

Newell Brands Inc. (NWL)

\$16.98 (As of 08/17/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

Shares of Newell have outpaced the industry in the past three months. The stock's momentum is attributed to the company's fourth straight quarter of earnings beat reported in second-quarter 2020. Despite the challenging economic situation surrounding the coronavirus outbreak, the company has witnessed an improving top-line trend and robust consumption patterns. Moreover, e-commerce performed well with core sales growth in June. Also, it is progressing well with its turnaround plans, such as SKU reduction efforts, Project FUEL and other cost-cutting actions. However, Newell Brands withdrew its 2020 outlook due to uncertain COVID-19 impacts, such as supply-chain disruptions, soft demand and macroeconomic headwinds. In fact, soft core sales and foreign currency headwinds weighed on the company's overall top line in the second quarter.

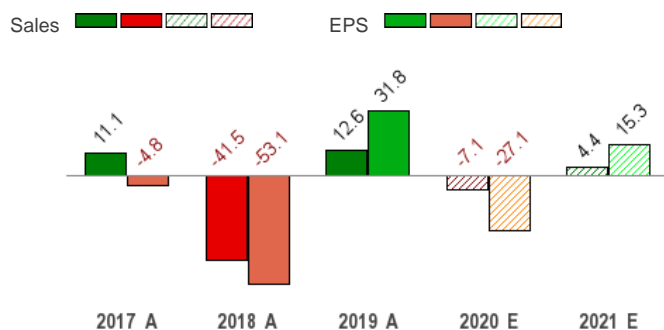
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.99 - \$10.44
20 Day Average Volume (sh)	3,582,877
Market Cap	\$7.2 B
YTD Price Change	-11.8%
Beta	1.04
Dividend / Div Yld	\$0.92 / 5.4%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 40% (101 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	66.7%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	14.1%
Expected Report Date	11/06/2020
Earnings ESP	0.0%
P/E TTM	11.0
P/E F1	13.7
PEG F1	2.3
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,969 E	2,373 E	2,567 E	2,628 E	9,421 E
2020	1,886 A	2,111 A	2,437 E	2,571 E	9,024 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	\$0.09 E	\$0.40 E	\$0.52 E	\$0.48 E	\$1.43 E
2020	\$0.09 A	\$0.30 A	\$0.42 E	\$0.44 E	\$1.24 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, including the Zacks Consensus EPS and Sales estimates, is as of 08/17/2020. The reports text is as of 08/18/2020.

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.

Post restrucutral changes, teh company operates five segmets as of second-quarter 2002, which are as follows:

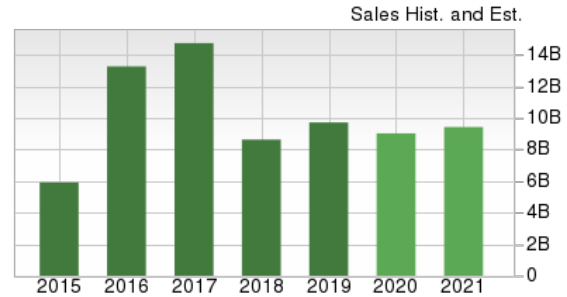
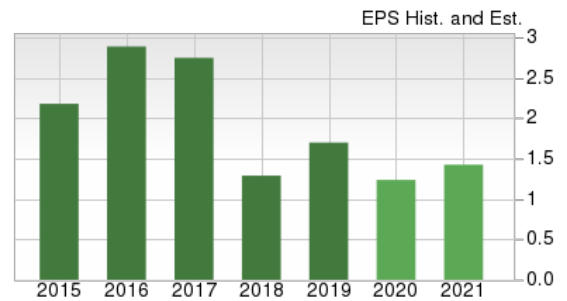
The **Home & Outdoor Living** segment (contributed 16.8% to net sales in second-quarter 2020) includes outdoor products, home fragrance products as well as connected home and security products. It comprises brands like Coleman, Contigo, ExOfficio, First Alert, Marmot, Chesapeake Bay Candle, WoodWick and Yankee Candle.

The **Learning & Development** segment (29.9%) 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%) 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 **Commercial Solution** segment (19.5%) 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.

