

Newell Brands Inc. (NWL)

\$20.10 (As of 02/17/20)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Shares of Newell have outperformed the industry year to date. The company has been witnessing steady growth after reporting top and bottom-line beat in fourth-quarter 2019. Its results reflect steady progress and early success in the execution of its turnaround plan. Gains from productivity, overhead cost savings, e-commerce growth, complexity reduction and working capital initiatives aided results. Driven by the successful completion of the transformation plan, the company ended 2019 with net debt-to-EBITDA leverage ratio of 4x, operating cash flow of \$1 billion, and more than doubled free cash flow to \$779.1 million. Moreover, it plans to focus on returning to sustainable growth in 2020. However, headwinds related to declining core sales and currency headwinds remain. Core sales are expected to decline 3-5% in first-quarter 2020.

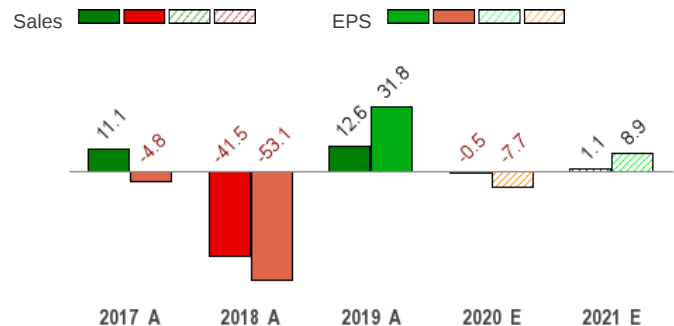
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.99 - \$13.04
20 Day Average Volume (sh)	2,809,932
Market Cap	\$8.5 B
YTD Price Change	4.6%
Beta	1.04
Dividend / Div Yld	\$0.92 / 4.6%
Industry	Consumer Products - Staples
Zacks Industry Rank	Bottom 22% (200 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.7%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	NA
Earnings ESP	-14.3%
P/E TTM	11.6
P/E F1	12.8
PEG F1	2.1
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,077 E	2,524 E	2,610 E	2,654 E	9,777 E
2020	2,076 E	2,509 E	2,524 E	2,603 E	9,668 E
2019	1,712 A	2,117 A	2,451 A	2,624 A	9,715 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.16 E	\$0.51 E	\$0.55 E	\$0.49 E	\$1.71 E
2020	\$0.14 E	\$0.45 E	\$0.51 E	\$0.47 E	\$1.57 E
2019	\$0.14 A	\$0.45 A	\$0.73 A	\$0.42 A	\$1.70 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 02/17/2020. The reports text and the analyst-provided sales and EPS estimates are as of 02/18/2020.

Overview

Atlanta, GA-based Newell Brands Inc. is a global manufacturer and marketer of consumer and commercial products, including Paper Mate, Sharpie, Dymo, EXPO, Parker, Elmer's, Marmot, Oster, Rubbermaid, Sunbeam, FoodSaver, Graco, Baby Jogger, and others. The products cater to indoor and outdoor organizations and include food and home storage products, stationery, art supplies, power tool accessories, hardware, outdoor recreation products, household staples, aluminum and steel cookware, as well as infant care products.

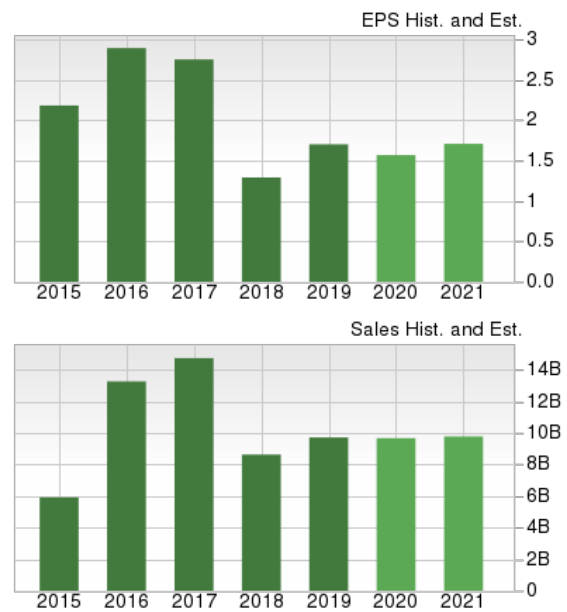
With respect to Newell's decision to retain its Rubbermaid Commercial Products business, management realigned the segmental reporting structure, effective the third quarter. As a result, the company now operates and reports under four segments, namely Home & Outdoor Living; Learning & Development; Appliances & Cookware; and Food & Commercial.

