

Newell Brands Inc. (NWL)

\$15.81 (As of 06/17/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 06/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Shares of Newell have declined and lagged the industry year to date owing to the ongoing global COVID-19 crisis, which led to supply-chain disruptions, soft demand and macroeconomic headwinds. Newell has been witnessing significant supply-chain disruptions related to COVID-19 starting March. Moreover, it closed Yankee Candle retail stores in North America since mid-March, furloughed employees, reduced spending, suspended hiring and withdrew guidance, amid the pandemic. However, it recorded third straight quarter of earnings beat in first-quarter 2020. Results gained from solid performance in the first two months of the quarter, along with operating margin growth stemming from an increased focus on productivity and enhanced cost savings. Despite a strong first quarter, the company anticipates the second quarter to remain challenging.

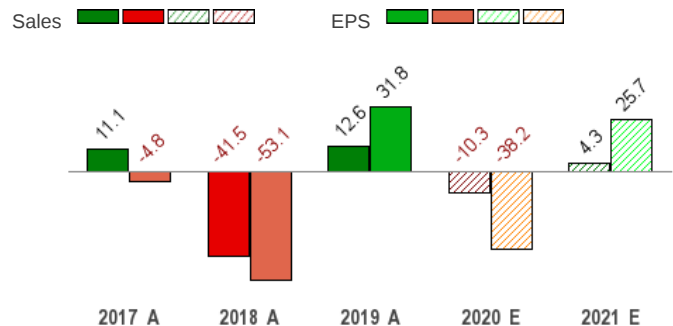
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.99 - \$10.44
20 Day Average Volume (sh)	3,860,469
Market Cap	\$6.7 B
YTD Price Change	-17.7%
Beta	1.00
Dividend / Div Yld	\$0.92 / 5.8%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 19% (49 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	50.0%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	08/07/2020
Earnings ESP	14.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,936 E	2,247 E	2,469 E	2,582 E	9,085 E
2020	1,886 A	1,933 E	2,334 E	2,540 E	8,710 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	\$0.12 E	\$0.30 E	\$0.49 E	\$0.50 E	\$1.32 E
2020	\$0.09 A	\$0.13 E	\$0.38 E	\$0.44 E	\$1.05 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.

P/E TTM	9.4
P/E F1	15.1
PEG F1	2.5
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/17/2020. The reports text is as of 06/18/2020.

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.

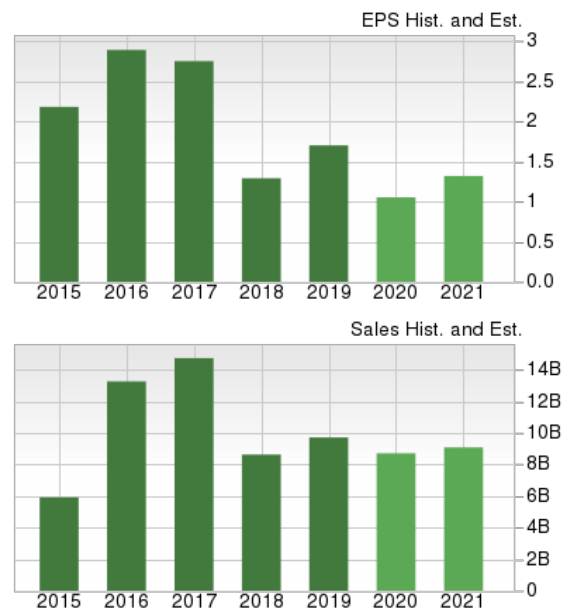
With respect to Newell's decision to retain its Rubbermaid Commercial Products business, management realigned the segmental reporting structure, effective the third quarter. As a result, the company now operates and reports under four segments, namely Home & Outdoor Living; Learning & Development; Appliances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

- ▼ **COVID-19 Impacts Hurt Stock:** Although the first quarter started on a solid note, Newell has been witnessing significant supply-chain disruptions related to COVID-19 starting March. To this end, roughly 20 manufacturing and distribution centers will remain closed, with those at South Deerfield, MA, and Mexicali, Mexico, closing by late March and mid-April, respectively, following government restrictions. Of this, the Mexicali facility has resumed operations with limited hours. Further, stores in the specialty and department channel will remain closed. Moreover, it shuttered Yankee Candle retail stores in North America since mid-March. Apart from this, it furloughed 5,000 employees, reduced spending related to advertising and promotions, and suspended recruitments for non-essential roles. shares of the company have declined 17.7% year to date against the industry's growth 8.6%.

