



Newell Brands Inc. (NWL)

Updated February 24th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$7	5 Year CAGR Estimate:	4.5%	Market Cap:	\$3.0 B
Fair Value Price:	\$5	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	02/28/24 ¹
% Fair Value:	146%	5 Year Valuation Multiple Estimate:	-7.3%	Dividend Payment Date:	03/15/24
Dividend Yield:	3.9%	5 Year Price Target	\$7.62	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 \$7.5 billion, and it trades with a market capitalization of \$3 billion.

Newell posted fourth quarter and full-year earnings on February 9th, 2024, and results were once again extremely weak as Newell continues to struggle on both revenue and margins. On the plus side, adjusted earnings-per-share came to 22 cents, which was a nickel ahead of estimates, but well off of last year's levels. Revenue was down once again, this time ceding 9.1% year-over-year to \$2.1 billion. Core sales fell 9.3% year-over-year. Full-year operating cash flow was up \$1.2 billion to \$930 million, compared to an outflow last year.

Debt now stands at \$4.9 billion, down ~\$0.5B year-over-year. However, it's still ~1.6X the company's market cap, so it remains extremely high.

The company announced in January it was reducing its workforce by about 7%, which it believes will save between \$65 million and \$90 million on an annual, pre-tax basis. In addition, it is working to reduce its real estate footprint and other cost saving initiatives.

Newell sees net sales falling at least 5% this year and as much as 8%, and for adjusted earnings-per-share to come to between 52 cents and 62 cents. We've set our estimate at 55 cents to start the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.33	\$0.96	\$1.25	\$5.63	\$2.68	\$1.70	\$1.79	\$1.82	\$1.57	\$0.79	\$0.55	\$0.85
DPS	\$0.66	\$0.76	\$0.76	\$0.88	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92	\$0.44	\$0.28	\$0.28
Shares²	269	267	483	485	423	425	426	426	414	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 9% annual earnings-per-share growth for the foreseeable future, as revenue and margins continue to suffer, and are now no longer offset by share repurchases. Our estimate of growth is higher, but that's based solely on a much 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 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

¹ Estimated date

² Share count in millions

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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.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	24.3	42.8	37.3	8.1	9.1	10.1	9.4	13.8	8.3	11.0	13.2	9.0
Avg. Yld.	2.0%	1.8%	1.6%	1.9%	3.8%	5.4%	5.5%	3.7%	7.0%	5.1%	3.9%	3.7%

Newell's price-to-earnings multiple is now well ahead of our fair value estimate at 9 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 higher given the much lower earnings estimate for this year. The stock yields 3.9% today, which could move lower over time given we expect no dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	49%	80%	62%	16%	34%	54%	51%	51%	59%	56%	51%	33%

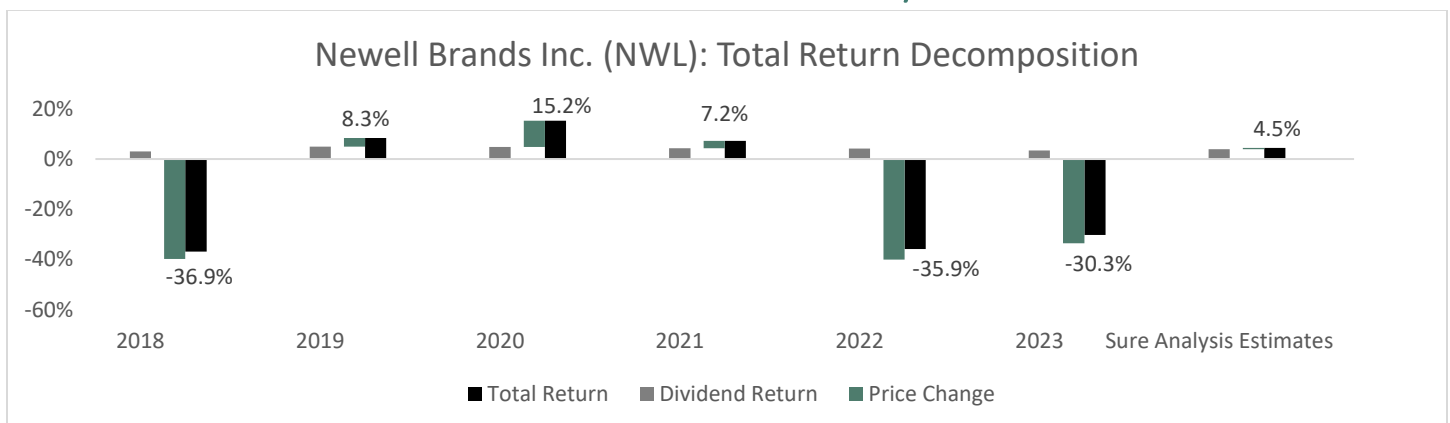
Newell's payout ratio should remain about where it is given raises have been suspended, and the payout was cut. The important thing for now is that the payout appears safe.