The **Home & Outdoor Living** segment (contributed 29.6% to net sales in third-quarter 2019) includes outdoor products, home fragrance products as well as connected home and security products. It comprises brands like Coleman, Contigo, ExOfficio, First Alert, Marmot, Chesapeake Bay Candle, WoodWick and Yankee Candle.

The **Learning & Development** segment (33.6%) encompasses writing instruments such as markers, highlighters, pens, pencils; art products; cutting products; activity-based adhesive and labeling solutions; baby gear and infant care products. The segment includes brands like Sharpie, Expo, Graco, Baby Jogger, Mr. Sketch, NUK, Paper Mate, Parker, Prismacolor, Tigex, Waterman and X-Acto.

The **Appliances & Cookware** segment (17.5%) includes household products such as kitchen appliances products, gourmet cookware, bakeware and cutlery products. The unit comprises brands like Mr. Coffee, Calphalon, Crock-Pot, Sunbeam and Oster.

The **Food & Commercial** segment (19.3%) encompasses food and home storage products as well as fresh preserving, vacuum sealing, commercial cleaning and maintenance solutions, hygiene systems and handling solutions products. The segment includes brands like Rubbermaid Commercial Products, Ball, FoodSaver, and Sistema.



Reasons To Buy:

- ▲ **Surprise Trend Robust, Stock Outperforms:** Shares of Newell have gained 4.6% year to date compared with the industry's 3.4% growth. We note that the company has been witnessing steady growth after reporting top and bottom-line beat in fourth-quarter 2019. This marked the second straight earnings and sales beat. The results reflect steady progress and early success in the execution of its turnaround plan. The company's commitment toward productivity, overhead cost savings, e-commerce growth, complexity reduction and working capital initiatives drove better-than-expected results.
- ▲ **Transformation Plan Drive 2019 Growth:** Newell recently concluded its Accelerated Transformation Plan, with the sale of the U.S. Playing Cards Company. As a part of the plan, it concluded divestitures of Waddington, Rawlings, Goody, Pure Fishing, Jostens, Process Solutions and Rexair businesses. Proceeds from the sale of these assets have been used for reducing debt as part of its efforts to strengthen the balance sheet. Notably, 2019 was a year of inflection for the company, driven by the execution of the plan. Consequently, Newell generated 50 basis points (bps) of operating margin improvement, driven by diligent cost management, and more than doubled free cash flow in 2019. Moreover, the year marked the return of its international business to growth.
- ▲ **Balance Sheet Strength:** Newell boasts a strong balance sheet that offers it the financial flexibility to enhance shareholder returns and drive future development through value-added investments aimed at accelerating growth and expanding margins. Driven by the execution of the transformation plan, the company ended 2019 with net debt-to-EBITDA leverage ratio of about 4x. Further, it generated operating cash flow of \$1,044 million in 2019 compared with \$680 million reported in 2018. Moreover, its free cash flow more than doubled to \$779.1 million. Additionally, the company strengthened its balance sheet by paying down nearly \$600 million of debt in fourth-quarter 2019. It expects to continue the momentum in 2020, targeting to generate operating cash flow of \$1.0-\$1.15 billion, with free cash flow productivity in excess of 100%.
- ▲ **Focus Areas in 2020:** Based on the success of the transformation plan, Newell plans focus on returning to sustainable growth in 2020. The company's two critical goals for the year include — continued acceleration of cash generation and reduced debt; and stopping revenue declines and laying the foundation to restore long-term profitable growth. The company expects to achieve the goals by focusing on five critical areas. Firstly, creating a consumer-focused collaborative leadership team with field expertise to stimulate the culture of winning in the marketplace. Secondly, aggressively accelerating cash flow through working capital improvements and debt reduction to achieve long-term leverage target of 3x net debt-to-normalized EBITDA. Thirdly, preventing revenue declines by scaling existing and latest innovations, closing distribution gaps, optimizing marketing mix, turbo-charging online channels and re-energizing tail categories. Fourthly, boosting operating margins by reducing complexity through SKU reduction, addressing E&O, standardizing IT systems and controlling overheads. Fifthly, introducing a major productivity program called Project FUEL to capture gross margin expansion opportunities. FUEL stands for finding untapped efficiencies and leverage.