The **Outdoor and Recreation** segment (16.7%) includes outdoor activities and sporting goods products, skiing and snowboarding equipment, skates and accessories as well as basketball and softball game-related product lines. The segment include brands such as Coleman, Contigo, Marmot to name a few.



Reasons To Buy:

▲ **Robust Earnings Trend:** Shares of Newell have rallied 34.2% in the past three months against the industry's decline of 1.2%. The company has been witnessing steady bottom-line performance for a while now, recording the fourth straight quarter of earnings beat in second-quarter 2020. Despite the challenging economic situation surrounding the coronavirus outbreak, the company has witnessed an improving top-line trend and robust consumption patterns. Moreover, e-commerce performed well with core sales growth in June. 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, Commercial, Appliances & Cookware and Outdoor & Recreation categories are benefiting.

Consumers' shifting preference for essential items is benefiting Newell Brands' Food business segment. Also, robust e-commerce sales and Project FUEL plan act as growth drivers.

▲ **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 33% in the second quarter. Its online POS penetration was up 800 basis points on a year-over-year basis. With consumers increasingly shifting to online platform due to the ongoing COVID-19 pandemic, Newell witnessed double-digit growth online for yet another quarter. This positive trend is likely to continue in the near term. Also, the company remains well positioned to gain from consumers shifting preference to online channel.

▲ **Declining SG&A Trend:** Newell Brands has been witnessing improvement in SG&A expenses for quite some time now. Notably, SG&A fell 20.3% to \$488 million in second-quarter 2020, following a decline of 3.7% and 5% in the preceding two quarters. Persistence of this trend is likely to have a favorable impact on the company's bottom line in the near future.

Reasons To Sell:

▼ **Lower Core Sales:** Newell has been witnessing soft core sales for the past few quarters. In second-quarter 2020, core sales dropped 12.6%, led by declines of 23.5%, 1.9%, 6.8% and 21.6% in Learning & Development, Home & Outdoor Living, Commercial Solution, and Outdoor and Recreation segments, respectively. Additionally, soft core sales and foreign currency headwinds weighed on the company's overall top line, which declined 14.9% on a year-over-year basis. In fact, the metric declined more than 25% in the month of April, recording its worst performance. Moreover, Newell Brands withdrew its 2020 outlook due to uncertain COVID-19 impacts such as supply-chain disruptions, soft demand and macroeconomic headwinds.

Newell Brands is reeling under soft core sales and currency headwinds remain. Also, management withdrew guidance as a result of uncertain COVID-19 impacts.

▼ **Debt Analysis:** Newell ended second-quarter 2020 with a total debt of \$5,781 million, down 7.6% from \$5,375 million in the prior quarter. Moreover, interest expenses rose 12.7% sequentially to \$71 million in the second quarter. Also, debt-to-capitalization ratio of 0.66 reflects a sequential increase from 0.65 at the end of the prior quarter. Further, the company's debt load appears too high when compared with cash and cash equivalents of \$619 million as of Jun 30. Higher debt level may adversely impact the company's creditworthiness and make it more susceptible to macro-economic factors and competitive pressures. Although the company has undertaken steps such as SKU reduction efforts, Project FUEL and other cost-cutting actions in a bid to overcome the hurdle, it is yet to bore fruits.

▼ **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.

Last Earnings Report

Newell Brands Beats Q2 Earnings & Sales Estimates

Newell Brands reported better-than-expected second-quarter 2020 results. However, both the bottom and top lines declined year over year. Despite the challenging economic situation surrounding the coronavirus outbreak, the company has witnessed an improving top-line trend and robust consumption patterns.

Moreover, e-commerce performed well with core sales growth in June. Also, it is progressing well with its turnaround plans such as SKU reduction efforts, Project FUEL and other cost-cutting actions.

However, Newell Brands withdrew its 2020 outlook due to uncertain COVID-19 impacts such as supply-chain disruptions, soft demand and macroeconomic headwinds.

