



Stanley Black & Decker, Inc. (SWK)

Updated February 2nd, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$90	5 Year CAGR Estimate:	-0.5%	Market Cap:	\$13.8 B
Fair Value Price:	\$48	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	03/06/24 ¹
% Fair Value:	188%	5 Year Valuation Multiple Estimate:	-11.8%	Dividend Payment Date:	03/21/24 ²
Dividend Yield:	3.6%	5 Year Price Target	\$71	Years Of Dividend Growth:	56
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Sell

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 54 Dividend Kings.

On December 18th, 2023, it was announced that Stanley Black & Decker had agreed to sell its Infrastructure business to Epiroc AB for ~\$760 million in cash. The deal is expected to occur by the end of first quarter of 2024.

On February 1st, 2024, Stanley Black & Decker announced fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue declined 6.3% to \$3.7 billion, which was \$104 million below estimates. Adjusted earnings-per-share of \$0.92 compared favorably to -\$0.10 in the prior year and was \$0.14 better than expected. For 2023, revenue fell 6.5% to \$15.8 billion while adjusted earnings-per-share was \$1.45.

Companywide organic growth declined 7%. Organic sales for Tools & Outdoor, the largest segment within the company, decreased 8% due to continued weakness in consumer outdoor and DIY categories. North America was lower by 10% while Europe and Emerging Markets were both down by 1%. U.S. point of sales remain higher compared to 2019 levels. The Industrial segment decreased 4%, as gains in Engineered Fastening were more than offset by weaker Infrastructure results. Adjusted gross margin expanded 220 basis points to 29.8% due to cost controls and lower inventory destocking. On a sequential basis, the adjusted operating margin improved 180 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 \$1.1 billion of cost savings since starting the program. Inventory was reduced by \$1.1 billion in Q4 compared to the prior year.

Stanley Black & Decker provided guidance for 2024 as well. The company expects adjusted earnings-per-share in a range of \$3.50 to \$4.50 for the year. We have initiated our estimates accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.36	\$5.86	\$6.51	\$7.43	\$8.15	\$8.40	\$9.04	\$11.20	\$4.62	\$1.45	\$4.00	\$5.88
DPS	\$2.04	\$2.14	\$2.26	\$2.42	\$2.58	\$2.76	\$2.78	\$2.98	\$3.18	\$3.22	\$3.24	\$3.58
Shares³	157	154	153	154	152	153	157	159	148	150	150	145

Stanley Black & Decker's earnings-per-share have declined 13.5% annually 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.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Share count in millions

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We reaffirm our expectation that 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.2	17.1	17.2	19.1	17.5	16.9	17.6	16.8	16.3	67.7	22.5	12.0
Avg. Yld.	2.3%	2.1%	2.0%	1.7%	1.8%	1.9%	1.9%	1.6%	4.2%	3.3%	3.6%	5.1%

Shares of Stanley Black & Decker have increased \$6, or 7.1%, since our October 31st, 2023 update. Based on our earnings power estimate for 2024, the stock now trades with a price-to-earnings ratio, or P/E, of 22.5. 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 2029, then valuation would be an 11.8% headwind to annual 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

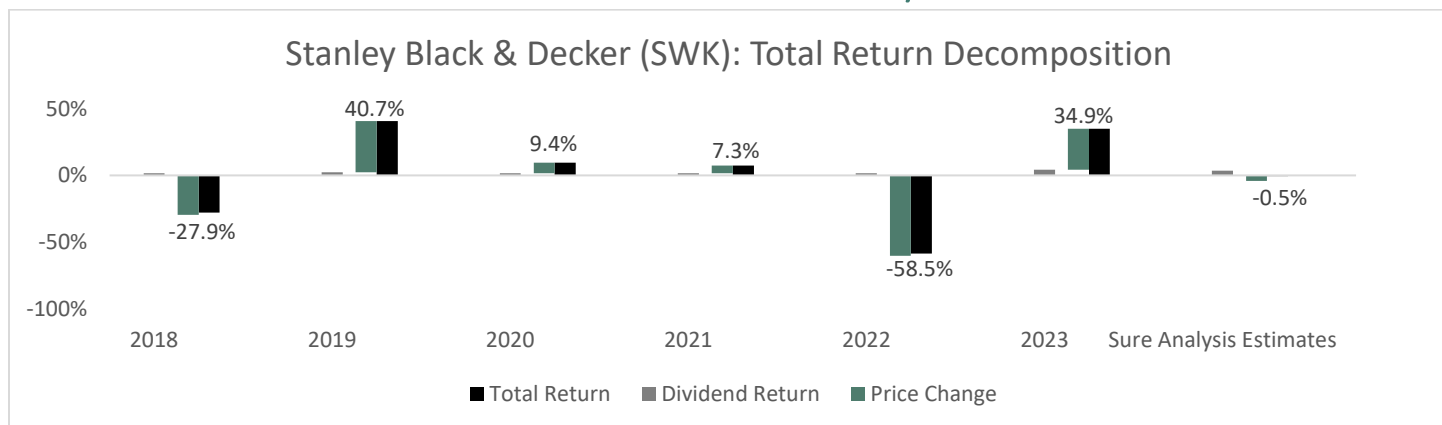
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	38%	37%	35%	33%	32%	33%	31%	27%	69%	222%	81%	61%

