



# Stanley Black & Decker, Inc. (SWK)

Updated October 31<sup>st</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$84	<b>5 Year CAGR Estimate:</b>	14.5%	<b>Market Cap:</b>	\$12.8 B
<b>Fair Value Price:</b>	\$101	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	11/30/23
<b>% Fair Value:</b>	84%	<b>5 Year Valuation Multiple Estimate:</b>	3.7%	<b>Dividend Payment Date:</b>	12/19/23
<b>Dividend Yield:</b>	3.9%	<b>5 Year Price Target</b>	\$148	<b>Years Of Dividend Growth:</b>	56
<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 28<sup>th</sup>, 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 October 27<sup>th</sup>, 2023, Stanley Black & Decker reported third quarter results for the period ending September 30<sup>th</sup>, 2023. For the quarter, revenue decreased 4.1% to \$3.95 billion, which was \$20 million less than expected. Adjusted earnings-per-share of \$1.05 compared favorably to \$0.76 in the prior year and was \$0.22 above estimates.

Companywide organic growth once again fell 4%. Organic sales for Tools & Outdoor, the largest segment within the company, declined 5% due to weakness in consumer outdoor and DIY categories. North America was down 5% while Europe was lower by 3%. U.S. point of sales remain higher compared to 2019 levels. Emerging markets saw mid-single-digit growth when excluding Russia. The Industrial segment decreased 4%, as a 6% improvement in Engineered Fastening was more than offset a 26% decrease for Attachment Tools. Adjusted gross margin expanded ~300 basis points to ~28% due to cost controls. On a sequential basis, the adjusted operating margin improved ~400 basis points. The company's cost reduction program remains on track to deliver \$2 billion in pre-tax savings by 2025. Stanley Black & Decker has achieved \$875 million of cost savings since starting the program. Inventory was reduced by \$300 million during the quarter and has been reduced by \$1.7 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 \$1.10 to \$1.40, compared to \$0.70 to \$1.30 and \$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
<b>EPS</b>	\$4.98	\$5.36	\$5.86	\$6.51	\$7.43	\$8.15	\$8.40	\$9.04	\$11.20	\$4.62	<b>\$1.00</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>\$3.24</b>	<b>\$3.58</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.

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

<sup>1</sup> 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	10.0	12.0
Avg. Yld.	2.4%	2.3%	2.1%	2.0%	1.7%	1.8%	1.9%	1.9%	1.6%	4.2%	3.9%	2.4%

Shares of Stanley Black & Decker have declined \$18, or 17.6%, since our August 1<sup>st</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 10.0. We reaffirm our five-year price target of 12 times earnings, which is below the long-term average of 17 times earnings, given the ongoing struggles with the company. If shares were to revert to our target P/E by 2028, then valuation would be a 3.7% annual tailwind to total returns 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

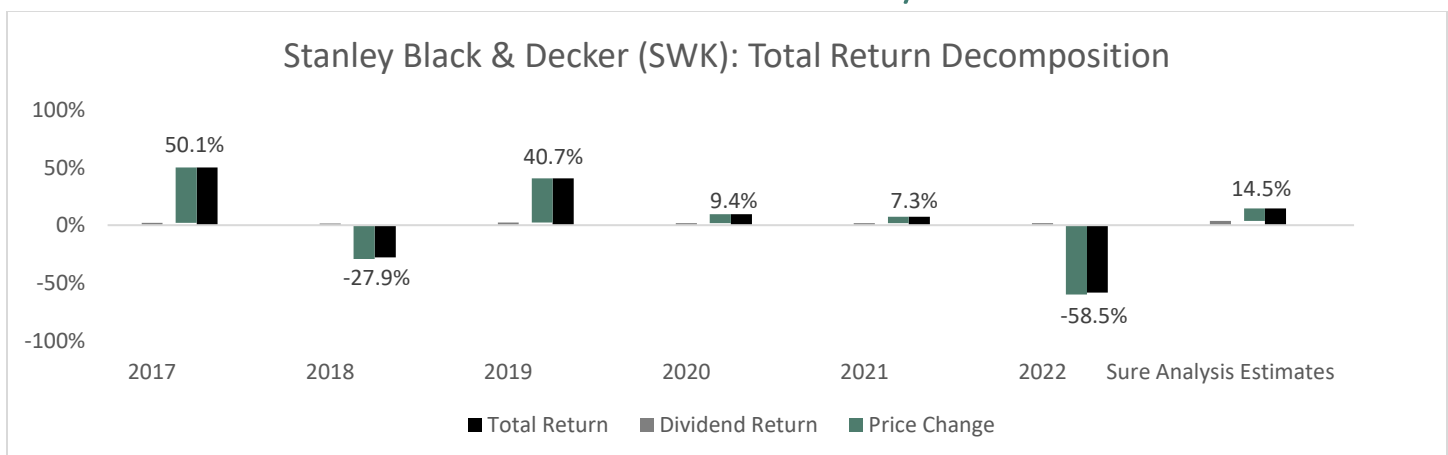
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	40%	38%	37%	35%	33%	32%	33%	31%	27%	69%	39%	29%

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 has been a meaningful contributor to results since the 2017 acquisition.

## Final Thoughts & Recommendation

Stanley Black & Decker is now expected to produce an annual return of 14.5% through 2028, up from 10.1% previously. This projection stems from an 8% earnings growth, a starting yield of 3.9%, and a low single-digit contribution from multiple expansion. Stanley Black & Decker continues to work with through the struggles in its business. Inventory has been lessened while the cost savings program has had some benefit. 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
<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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