

Stanley Black & Decker (SWK)

\$154.40 (As of 08/03/20)

Price Target (6-12 Months): **\$178.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 08/03/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: B

Summary

In the past three months, Stanley Black & Decker's shares have outperformed the industry. The company is poised to gain from a positive e-commerce trend, solid product portfolio and shareholder-friendly moves in the long term. Also, its cost-reduction actions and solid liquidity might help tide over the pandemic-related difficulties. In second-quarter 2020, the company's earnings and sales surpassed estimates by 26% and 3.8%, respectively. It kept its financial projections for 2020, share buyback program and acquisition activities were suspended due to the pandemic-led worries. In addition, forex woes and tariffs are expected to have adverse impacts of \$180 million in 2020. High debts might hurt the company's cost of funds and liquidity. In the past seven days, its earnings estimates have been raised for the third quarter.

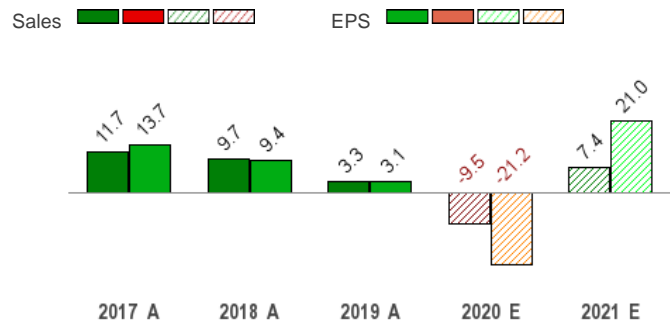
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$172.69 - \$70.00
20 Day Average Volume (sh)	1,061,877
Market Cap	\$24.7 B
YTD Price Change	-6.8%
Beta	1.55
Dividend / Div Yld	\$2.80 / 1.8%
Industry	Manufacturing - Tools & Related Products
Zacks Industry Rank	Top 9% (23 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.0%
Last Sales Surprise	3.8%
EPS F1 Est- 4 week change	22.0%
Expected Report Date	10/22/2020
Earnings ESP	7.1%
P/E TTM	21.7
P/E F1	23.3
PEG F1	4.4
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,287 E	3,414 E	3,549 E	3,754 E	14,040 E
2020	3,129 A	3,147 A	3,326 E	3,590 E	13,076 E
2019	3,334 A	3,761 A	3,633 A	3,714 A	14,442 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.45 E	\$1.89 E	\$2.10 E	\$2.38 E	\$8.01 E
2020	\$1.20 A	\$1.60 A	\$2.03 E	\$2.23 E	\$6.62 E
2019	\$1.42 A	\$2.66 A	\$2.13 A	\$2.18 A	\$8.40 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 08/03/2020. The reports text is as of 08/04/2020.

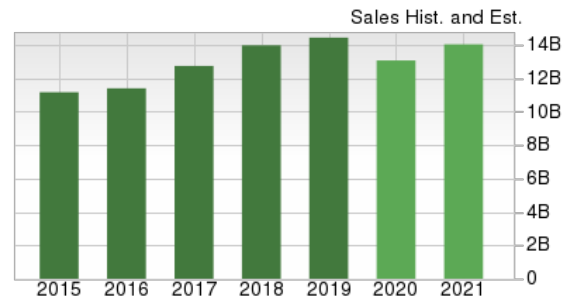
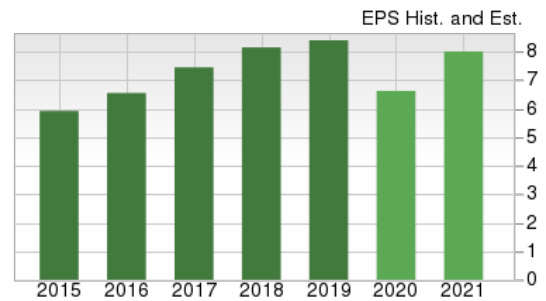
Overview

Headquartered in New Britain, CT, Stanley Black & Decker, Inc. manufactures and provides tools (power and hand tools) and related accessories, healthcare solutions, electronic security solutions, engineered fastening systems, and many more items and services.

On a geographical basis, the company has operations in the United States, Canada, Europe, Japan and emerging markets.