Quarter Ending **06/2020**

Report Date	Jul 31, 2020
Sales Surprise	3.99%
EPS Surprise	66.67%
Quarterly EPS	0.30
Annual EPS (TTM)	1.54

Q2 Highlights

Newell's second-quarter normalized earnings per share were 30 cents, which outpaced the Zacks Consensus Estimate of 18 cents. However, the metric fell 30.2% from 43 cents earned in the year-ago period.

Net sales declined 14.9% year over year to \$2,111 million but surpassed the Zacks Consensus Estimate of \$2,030 million. The year-over-year fall resulted from foreign-currency headwinds, supply-chain disruptions stemming from COVID-19 and soft core sales, which dropped 12.6%.

Normalized gross margin and operating margin contracted 330 basis points (bps) and 200 bps to 31.6% and 10.2% in the quarter under review, respectively.

Segmental Performance

The **Appliances & Cookware** segment (including Writing and Baby) recorded net sales of \$359 million in the second quarter, down 0.8% from the prior-year number. The downside can be attributable to unfavorable foreign currency, which more than offset the segment's core sales growth of 6.1%.

Net sales at the **Home & Outdoor Living** segment (including Outdoor & Recreation, Home Fragrance, and Connected Home & Security) totaled \$355 million, declining 4.6% from the prior-year period. The segment's top line was hurt by unfavorable currency and a 1.9% decline in core sales. Despite positive core sales growth in the Food business unit, a decline in Home Fragrance as a result of temporary closure of all North American retail stores due to the COVID-19 pandemic hurt segmental growth.

The **Learnings and Development** segment recorded net sales of \$631 million, which fell 25.7% from the prior-year number. This resulted from a 23.5% decline in core sales and currency headwinds.

Net sales at the **Commercial Solution** segment were \$413 million, which fell 9% on core sales decline of 6.8% and adverse currency. Further, sluggishness in Connected Home & Security more than offset the positive core sales trend at the Commercial business unit.

The **Outdoor and Recreation** segment recorded net sales of \$353 million, which decreased 20.3% from the prior-year number. This resulted from a 21.5% decline in core sales and currency headwinds.

Other Financial Details

Newell ended the quarter with cash and cash equivalents of \$619 million, long-term debt of \$5,781 million and shareholders' equity of \$3,516 million, excluding non-controlling interests of \$24 million.

During the quarter, the company generated operating cash flow of \$132 million.

Updates on COVID-19

Management witnessed significant supply-chain disruptions during the first half of the second quarter. Majority of the 20 manufacturing and distribution centers, which were closed previously, have resumed operations. Further, the company is seeing 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, Commercial, Appliances & Cookware and Outdoor & Recreation categories are benefiting. Such trends continued in July as well.

Apart from these, the company launched a restructuring plan in order to lower overhead costs and streamline the business. Due to this plan, Newell Brands incurred costs of \$8 million in the quarter under review. Going ahead, it is anticipated to incur roughly \$10 million in 2020.

Recent News

Newell Approves Quarterly Dividend – Aug 6, 2020

Newell's board has approved a dividend of 23 cents per share, which is payable on Sep 15 to shareholders of record as on Aug 31.

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.

Valuation

Newell shares are down 11.7% in the year-to-date period but up 6.7% for the trailing 12-month period. Stocks in the Zacks sub-industry is up 0.5% but the Zacks Consumer Staples sector is down 6.6%, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 1.1% and 4.7%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and 15.8% in the past year.

The stock is currently trading at 12.51X forward 12-month earnings, which compares to 22.26X for the Zacks sub-industry, 20.17X for the Zacks sector and 22.87X 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 13.08X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$18 price target reflects 13.28X 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	12.51	22.26	20.17	22.87
	5-Year High	20.21	23	22.37	22.87
	5-Year Low	6.94	13.32	16.63	15.25
	5-Year Median	13.08	18.04	19.58	17.58
P/S F12M	Current	0.78	0.81	9.54	3.71
	5-Year High	2.11	2.06	11.15	3.71
	5-Year Low	0.47	0.79	8.1	2.53
	5-Year Median	1.06	1.82	9.89	3.05
EV/EBITDA TTM	Current	4.69	10.7	37.88	12.78
	5-Year High	77.41	19.18	45.29	12.85
	5-Year Low	1.26	3.45	27.51	8.25
	5-Year Median	14.15	12.35	38.61	10.91