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 -0.6% through 2029. This projection stems from an 8% earnings growth and a starting yield of 3.6%, which are more than offset by multiple compression. Stanley Black & Decker continues to work with through the challenges in its business. Inventory greatly declined 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. However, Stanley Black & Decker now earns a sell recommendation due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	11,339	11,172	11,594	12,967	13,982	12,913	13,058	15,281	16,947	15,781
Gross Profit	4,103	4,072	4,268	4,778	4,851	4,233	4,405	5,092	4,284	3,933
Gross Margin	36.2%	36.4%	36.8%	36.9%	34.7%	32.8%	33.7%	33.3%	25.3%	24.9%
SG&A Exp.	2,575	2,459	2,609	2,983	3,144	2,542	2,600	3,193	3,356	3,291
D&A Exp.	450	414	408	461	507	560	578	577	572	625
Operating Profit	1,507	1,586	1,636	1,779	1,679	1,665	1,777	1,899	914	322
Operating Margin	13.3%	14.2%	14.1%	13.7%	12.0%	12.9%	13.6%	12.4%	5.4%	2.0%
Net Profit	761	884	968	1,227	605	956	1,234	1,689	1,063	(311)
Net Margin	6.7%	7.9%	8.3%	9.5%	4.3%	7.4%	9.4%	11.1%	6.3%	-2.0%
Free Cash Flow	1,005	871	839	226	769	1,081	1,674	144	(1,990)	853
Income Tax	227	249	262	301	416	127	43	55	(132)	(94)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	15,849	15,128	15,635	19,098	19,408	20,597	23,566	28,180	24,963	23,664
Cash & Equivalents	497	465	1,132	638	289	298	1,242	142	396	449
Accounts Receivable	1,321	1,274	1,240	1,550	1,560	1,410	1,202	1,502	1,238	1,302
Inventories	1,563	1,526	1,478	2,018	2,374	2,255	2,639	5,420	5,861	4,739
Goodwill & Int. Ass.	10,027	9,626	8,994	12,284	12,441	12,859	11,924	13,286	12,978	11,946
Total Liabilities	9,337	9,269	9,261	10,793	11,568	11,454	12,500	16,588	15,249	14,608
Accounts Payable	1,579	1,533	1,640	2,021	2,233	2,088	2,320	3,424	2,344	2,299
Long-Term Debt	3,847	3,800	3,827	3,811	4,198	3,517	4,247	6,596	7,457	7,177
Shareholder's Equity	6,429	5,812	6,367	7,552	7,086	7,906	9,689	10,970	9,712	9,056
LTD/E Ratio	0.60	0.65	0.60	0.46	0.54	0.38	0.38	0.57	0.77	0.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.7%	5.7%	6.3%	7.1%	3.1%	4.8%	5.6%	6.5%	4.0%	-1.3%
Return on Equity	11.5%	14.4%	15.9%	17.6%	8.3%	12.8%	14.0%	16.4%	10.3%	-3.3%
ROIC	7.1%	8.8%	9.7%	11.0%	5.0%	7.7%	8.8%	10.1%	6.0%	-1.9%
Shares Out.	157	154	153	154	152	153	157	159	148	150
Revenue/Share	70.98	73.16	78.23	85.06	89.18	82.57	80.39	92.60	108.25	105.38
FCF/Share	6.29	5.70	5.66	1.48	4.90	6.91	10.31	0.87	(12.71)	5.69

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

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