The company's operations are classified into three reportable business segments: Security, Industrial, and Tools & Storage.

- Security** (13.8% of second-quarter 2020 net revenues) segment provides access and security solutions, primarily to retailers, educational, financial and healthcare institutions as well as to commercial, governmental and industrial customers. Security products are sold primarily on a direct sales basis and, in certain instances, through third-party distributors. Businesses included are Convergent Security Solutions and Mechanical Access Solutions.
- Industrial** (16.4%) segment manufactures and markets engineered fastening products as well as hydraulic tools, accessories and attachments. Also, the segment engages in renting and selling coating, custom pipe handling and joint welding equipment. The products are sold to industrial customers and distributed primarily through third-party distributors as well as the company's direct sales force. Businesses included are Engineered Fastening and Infrastructure.
- Tools & Storage** (69.8%) segment manufactures and markets power tools for professional, consumer tools, hand tools, storage systems, pneumatic tools and fasteners. These products are sold to professionals, as well as consumers, and are distributed through retailers (including home centers, mass merchants, hardware stores and retail lumber yards). Businesses included are Power Tools & Equipment and Hand Tools, Accessories & Storage businesses.



Reasons To Buy:

- ▲ In the past three months, Stanley Black & Decker's shares have gained 44.1% compared with the industry's growth of 12.1%. In second-quarter 2020, the company recorded an earnings surprise of 26%. Going forward, it might gain from the efforts to innovate products, favorable e-commerce trends, growing recognition of products meant for healthy and security, and do-it-yourself preferences. Also, the safety of its supply-chain partners and workers along with the continuity of businesses remain the top priority. In the second half of 2020, the company anticipates making investments to gain from opportunities in the Security, and Tools & Storage segments.
- ▲ Adjustments in manufacturing labor, supply chain and non-essential staffing have been considered by Stanley Black & Decker as a measure to mitigate some of the coronavirus outbreak-related impacts. It introduced certain cost-reduction measures in April 2020 and from it anticipates savings of \$1 billion, including \$500 million expected to be realized in 2020. In second-quarter 2020, this cost-saving program yielded benefits of \$175 million. Additionally, cost actions introduced in October 2019 are anticipated to yield cost savings of \$180 million in 2020. In the past seven days, Stanley Black & Decker's earnings estimates have moved 6.8% north to \$2.03 per share in the third quarter of 2020.
- ▲ In the quarters ahead, Stanley Black & Decker's growth is likely to be driven by organic and inorganic means. Here we focused on the company's inorganic initiatives. In January 2019, it acquired 20% stake in MTD Products — well-recognized for its outdoor power equipments — and IES Attachments in March 2019. It is worth noting here that Stanley Black & Decker has the option to purchase (likely to be exercised in 2022) the remaining 80% stake in MTD Products. This action will result in incremental revenues (annual) of \$3-\$4 billion starting 2022. Further, Stanley Black & Decker divested the Sargent & Greenleaf business of the Security segment in May 2019 in the best interest of shareholders. In February 2020, Stanley Black & Decker acquired Consolidated Aerospace Manufacturing. Since then, the buyout is strengthening the company's engineered fastening business within the Industrial segment. Notably, acquired assets contributed roughly 2% to sales growth in the second quarter.
- ▲ Stanley Black & Decker is committed to rewarding its shareholders through dividend payments. In the second quarter, the company paid out cash dividends of \$105.8 million, reflecting an 8.3% increase from the year-ago quarter. In July 2020, it hiked the quarterly dividend rate by 1.4% or one cent per share.
- ▲ Stanley Black & Decker noted that its solid liquidity position will help it tide over the difficult environment effectively. Its liquidity includes \$0.9 billion of cash on hand and \$2.3 billion from commercial paper program. Further, the company noted that it initiated actions to conserve capital. The actions include the reduction of capital expenditure, temporary suspension of share buybacks and acquisitions, and focus on achieving leverage targets.

Stanley Black & Decker is poised to benefit from favorable e-commerce business, solid product line and acquired assets. Its cost actions and solid liquidity might aid in the near term.