Newell Brands has withdrawn guidance, closed stores, furloughed staff, reduced costs and spending as a result of uncertain COVID-19 impacts. Also, soft core sales and currency headwinds remain woes.
 - ▼ **Lower Core Sales:** Newell has been witnessing soft core sales for the past few quarters. In first-quarter 2020, core sales dropped 5.1%, led by declines of 5.5%, 8.5% and 11.3% in Learning & Development, Appliances & Cookware, and Home & Outdoor Living segments, respectively. Additionally, soft core sales and foreign currency headwinds weighed on the company's overall top line, which declined 7.6% on a year-over-year basis. Going forward, changes in consumer preferences stemming from the COVID-19 outbreak has hurt sales in April and May, to some extent. The company envisions the negative trend to continue in the second quarter. To this end, sales in the aforementioned quarter are anticipated to decline nearly 25%.
 - ▼ **Currency Headwinds:** Newell remains exposed to the impacts of adverse currency due to its vast global operations. Notably, the company's net sales in the recent quarters reflect significant impacts of unfavorable foreign currency. Currency headwinds also hurt results at all of its operating segments. Going ahead, any significant unfavorable movement in foreign currency is likely to affect the company's profitability in the near term.
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Risks

- **Robust Earnings Trend:** Newell has been witnessing steady bottom-line performance for a while now, recording the third straight quarter of earnings beat in first-quarter 2020. Results gained from solid performance in the first two months of the quarter along with operating margin growth stemming from an increased focus on productivity and enhanced cost savings. Also, initiatives related to working capital and a robust operating cash flow contributed to quarterly results. Notably, the company is witnessing sales growth in a few categories, stemming from the ongoing crisis. This reflects that consumer preference has shifted to certain products, owing to which the company's Food and Commercial segment is benefiting. This along with a positive sales trend in the Appliances & Cookware business in the United States is likely to aid second-quarter results.
 - **Financial Flexibility:** Newell has a strong balance sheet that offers the financial flexibility to enhance shareholder returns and drive future development through value-added investments aimed at accelerating growth and expanding margins. The company ended first-quarter 2020 with a total debt of \$5,375 million, slightly down from \$5,391 million in the prior quarter. Moreover, interest expenses declined 21.3% year over year to \$60 million in the first quarter. Also, the company enjoys a strong financial position with a cash balance of \$476 million, up from \$349 in the preceding quarter. Apart from these, it has \$1.2 billion available in its revolving credit facility as of Mar 31, 2020.
 - **Focus Areas in 2020:** Post the success of the transformation plan, management is progressing well with its Project FUEL plan for 2020 that focuses on enhancing productivity in a bid to offset revenue declines. The company is working toward increasing efficiency in manufacturing plants, procurement and distribution centers. Also, it plans to leverage its robust e-commerce capabilities, which have remained strong for some time now. The company's global e-commerce penetration rose to 17% in the first quarter from 13% a year ago. Its online POS penetration was up 500 basis points on a year-over-year basis. From January to April, online sales grew roughly 20%. Newell expects this positive trend to continue in the second quarter. Also, the company remains well positioned to gain from consumers shifting preference to online channel
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Last Earnings Report

Newell Brands Q1 Earnings Beat Estimates, Sales Lag

Quarter Ending 03/2020

Report Date	May 01, 2020
Sales Surprise	-1.28%
EPS Surprise	50.00%
Quarterly EPS	0.09
Annual EPS (TTM)	1.69

Newell Brands reported first-quarter 2020 results, wherein the bottom line beat the Zacks Consensus Estimate while sales missed the same. Further, both top and bottom lines declined year over year. Results gained from solid performance in the first two months of the first quarter along with operating margin growth stemming from an increased focus on productivity and enhanced cost savings. Also, initiatives related to working capital and robust operating cash flow contributed to quarterly results. However, with the onset of the COVID-19 pandemic, it witnessed a significant slowdown in March.

Despite a strong first quarter, the company anticipates the second quarter to remain challenging. That said, continued strength in the Food and Commercial business and a positive sales trend in the Appliances & Cookware business in the United States are likely to aid second-quarter results. However, Newell Brands withdrew its 2020 outlook due to uncertain COVID-19 impacts such as supply-chain disruptions, soft demand and macroeconomic headwinds.

Newell's first-quarter normalized earnings per share were 9 cents, which outpaced the Zacks Consensus Estimate of 6 cents. However, the metric fell 25% from 12 cents earned in the year-ago period.

