Jun 11, 2020

Stanley Black & Decker (SWK)

$136.48 (As of 06/10/20)

Price Target (6-12 Months): **$143.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/04/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: F | Momentum: A	

Summary

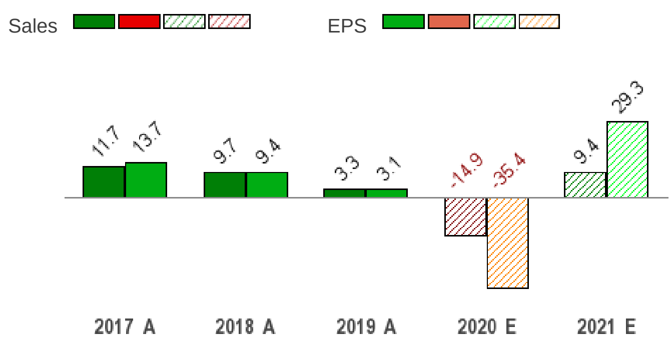
In the long term, Stanley Black & Decker is poised to gain from a positive e-commerce trend, solid product portfolio and shareholder-friendly moves. Also, its cost-reduction actions and solid liquidity might help tide over coronavirus-related difficulties. For the second quarter, it expects an organic sales decline of 15-20% versus a 20-30% fall anticipated earlier. For 2020, it withdrew its previously provided projections, while also halting buyback and acquisition activities. Forex woes and tariffs are expected to have adverse impacts of $150 million in 2020. High debts might hurt the company's cost of funds and liquidity. In the past 60 days, the company's earnings estimates for 2020 and 2021 have declined. Its shares have underperformed the industry in the past three months.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$172.69 - $70.00**
20 Day Average Volume (sh)	**1,719,856**
Market Cap	**$21.0 B**
YTD Price Change	**-17.7%**
Beta	**1.51**
Dividend / Div Yld	**$2.76 / 2.0%**
Industry	**Manufacturing - Tools & Related Products**
Zacks Industry Rank	**Top 36% (90 out of 252)**
Last EPS Surprise	**6.2%**
Last Sales Surprise	**-4.6%**
EPS F1 Est- 4 week change	**4.7%**
Expected Report Date	**07/28/2020**
Earnings ESP	**85.2%**
P/E TTM	**16.7**
P/E F1	**25.1**
PEG F1	**4.7**
P/S TTM	**1.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	3,267 E	3,306 E	3,437 E	3,688 E	13,447 E
2020	3,129 A	2,598 E	2,998 E	3,509 E	12,297 E
2019	3,334 A	3,761 A	3,633 A	3,714 A	14,442 A

EPS Estimates

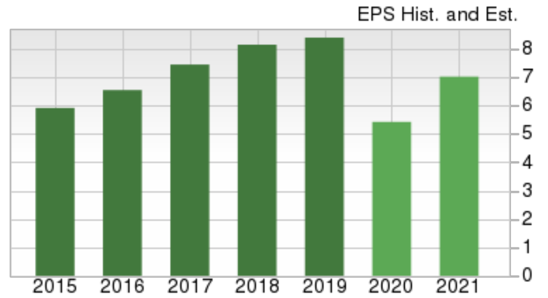
	Q1	Q2	Q3	Q4	Annual*
2021	$1.42 E	$1.79 E	$1.86 E	$2.24 E	$7.02 E
2020	$1.20 A	$0.59 E	$1.57 E	$2.02 E	$5.43 E
2019	$1.42 A	$2.66 A	$2.13 A	$2.18 A	$8.40 A

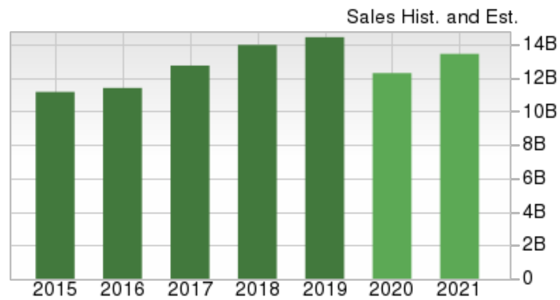
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/10/2020. The reports text is as of 06/11/2020.

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** (15% of first-quarter 2020 net revenues): The 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** (18.9%): The 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** (66.1%): The 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 first-quarter 2020, Stanley Black & Decker recorded a positive earnings surprise of 6.2%. In the years ahead, the company might gain from favorable e-commerce trends, efforts to innovate products, growing recognition of products and multi-year initiatives might be beneficial. In the near term, the company noted that the safety of its supply-chain partners and workers along with the continuity of businesses remains the top priority. Adjustments in manufacturing labor, supply chain and non-essential staffing have been considered as a measure to mitigate some virus-related impacts. Also, the company intends on working toward lowering indirect spending and gaining from lower raw material price environment. Further, it introduced certain cost-reduction measures in April 2020, which are likely to yield $1 billion in savings, including $500 million in 2020. Additionally, cost actions introduced in October 2019 are anticipated to yield cost savings of $180 million.

Stanley Black & Decker is expected to have gained from e-commerce business, solid product line and shareholder-friendly policies in the years ahead. It cost actions and solid liquidity might aid in the near term.

- 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. Among acquisitions, Newell Tools (with products like Irwin and Lenox) and Craftsman buyouts in March 2017 are worth mentioning. Further, the acquisition of the industrial business of Nelson Fastener Systems (April 2018), 20% stake in MTD Products (January 2019) and the IES Attachments buyout (March 2019) have been strengthening Stanley Black & Decker's financials. Also, the Sargent & Greenleaf business of the Security segment was divested (May 2019). In February 2020, the company acquired Consolidated Aerospace Manufacturing. The buyout is anticipated to strengthen the Stanley Black & Decker'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 first quarter, the company paid out cash dividends of $105.6 million, reflecting an 8.2% increase from the year-ago quarter. It is worth noting here that the company hiked the quarterly dividend rate by 4.5% in July 2019.