Risks

- In second-quarter 2020, Stanley Black & Decker's earnings declined 39.8% year over year due to a 16.3% sales decline and weak margins. For 2020, the company kept its projections suspended due to the uncertainties related to the coronavirus outbreak. Also, its geographically diversified business exposed it to risks emanating from hostile movements in foreign currencies and geopolitical issues. In the second quarter of 2020, forex woes affected sales growth by 2%. In addition to forex woes, adverse impacts of tariffs and lower volumes adversely impacted gross margin. The company recorded a 130-bps fall in gross margin and a 200-bps decline in operating margin in the quarter. We believe, the persistence of the above-mentioned headwinds can continue hurting the company's margins in the quarters ahead. For 2020, it expects forex woes and tariffs to adversely impact results by \$180 million, higher than \$150 million mentioned previously. Notably, headwinds of \$115 million have already been realized in the first half of 2020.
 - In order to finance buyout activities and working capital needs, sometimes Stanley Black & Decker raises funds through the issuance of long-term debt instruments and equities. This, in turn, could hurt the company's cost of funds, liquidity and access to capital markets in case of a downgrade in investment-grade ratings. Exiting second-quarter 2020, it had a long-term debt balance of \$4,658.7 million. In February 2020, the company issued \$750-million notes due 2030 and \$750 million of debentures maturing in 2060. Its total debt-to-total capital stood at 28.9% at the end of the second quarter versus 34.2% in the previous quarter. Despite lower total debt-to-total capital, it is the company's weakening ability to repay financial obligation and returns on capital that is concerning. At the second-quarter end, its times interest earned was 4.1X and its return on total capital was 8%, lower than 5.0X and 9.8% reported in the first quarter of 2020, respectively. For 2020, the company expects interest expenses of \$210 million.
 - Stanley Black & Decker's segmental performances and overall profitability are highly correlated to industrial activities, housing markets and overall economic growth of foreign nations served as well as that of the United States. The pandemic has adversely hurt both domestic and international markets. Based on scenario planning, the company's organic sales might decline 5-10% in 2020.
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Last Earnings Report

Stanley Black Beats Q2 Earnings and Sales Estimates

Stanley Black & Decker has reported impressive results for second-quarter 2020, with earnings surpassing estimates by 26%. This marked the company's sixth consecutive quarter of impressive results. Also, sales in the quarter exceeded estimates by 3.8%.

Earnings, excluding acquisition-related charges and other one-time impacts, were \$1.60 per share in the quarter, surpassing the Zacks Consensus Estimate of \$1.27. However, earnings decreased 39.8% from the year-ago quarter's \$2.66 per share due to a sales decline and weak margins.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	3.79%
EPS Surprise	25.98%
Quarterly EPS	1.60
Annual EPS (TTM)	7.11

Revenue Details

In the quarter under review, the company's net sales were \$3,147.4 million, reflecting a 16.3% year-over-year decline. The pandemic-related adversities led to disruptions in the end markets served by the company.

The results suffered from a 17% decline in volume and a 2% adverse impact of movements in foreign currencies, partially offset by 2% gain from acquisitions and a 1% positive impact of pricing.

However, the company's top line surpassed the Zacks Consensus Estimate of \$3,033 million.

Stanley Black reports revenues under three segments. A brief discussion on the quarterly results is provided below:

Tools & Storage's revenues totaled \$2,197.2 million, representing 69.8% of net revenues in the quarter under review. On a year-over-year basis, the segment's revenues decreased 16.3% due to a 16% decline in volumes and 1% impact of forex woes, partially offset by 1% gain from positive pricing.

The **Industrial** segment generated revenues of \$517.5 million, accounting for 16.4% of net revenues in the reported quarter. Revenues decreased 20.4% year over year, primarily driven by 10% gain from the CAM buyout, partially offset by a 29% negative impact of volume decline and a 1% decline from forex woes.

The **Security** segment's revenues, representing 13.8% of net revenues, decreased 10.9% year over year to \$432.7 million. Forex woes and divestitures had adverse impacts of 2% and 1%, respectively. Volume decreased 9%.

Margin Profile

In the reported quarter, Stanley Black's cost of sales (normalized) decreased 14.6% year over year to \$2,092.1 million. It represented 66.5% of the quarter's net sales versus 65.2% in the year-ago quarter. Gross profit (normalized) decreased 19.5% year over year to \$1,055.3 million. Gross margin slipped 130 basis points (bps) to 33.5% due to the adverse impacts of tariff and forex woes as well as lower volumes. However, cost control, positive price and productivity partially offset the adverse impacts.