Net sales declined 7.6% year over year to \$1,886 million but missed the Zacks Consensus Estimate of \$1,910 million. The year-over-year fall resulted from foreign-currency headwinds and soft core sales, which dropped 5.1%.

Normalized gross margin expanded 60 basis points (bps) to 32.7%, driven by improvements in productivity and favorable pricing, which more than offset headwinds related to tariffs, inflation and mix. However, normalized operating margin contracted 10 bps at 6% in the quarter under review.

Segmental Performance

The **Learning & Development** segment (including Writing and Baby) recorded net sales of \$528 million in the first quarter, down 9.1% from the prior-year number. The downside can be attributable to the segment's core sales decline of 5.5% and unfavorable foreign currency. Sluggishness in Writing, which more than offset the improvement at the Baby business, led to the decline in core sales.

Net sales at the **Home & Outdoor Living** segment (including Outdoor & Recreation, Home Fragrance, and Connected Home & Security) totaled \$547 million, declining 12.8% from the prior-year period. The segment's top line was hurt by unfavorable currency, the exit of about 44 underperforming Yankee Candle retail outlets in the quarter under review and an 11.3% decline in core sales. Core sales were hurt by temporary store closures in North America since mid-March, stemming from the COVID-19 situation and weakness in the Home Fragrance, Outdoor & Recreation and Connected Home & Security businesses.

The **Appliances & Cookware** segment recorded net sales of \$291 million, which fell 11.8% from the prior-year number. This resulted from an 8.5% decline in core sales and currency headwinds.

Net sales at the **Food & Commercial** segment were \$520 million, which grew 3.2% on core sales growth of 5.2%, somewhat offset by adverse currency. Further, it witnessed a positive core sales trend at the Food and Commercial business unit.

Other Financial Details

Newell ended the quarter with cash and cash equivalents of \$476 million, long-term debt of \$5,375 million and shareholders' equity of \$3,479 million, excluding non-controlling interests of \$25 million. During the quarter, the company generated operating cash flow of \$23 million.

Updates on COVID-19

Although the first quarter started on a solid note, the company has been witnessing significant supply-chain disruptions related to COVID-19 starting March. To this end, roughly 20 manufacturing and distribution centers remain closed, with those at South Deerfield, MA, and Mexicali, Mexico, closing by late March and mid-April, respectively, following government restrictions. Out of this, the Mexicali facility has resumed operations with limited hours.

Further, the company is seeing sales growth in a few categories, stemming from the ongoing crisis. Meanwhile, stores in the specialty and department channel remain closed. Also, it shuttered Yankee Candle retail stores in North America since mid-March. This reflects that consumer preference has shifted to certain products, owing to which the company's Food and Commercial segment is benefiting. This change in dynamics has hurt sales in April and May, to some extent. The company envisions the negative trend to continue in the second quarter. To this end, sales in the aforementioned quarter are anticipated to decline nearly 25%. However, management expects to recover in the second half of 2020.

Keeping in these lines, management remains poised on strengthening its cash balance and also working toward operating some of its manufacturing facilities and distribution centers in order to provide essential products to customers. Apart from this, it furloughed 5,000 employees, reduced spending related to advertising and promotions, and suspended recruitment for non-essential roles.

Recent News

Newell Announces \$500 Million Public Offering – May 20, 2020

Newell Brands declared a public offering of \$500 million aggregate principal amount of 4.875% notes due 2025. The offering is likely to close on May 26, 2020, subject to customary closing conditions. The company plans to use the proceeds of the offering for general corporate purposes, including debt repayments on its senior unsecured revolving credit facility and accounts receivable securitization facility. It also expects to repay near-term public debt at contractual maturities from the proceeds.

Newell Approves Quarterly Dividend – May 12, 2020

Newell's board has approved a dividend of 23 cents per share which is payable on Jun 15, to shareholders with record as on May 29.

Valuation

Newell shares are down 17.7% in the year-to-date period but up 5.2% for the trailing 12-month period. Stocks in the Zacks sub-industry are up 8.6% but the Zacks Consumer Staples sector is down 11.4% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 13.2% and 8.2%, respectively.

The S&P 500 index is down 3% in the year-to-date period but up 6.8% in the past year.