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 unattractive, noting that there is significant turnaround risk, and the yield is now a fraction of its former level. We forecast 4.5% total annual returns in the coming years following 2023 results. We see the valuation as too expensive, and with unattractive total return prospects, we're reiterating a hold rating on the stock. We see a 7.3% valuation headwind, 9% growth, and a 3.9% 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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5727	5915.7	13264	14742	8630.9	9,715	9,385	10589	9459	8133
Gross Profit	2203.4	2304.6	4398.8	5089.3	3008.8	3,219	3,079	3296	2834	2353
Gross Margin	38.5%	39.0%	33.2%	34.5%	34.9%	33.1%	32.8%	31.1%	30.0%	28.9%
SG&A Exp.	1480.5	1573.9	3221.1	3669.1	2434.8	2,451	2,189	2274	2033	2001
D&A Exp.	156.1	171.6	437.2	635.6	433.9	446	357	325	296	334
Operating Profit	722.9	730.7	1177.7	1420.2	574	768	890	1022	801	352
Op. Margin	12.6%	12.4%	8.9%	9.6%	6.7%	7.9%	9.5%	9.7%	8.5%	4.3%
Net Profit	377.8	350	527.8	2748.8	-6918	107	-770	572	197	-388
Net Margin	6.6%	5.9%	4.0%	18.6%	-80.2%	1.1%	-8.2%	5.4%	2.1%	-4.8%
Free Cash Flow	472.2	381.5	1399	525.8	295.6	779	1,173	595	-584	646
Income Tax	89.1	78.2	286	-1320	-1505	-1,038	-236	121	-40	-155

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6564.3	7259.5	33838	33136	17716	15,642	14,700	14179	13262	12163
Cash & Equivalents	199.4	274.8	587.5	485.7	495.7	349	981	440	287	332
Acc. Receivable	1248.2	1250.7	2746.9	2674	1850.7	1,842	1,678	1500	1250	1195
Inventories	708.5	721.8	2116	2498.8	1583.1	1,607	1,638	1997	2203	1531
Goodwill & Int.	3433.2	3854.9	24331	24796	8549.8	8,625	7,117	6874	5947	5559
Total Liabilities	4709.4	5433.1	22453	18954	12439	10,646	10,800	10088	9743	9051
Accounts Payable	674.1	642.4	1518.9	1761.6	1019.5	1,101	1,526	1680	1062	1003
Long-Term Debt	2481.9	3057.9	11893	10552	7015	5,724	5,607	4886	5377	4904
Total Equity	1851.4	1822.9	11349	14145	5243	4,963	3,874	4091	3519	3112
LTD/E Ratio	1.34	1.68	1.05	0.75	1.34	1.15	1.45	1.19	1.53	1.58

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.0%	5.1%	2.6%	8.2%	-27.2%	0.6%	-5.1%	4.0%	1.4%	-3.1%
Return on Equity	19.3%	19.1%	8.0%	21.6%	-71.4%	2.1%	-17.4%	14.4%	5.1%	-11.7%
ROIC	9.2%	7.6%	3.7%	11.5%	-37.4%	0.9%	-7.6%	6.2%	2.2%	-4.6%
Shares Out.	269	267	483	485	423	425	426	428	417	414
Revenue/Share	20.53	21.79	31.35	30.21	18.22	22.92	22.13	24.74	22.66	19.64
FCF/Share	1.69	1.41	3.31	1.08	0.62	1.84	2.77	1.39	-1.40	1.56

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

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