Selling, general and administrative expenses declined 13.6% year over year to \$652.8 million. It represented 20.7% of net sales in the reported quarter versus 20.1% in the year-ago quarter. Operating profits (normalized) declined 27.5% year over year to \$402.5 million, while margin fell 200 bps to 12.8%.

The company noted that operating margin in the quarter gained from price realized and cost-control measures.

Adjusted tax rate in the reported quarter was 15% compared with the year-ago quarter figure of 11.6%.

Balance Sheet & Cash Flow

Exiting the second quarter of 2020, Stanley Black had cash and cash equivalents of \$859.8 million, declining 12.9% from \$987.1 million recorded in the last reported quarter. Long-term debt (net of current portions) was down 0.1% sequentially to \$4,658.7 million.

In the second quarter, it generated net cash of \$328.2 million from operating activities, reflecting a decline of 34.5% from the year-ago quarter. Capital spending totaled \$64.5 million versus \$97.2 million in the year-ago quarter. Free cash flow in the quarter was \$263.7 million, down 34.7% year over year.

During the quarter, Stanley Black paid out cash dividends of \$105.8 million, up 8.3% from the year-ago quarter.

Outlook

For 2020, the company kept its projections suspended due to the uncertainties related to the coronavirus outbreak.

Also, it noted that the safety of its supply-chain partners and workers along with the continuity of businesses remains the top priority. Also, it is progressing well on its cost-reduction program of \$1 billion (announced in April 2020). Savings of \$500 million — including \$175 million already achieved in the second quarter — is expected to be realized from this program in 2020.

In the second half of 2020, the company anticipates making investments to leverage gain from growth opportunities in the Security, and Tools & Storage segments.

Recent News

Dividend Hike

On **Jul 14, 2020**, Stanley Black & Decker announced that its board of directors approved a hike of 1.4% or one cent per share in the quarterly dividend rate. The revised rate now stands at 70 cents per share. On an annualized basis, the dividend increased to \$2.80 per share from the previous rate of \$2.76. It will pay out the revised dividend on Sep 15, 2020, to shareholders of record as of Sep 1.

Valuation

Stanley Black & Decker's shares have moved down 6.8% in the year-to-date period and increased 13.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have decreased 24.5% and 5.8% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector moved down 8.3% and up 9.2% respectively.

The S&P 500 index has moved up 2.3% year to date and increased 16.2% in the past year.

The stock is currently trading at 21.41x forward 12-month earnings, which compares to 17.22x for the Zacks sub-industry, 21.6x for the Zacks sector and 22.62x for the S&P 500 index.

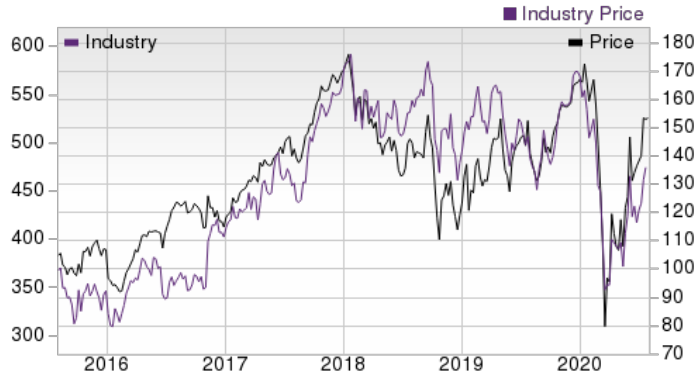
Over the past five years, the stock has traded as high as 24.3x and as low as 8.18x, with a 5-year median of 16.77x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$178 price target reflects 24.62x forward 12-month earnings.

The table below shows summary valuation data for SWK.