The stock is currently trading at 13.47X forward 12-month earnings, which compares to 23.67X for the Zacks sub-industry, 19.84X for the Zacks sector and 22.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.21X and as low as 6.94X, with a 5-year median of 13.22X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$13 price target reflects 11.08X 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	13.47	23.67	19.84	22.5
	5-Year High	20.21	23.67	22.37	22.5
	5-Year Low	6.94	13.74	16.65	15.23
	5-Year Median	13.22	17.97	19.66	17.49
P/S F12M	Current	0.75	2.01	9.58	3.5
	5-Year High	2.11	2.12	11.16	3.5
	5-Year Low	0.47	1.57	8.1	2.53
	5-Year Median	1.12	1.92	9.89	3.02
EV/EBITDA TTM	Current	4.37	11.63	33.85	11.57
	5-Year High	77.41	19.73	45.11	12.85
	5-Year Low	1.26	3.65	27.19	8.25
	5-Year Median	14.38	12.64	38.38	10.82

As of 06/17/2020

Industry Analysis Zacks Industry Rank: Top 19% (49 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Outperform	1
Energizer Holdings, Inc. (ENR)	Neutral	3
Edgewell Personal Care Company (EPC)	Neutral	3
International FlavorsFragrances Inc. (IFF)	Neutral	4
LION CORP (LIOFPF)	Neutral	3
Spectrum Brands Holdings Inc. (SPB)	Neutral	3
Tupperware Brands Corporation (TUP)	Neutral	3
WD40 Company (WDFC)	Neutral	3

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	NWL	X Industry	S&P 500	EPC	IFF	LIOFP
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	C	-	-	A	F	A
Market Cap	6.71 B	3.24 B	21.90 B	1.56 B	13.75 B	6.74 B
# of Analysts	8	5	14	5	3	1
Dividend Yield	5.82%	0.00%	1.92%	0.00%	2.33%	0.00%
Value Score	C	-	-	B	D	B
Cash/Price	0.07	0.05	0.06	0.21	0.03	0.16
EV/EBITDA	9.82	14.26	12.65	-10.03	16.93	15.17
PEG Ratio	2.51	2.59	2.98	9.30	NA	3.33
Price/Book (P/B)	1.93	3.68	3.05	1.16	2.35	3.28
Price/Cash Flow (P/CF)	2.67	14.28	11.68	5.49	13.43	23.64
P/E (F1)	15.06	20.15	21.53	9.67	21.63	26.67
Price/Sales (P/S)	0.74	2.12	2.31	0.74	2.65	2.09
Earnings Yield	6.64%	4.19%	4.36%	10.33%	4.62%	3.75%
Debt/Equity	1.69	0.75	0.77	0.82	0.68	0.03
Cash Flow (\$/share)	5.91	1.96	7.01	5.22	9.58	0.98
Growth Score	B	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	-5.50%	2.13%	10.87%	-7.10%	3.15%	-0.17%
Proj. EPS Growth (F1/F0)	-38.09%	4.99%	-10.58%	-14.83%	-3.62%	33.85%
Curr. Cash Flow Growth	-76.91%	5.95%	5.46%	-2.28%	40.43%	-8.33%
Hist. Cash Flow Growth (3-5 yrs)	28.55%	4.69%	8.55%	-13.82%	15.13%	NA
Current Ratio	1.33	1.55	1.29	2.03	1.98	1.77
Debt/Capital	62.82%	53.86%	45.14%	44.91%	40.94%	2.78%
Net Margin	-11.25%	1.06%	10.53%	-16.97%	9.09%	8.74%
Return on Equity	16.26%	13.96%	16.06%	14.00%	11.03%	13.92%
Sales/Assets	0.57	1.23	0.55	0.63	0.40	0.94
Proj. Sales Growth (F1/F0)	-2.17%	3.74%	-2.64%	-6.56%	-0.27%	3.74%
Momentum Score	F	-	-	B	F	B
Daily Price Chg	0.51%	0.95%	-0.67%	1.16%	-0.31%	0.00%
1 Week Price Chg	-6.71%	-3.59%	-7.25%	-14.32%	-7.99%	0.00%
4 Week Price Chg	25.68%	9.72%	5.95%	5.87%	-1.25%	19.59%
12 Week Price Chg	23.90%	23.47%	23.90%	13.37%	23.03%	19.59%
52 Week Price Chg	5.19%	6.51%	-4.54%	-1.44%	-13.63%	19.59%
20 Day Average Volume	3,860,469	689,315	2,597,851	703,499	900,747	5
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.00%	0.00%
(F1) EPS Est 4 week change	-2.21%	0.00%	0.00%	0.00%	-2.30%	0.00%
(F1) EPS Est 12 week change	-31.21%	-2.14%	-14.52%	-3.39%	-6.60%	22.53%
(Q1) EPS Est Mthly Chg	-15.32%	0.00%	0.00%	0.00%	-10.47%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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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