Driven by the success of the transformation plan, Newell ended 2019 with net debt-to-EBITDA leverage ratio of 4x, operating cash flow of \$1 billion, and more than doubled free cash flow to \$779 million.

Reasons To Sell:

- ▼ **Lower Core Sales:** Newell has been witnessing soft core sales for the past few quarters. In fourth-quarter 2019, core sales dipped 1.5%, led by declines of 4.6% and 2.8%, respectively, for Appliances & Cookware, and Home & Outdoor Living segments. Additionally, soft core sales and foreign currency headwinds weighed on the company's overall top line, which declined 3.1% on a year-over-year basis. Going forward, it projects core sales decline of 3-5% for the first quarter and flat to down 2% for 2020. Soft core sales trend might continue hurting the top line in the quarters ahead.
- ▼ **Currency Headwinds:** Newell remains exposed to the impacts of adverse currency due to its vast global operations. Notably, the company's net sales and gross margin in the recent quarters reflect significant impacts of unfavorable foreign currency. Currency headwinds also hurt results at all of its operating segments. Further, the company's results continue to be impacted by the loss of contributions from the divested businesses, including the underperforming Yankee Candle retail stores as well as the exit of Newell from the North America distribution of Uni-ball writing products. The company expects currency headwinds and divestitures to hurt net sales by 150 bps and more than 100 bps, respectively, in the first quarter and 2020. Further, operating margin gains in 2020 are likely to be partly offset by inflationary tariff and currency-related headwinds of nearly \$165 million.
- ▼ **Soft Q1 Outlook:** Despite better-than-expected results in fourth-quarter 2019, Newell's outlook for first-quarter 2020 remains soft. The company expects net sales of \$1.9-\$1.95 billion, with core sales decline of 3-5%. The soft sales view is mainly due to timing impacts of order shipments in the Food unit due to the SAP implementation in the prior year and the WoodWick wholesale expansion-related pipeline build in the prior year for the Home Fragrance pipeline unit. Additionally, sales in the first quarter are likely to reflect potential incremental impacts from the outbreak of coronavirus in China. Further, the company anticipates normalized operating margin contraction of 50-90 basis points from the prior year to 5.2-5.6%, owing to an increase in advertising spending. Normalized earnings per share are expected to be 5-8 cents, suggesting a decline from 14 cents earned in first-quarter 2019.
- ▼ **Dependence on a Few Target Customers:** Newell is heavily dependent on a handful of customers, including large discounters, department stores, home centers, warehouse clubs, and office superstores. The company's principal customers continuously evaluate which product supplier is best for use. This considerably reduces Newell's pricing power against the giant retailers, thereby exerting pressure on margins and limiting profitability.

Lower core sales and unfavorable currency movements have been weighing on Newell's performance. Core sales are expected to decline 3-5% for the first quarter and be flat to down 2% for 2020.

Last Earnings Report

Newell Earnings and Sales Surpass Estimates in Q4

Newell delivered better-than-expected earnings and sales results in fourth-quarter 2019. However, its top and bottom lines declined year over year on lost contributions from divested businesses, adverse foreign currency translations and a decline in overall core sales.

Nevertheless, management remains optimistic on the progress of its turnaround efforts along with operating cash flow remaining ahead of its plan. This is backed by the company's commitment toward productivity, overhead cost savings, complexity reduction and working capital initiatives. As a result, it outlined its view for the first quarter and 2020.

Quarter Ending **12/2019**

Report Date	Feb 14, 2020
Sales Surprise	1.83%
EPS Surprise	7.69%
Quarterly EPS	0.42
Annual EPS (TTM)	1.74

Q4 Highlights

Newell's fourth-quarter normalized earnings per share were 42 cents, which outpaced the Zacks Consensus Estimate of 39 cents. However, the metric fell 36.4% from 66 cents earned in the year-ago period. The year-over-year decline was mainly attributed to the lack of contributions from its divested operations.