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Top 40% (101 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Outperform	1
Spectrum Brands Holdings Inc. (SPB)	Outperform	1
Energizer Holdings, Inc. (ENR)	Neutral	4
KimberlyClark Corporation (KMB)	Neutral	3
LION CORP (LIOFP)	Neutral	3
WD40 Company (WDFC)	Neutral	3
Edgewell Personal Care Company (EPC)	Underperform	5
International FlavorsFragrances Inc. (IFF)	Underperform	3

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	NWL	X Industry	S&P 500	EPC	IFF	LIOFP
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	5	3	3
VGM Score	A	-	-	C	C	B
Market Cap	7.20 B	3.10 B	23.75 B	1.69 B	13.18 B	6.74 B
# of Analysts	7	5	14	5	2	1
Dividend Yield	5.42%	0.00%	1.62%	0.00%	2.43%	0.00%
Value Score	B	-	-	D	C	C
Cash/Price	0.09	0.09	0.07	0.31	0.04	0.14
EV/EBITDA	10.43	10.43	13.49	-10.32	16.54	15.17
PEG Ratio	2.28	2.93	3.03	10.96	NA	NA
Price/Book (P/B)	2.05	3.51	3.18	1.23	2.20	3.28
Price/Cash Flow (P/CF)	2.87	16.40	12.85	5.95	12.87	23.64
P/E (F1)	13.69	21.00	22.17	11.40	21.48	26.67
Price/Sales (P/S)	0.79	1.35	2.49	0.85	2.59	2.09
Earnings Yield	7.31%	3.75%	4.32%	8.76%	4.66%	3.75%
Debt/Equity	1.78	0.70	0.77	0.90	0.70	0.03
Cash Flow (\$/share)	5.91	1.32	6.94	5.22	9.58	0.98
Growth Score	B	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	-8.10%	2.16%	10.44%	-4.83%	2.89%	0.71%
Proj. EPS Growth (F1/F0)	-27.23%	7.28%	-5.97%	-21.78%	-6.97%	33.85%
Curr. Cash Flow Growth	-76.91%	13.59%	5.22%	-2.28%	40.43%	-8.33%
Hist. Cash Flow Growth (3-5 yrs)	28.55%	5.06%	8.52%	-13.82%	15.13%	NA
Current Ratio	1.47	1.56	1.33	2.38	2.24	1.77
Debt/Capital	64.09%	47.49%	44.59%	47.49%	41.63%	2.78%
Net Margin	-11.39%	1.59%	10.13%	4.39%	8.27%	8.72%
Return on Equity	16.20%	13.89%	14.51%	12.13%	11.26%	13.89%
Sales/Assets	0.61	1.10	0.51	0.59	0.39	0.95
Proj. Sales Growth (F1/F0)	1.36%	3.43%	-1.67%	-9.81%	0.13%	2.91%
Momentum Score	B	-	-	D	F	D
Daily Price Chg	-0.18%	0.00%	-0.02%	2.44%	0.10%	0.00%
1 Week Price Chg	-0.93%	-0.66%	1.09%	3.45%	-2.86%	0.00%
4 Week Price Chg	5.54%	7.33%	4.83%	3.71%	-4.22%	0.00%
12 Week Price Chg	32.71%	16.26%	13.09%	9.30%	-4.74%	19.59%
52 Week Price Chg	6.67%	9.76%	2.77%	4.58%	8.97%	19.59%
20 Day Average Volume	3,582,877	736,170	1,932,479	538,759	859,436	5
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.61%	0.00%
(F1) EPS Est 4 week change	14.10%	0.18%	1.80%	-8.23%	-3.48%	0.00%
(F1) EPS Est 12 week change	14.95%	0.00%	2.88%	-8.16%	-5.70%	0.00%
(Q1) EPS Est Mthly Chg	3.07%	-0.87%	0.80%	-12.30%	-1.73%	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	B
Growth Score	B
Momentum Score	B
VGM Score	A

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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