with our fair value estimate at 9.2 times earnings, which is based upon prior valuation ranges. We note that Newell's valuation has moved around a lot in the past decade, and has moved sharply lower given the share price declines we've seen. The stock yields 4% 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%	***37%***	***27%***

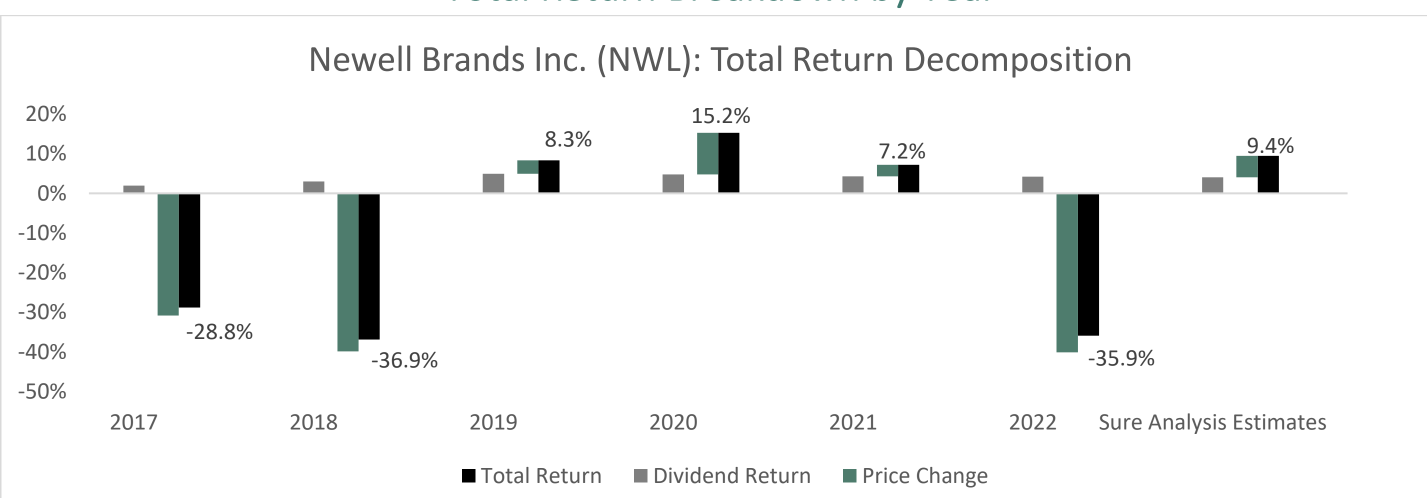
Newell's payout ratio should remain about where it is given raises have been suspended, and the payout was cut. The important thing for now is that the payout appears safe.

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. We note, however, that Newell's brands don't show strong advantages in the market, as evidenced by weak revenue and margin performances.

Final Thoughts & Recommendation

In total, we see Newell as relatively attractive, but note that there is significant turnaround risk, and the yield is now a fraction of its former level. We forecast 9.4% total annual returns in the coming years following Q3 results. We see the valuation as in line with fair value today, and with decent total return prospects, we're placing a hold rating on the stock. We see a 0.5% valuation headwind, 7% growth, and a 4% yield contributing to returns. The stock's yield is still ahead of the S&P 500, but much lower than it has been for the past several years.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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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.