Net sales declined 3.1% year over year to \$2,623.9 million but surpassed the Zacks Consensus Estimate of \$2,577 million. The year-over-year fall resulted from foreign-currency headwinds and soft core sales, which dipped 1.5%. Notably, core sales grew at four of the company's eight business units.

Normalized gross margin declined 70 bps to 33.5%. However, normalized operating margin remained flat at 11.3% in the quarter under review, driven by a decline in SG&A expenses.

Segmental Performance

The **Learning & Development** segment (including Writing and Baby) recorded net sales of \$702 million in the fourth quarter, up 0.7% from the prior-year number. The segment's core sales increased 0.9%, offset by unfavorable foreign currency. Core sales growth was backed by improvement at the Baby and Writing divisions.

Net sales at the **Home & Outdoor Living** segment (including Outdoor & Recreation, Home Fragrance, and Connected Home & Security) totaled \$768 million, declining 5.1% from the prior-year period. The segment's top line was hurt by unfavorable currency, the exit of about 75 underperforming Yankee Candle retail outlets in 2019 and a 2.8% decline in core sales. Core sales benefited from growth in the Home Fragrance business unit, offset by declines in Outdoor & Recreation, and Connected Home & Security.

The **Appliances & Cookware** segment recorded net sales of \$570 million, which fell 5.6% from the prior-year number. This resulted from a 4.6% decline in core sales and currency headwinds.

Net sales at the **Food & Commercial** segment were \$584 million, which dipped 0.3% on adverse currency, offset by core sales growth of 0.9%. Further, it witnessed positive core sales trends at the Food business unit, partially offset by a decline in the Commercial unit.

Other Financial Details

Newell ended 2019 with cash and cash equivalents of \$348.6 million, long-term debt of \$5,391.3 million, and shareholders' equity of \$4,963.3 million, excluding non-controlling interests of \$32.7 million.

During 2019, the company generated operating cash flow of \$1,044 million compared with \$680 million in 2018. Moreover, its free cash flow more than doubled to \$779.1 million in the year.

Furthermore, the company strengthened its balance sheet by paying down nearly \$600 million of debt in the fourth quarter.

Outlook

Management provided initial guidance for the first quarter and 2020.

For 2020, the company expects net sales of \$9.4-\$9.55 billion and core sales of flat to down 2%. Normalized operating margin is projected to increase 10-40 bps to 10.9-11.2%. Normalized earnings per share are envisioned to be \$1.46-\$1.56. Further, operating cash flow is projected to be \$1.0-\$1.15 billion, with free cash flow productivity in excess of 100%.

For first-quarter 2020, Newell estimates net sales of \$1.9-\$1.95 billion and a core sales decline of 3-5%. It anticipates normalized operating margin contraction of 50-90 bps to 5.2-5.6%. Normalized earnings per share are expected to be 5-8 cents for the quarter.

Recent News

Newell Completes the Divestiture of USPC Business – Dec 31, 2019

Newell's recent activity marks the completion of its Accelerated Transformation Plan, which started in January 2018. The company had divested The United States Playing Card Company ("USPC") to Cartamundi Group. The transaction includes the sale of brands like Bicycle, Aviator, Hoyle, Bee and Fournier.

Newell Declares Dividend – Nov 5, 2019

Newell Brands declared a quarterly cash dividend of 23 cents per share, paid on Dec 13, 2019, to shareholders with record as of Nov 27.

Valuation

Newell shares are up 4.6% in the year-to-date period and 18.1% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 3.4% and 0.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 8.5% but the sector is up 11.1%.

The S&P 500 index is up 4.9% in the year-to-date period and 20.7% in the past year.

The stock is currently trading at 12.68X forward 12-month earnings, which compares to 21.7X for the Zacks sub-industry, 19.8X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.21X and as low as 7.56X, with a 5-year median of 14.85X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$21 price target reflects 13.25X forward 12-month earnings.