Valuation Multiples - SWK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.41	17.22	21.6	22.62
	5-Year High	24.3	21.45	21.6	22.62
	5-Year Low	8.18	12.49	12.55	15.25
	5-Year Median	16.77	16.85	17.15	17.55
P/S F12M	Current	1.76	1.21	2.85	3.59
	5-Year High	2.07	1.52	2.85	3.59
	5-Year Low	0.75	0.84	1.52	2.53
	5-Year Median	1.51	1.19	2.03	3.04

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 9% (23 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Sandvik AB (SDVKY)	Outperform	2
Allegion PLC (ALLE)	Neutral	3
Acuity Brands Inc (AYI)	Neutral	3
Energypac Tool Group Corp. (EPAC)	Neutral	4
Hubbell Inc (HUBB)	Neutral	3
Johnson Controls International plc (JCI)	Neutral	3
Kennametal Inc. (KMT)	Neutral	2
Lincoln Electric Holdings, Inc. (LECO)	Neutral	3

Industry Comparison Industry: Manufacturing - Tools & Related Products				Industry Peers		
	SWK	X Industry	S&P 500	ALLE	KMT	LECO
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	3
VGM Score	D	-	-	B	C	A
Market Cap	24.65 B	2.45 B	22.67 B	9.26 B	2.36 B	5.46 B
# of Analysts	10	4	13.5	5	7	8
Dividend Yield	1.79%	1.57%	1.77%	1.27%	2.81%	2.13%
Value Score	C	-	-	C	B	B
Cash/Price	0.04	0.08	0.07	0.03	0.04	0.03
EV/EBITDA	15.11	12.74	13.08	16.91	6.36	12.74
PEG Ratio	4.35	4.83	2.94	3.99	4.83	2.59
Price/Book (P/B)	2.91	2.91	3.10	13.63	1.82	8.27
Price/Cash Flow (P/CF)	12.81	12.81	12.34	17.16	6.44	14.95
P/E (F1)	23.32	24.17	21.71	24.36	24.17	25.87
Price/Sales (P/S)	1.81	1.83	2.46	3.39	1.25	1.98
Earnings Yield	4.29%	4.15%	4.38%	4.10%	4.15%	3.87%
Debt/Equity	0.55	0.45	0.75	2.10	0.48	1.08
Cash Flow (\$/share)	12.06	3.14	6.94	5.85	4.42	6.15
Growth Score	D	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	7.27%	8.18%	10.46%	12.26%	18.05%	9.09%
Proj. EPS Growth (F1/F0)	-21.15%	-21.07%	-7.08%	-15.66%	25.22%	-24.36%
Curr. Cash Flow Growth	4.61%	4.61%	5.47%	5.29%	10.92%	-3.32%
Hist. Cash Flow Growth (3-5 yrs)	6.22%	6.22%	8.55%	13.35%	2.02%	0.03%
Current Ratio	1.26	2.37	1.32	2.11	2.52	1.77
Debt/Capital	31.86%	30.48%	44.21%	67.75%	32.59%	52.02%
Net Margin	5.88%	5.46%	10.25%	10.48%	-0.30%	7.93%
Return on Equity	13.97%	6.65%	14.72%	64.29%	5.94%	33.45%
Sales/Assets	0.62	0.70	0.52	0.96	0.73	1.20
Proj. Sales Growth (F1/F0)	-9.46%	-7.85%	-1.79%	-9.01%	-5.16%	-14.10%
Momentum Score	B	-	-	C	F	A
Daily Price Chg	0.70%	3.92%	0.27%	1.00%	5.53%	1.74%
1 Week Price Chg	0.27%	-1.00%	0.14%	-1.54%	0.60%	-1.25%
4 Week Price Chg	9.43%	4.11%	2.96%	-3.39%	-2.03%	7.82%
12 Week Price Chg	35.94%	24.07%	10.90%	-1.21%	17.42%	18.46%
52 Week Price Chg	13.68%	13.55%	2.35%	0.77%	-9.54%	13.55%
20 Day Average Volume	1,061,877	246,784	2,043,624	726,972	719,158	385,597
(F1) EPS Est 1 week change	4.83%	0.00%	0.00%	0.00%	0.00%	3.72%
(F1) EPS Est 4 week change	22.01%	9.82%	0.82%	5.96%	0.00%	19.07%
(F1) EPS Est 12 week change	27.73%	0.94%	0.59%	6.84%	-5.70%	19.12%
(Q1) EPS Est Mthly Chg	29.34%	6.51%	0.25%	0.13%	0.00%	13.03%

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	D
Momentum Score	B
VGM Score	D

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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