The table below shows summary valuation data for NWL

Valuation Multiples - NWL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.68	21.7	19.8	19.35
	5-Year High	20.21	21.93	22.38	19.35
	5-Year Low	7.56	13.74	16.66	15.18
	5-Year Median	14.85	17.97	19.76	17.47
P/S F12M	Current	0.88	1.91	10.1	3.58
	5-Year High	2.11	2.12	11.13	3.58
	5-Year Low	0.67	1.57	8.09	2.54
	5-Year Median	1.4	1.93	9.88	3
EV/EBITDA TTM	Current	4.55	8.03	43.27	13.94
	5-Year High	57.03	16.51	48.99	13.94
	5-Year Low	0.55	2.74	33.02	9.34
	5-Year Median	11.36	10.57	41.22	11.66

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (200 out of 255)



Top Peers

Energizer Holdings, Inc. (ENR)	Neutral
Edgewell Personal Care Company (EPC)	Neutral
International Flavors & Fragrances Inc. (IFF)	Neutral
LION CORP (LIOFP)	Neutral
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Neutral
Spectrum Brands Holdings Inc. (SPB)	Neutral
Tupperware Brands Corporation (TUP)	Neutral
WD-40 Company (WDFC)	Neutral

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	NWL Neutral	X Industry	S&P 500	EPC Neutral	IFF Neutral	LIOFP Neutral
VGM Score	B	-	-	F	C	D
Market Cap	8.51 B	3.57 B	24.61 B	1.83 B	14.51 B	5.64 B
# of Analysts	7	3	13	5	4	1
Dividend Yield	4.58%	0.00%	1.78%	0.00%	2.21%	0.00%
Value Score	B	-	-	D	D	C
Cash/Price	0.05	0.04	0.04	0.21	0.03	NA
EV/EBITDA	5.95	15.77	14.06	-11.04	23.88	NA
PEG Ratio	2.14	2.14	2.09	3.63	NA	3.42
Price/Book (P/B)	2.04	3.55	3.29	1.36	2.39	NA
Price/Cash Flow (P/CF)	0.87	13.31	13.65	6.45	19.89	NA
P/E (F1)	12.82	20.04	19.21	10.97	21.31	27.32
Price/Sales (P/S)	0.96	1.78	2.70	0.85	2.82	1.78
Earnings Yield	7.81%	4.70%	5.19%	9.13%	4.70%	3.66%
Debt/Equity	1.50	0.68	0.71	0.81	0.66	NA
Cash Flow (\$/share)	23.20	4.48	6.92	5.22	6.83	NA
Growth Score	B	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	-0.65%	3.74%	10.85%	-12.38%	3.74%	NA
Proj. EPS Growth (F1/F0)	-7.82%	5.75%	7.17%	-11.84%	3.32%	7.58%
Curr. Cash Flow Growth	425.31%	3.32%	8.56%	-2.28%	24.26%	-31.19%
Hist. Cash Flow Growth (3-5 yrs)	73.31%	4.69%	8.36%	-13.82%	10.06%	NA
Current Ratio	1.48	1.79	1.23	2.05	2.05	NA
Debt/Capital	59.98%	44.89%	42.91%	44.89%	40.46%	NA
Net Margin	-5.56%	2.68%	11.81%	-15.44%	8.87%	NA
Return on Equity	15.93%	13.40%	16.86%	13.72%	10.81%	NA
Sales/Assets	0.50	0.97	0.54	0.60	0.39	NA
Proj. Sales Growth (F1/F0)	-0.07%	3.15%	3.85%	-5.17%	3.15%	1.80%
Momentum Score	F	-	-	F	D	C
Daily Price Chg	2.97%	0.05%	0.06%	-1.69%	-0.64%	0.00%
1 Week Price Chg	2.71%	1.10%	2.47%	18.05%	6.78%	0.00%
4 Week Price Chg	-0.54%	1.49%	0.59%	12.62%	2.06%	0.00%
12 Week Price Chg	4.74%	4.74%	6.98%	10.69%	-0.74%	0.00%
52 Week Price Chg	-7.33%	0.00%	16.62%	-25.16%	2.42%	0.00%
20 Day Average Volume	2,809,932	730,967	2,020,569	1,111,661	1,079,735	0
(F1) EPS Est 1 week change	-0.18%	0.00%	0.00%	-2.06%	-3.77%	0.00%
(F1) EPS Est 4 week change	-0.54%	-0.54%	-0.05%	-2.53%	-3.77%	0.00%
(F1) EPS Est 12 week change	-1.28%	-1.02%	-0.17%	-2.50%	-4.68%	-5.33%
(Q1) EPS Est Mthly Chg	5.00%	-1.19%	-0.24%	-13.88%	-1.51%	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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