- Stanley Black & Decker noted that its solid liquidity position will help it tide over the difficult environment effectively. Its liquidity includes $1 billion of cash on hand, impressive credit rating (investment grade), $1.7-billion outstanding commercial paper program, $3 billion of revolving credit facilities, and cash generation capability from convertible preferred stock.

Reasons To Sell:

- In the past three months, Stanley Black & Decker's shares have gained 30.3% compared with the industry's growth of 36.3%. In first-quarter 2020, the company's earnings surpassed estimates by 6.2%, while declined 15.5% year over year due to a 6.1% sales decline and weak margins. Quarterly sales lagged estimates by 4.6%. For 2020, it has suspended its previously provided projections. Also, it temporarily halted acquisitions and share-buyback activities due to the coronavirus outbreak. In the past 60 days, Stanley Black & Decker's earnings estimates have moved 32.5% south to $5.43 per share for 2020 and by 24.2% to $7.02 for 2021. This makes us cautious about the stock.

- Stanley Black & Decker's geographically diversified business exposed it to risks, emanating from hostile movements in foreign currencies and geopolitical issues. In the first quarter of 2020, forex woes affected sales growth by 1%. In addition to forex woes, adverse impacts of tariffs, lower volumes and pandemic-related increase in manufacturing costs adversely impacted gross margin. The company recorded a 40 bps fall in gross margin and a 70 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, the company expects forex woes and tariffs to adversely impact results by $150 million (including $60 million recorded in the first quarter).

Stanley Black & Decker's revenue-generation capabilities were hurt due to the coronavirus outbreak. It suspends projections for 2020, while also temporarily suspends its buyout and share buyback activities.

- 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 first-quarter 2020, it had a long-term debt balance of $4,662.6 million, reflecting a sequential increase of 46.8%. In February 2020, the company issued $750-million notes due 2030 and $750 million of debentures maturing in 2060. Also, its total debt-to-total capital stood at 30.8% at the end of the first quarter versus 25.8% in the previous quarter. For 2020, the company expects interest expenses of $230 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 15-30% in 2020.

Last Earnings Report

Stanley Black & Decker Q1 Earnings Surpass Estimates, Fall Y/Y

Quarter Ending	03/2020
Report Date	Apr 30, 2020
Sales Surprise	-4.58%
EPS Surprise	6.19%
Quarterly EPS	1.20
Annual EPS (TTM)	8.17

Stanley Black & Decker reported better-than-expected earnings results for the first quarter of 2020, with a beat of 6.2%. However, the quarter's sales lagged estimates by 4.6%.

Earnings, excluding acquisition-related charges and other one-time impacts, were $1.20 per share in the quarter, surpassing the Zacks Consensus Estimate of $1.13. However, earnings decreased 15.5% from the year-ago quarter's $1.42 per share due to a sales decline and weak margins.

Revenue Details

In the quarter under review, the company's net sales were $3,129.4 million, reflecting a 6.1% year-over-year decline. The results suffered from an 8% decline in volume and 1% adverse impact of movements in foreign currencies, partially offset by 2% gain from acquisitions and 1% positive impact of pricing.

Also, the company's top line lagged the Zacks Consensus Estimate of $3,280 million.

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

Tools & Storage's revenues totaled $2,070.8 million, representing 66.1% of net revenues in the quarter under review. On a year-over-year basis, the segment's revenues decreased 9.7% due to a 9% decline in volumes and 2% impact of forex woes, partially offset by 1% gain from positive pricing.

The **Industrial** segment generated revenues of $590.7 million, accounting for 18.9% of net revenues in the reported quarter. Sales grew 6.4% year over year, primarily driven by 15% gain from acquired assets, partially offset by 8% negative impact of volume decline and a 1% decline from forex woes.

The **Security** segment's revenues, representing 15% of net revenues, decreased 3.8% year over year to $467.9 million. Forex woes and divestitures had adverse impacts of 2% each.

Margin Profile

In the reported quarter, Stanley Black & Decker's cost of sales (normalized) decreased 5.6% year over year to $2,097.2 million. It represented 67% of the quarter's net sales versus 66.6% in the year-ago quarter. Gross profit (normalized) decreased 7.2% year over year to $1,032.2 million. Gross margin slipped 40 basis points (bps) to 33% due to the adverse impacts of forex and tariff woes, lower volumes, and the pandemic-related increase in manufacturing costs. However, cost control, positive price and margin resiliency partially offset the adverse impacts.

Selling, general and administrative expenses declined 4.9% year over year to $718.7 million. It represented 23% of net sales in the reported quarter versus 22.7% in the year-ago quarter. Operating profits (normalized) declined 12% year over year to $313.5 million, while margin fell 70 bps to 10%.

Adjusted tax rate in the reported quarter was 12.5% compared with the year-ago quarter figure of 15%.

Balance Sheet & Cash Flow

Exiting the first quarter of 2020, Stanley Black & Decker had cash and cash equivalents of $987.1 million, surging 231.6% from $297.7 million recorded in the last reported quarter. Long-term debt (net of current portions) was up 46.8% sequentially to $4,662.6 million.

In the first quarter, it used net cash of $405.2 million for operating activities, reflecting a decline of 6.1% from the year-ago quarter. Capital spending totaled $82.9 million versus $89.6 million in the year-ago quarter. Free cash flow in the quarter was $488.1 million, down 6.3% year over year.

During the quarter, Stanley Black paid out cash dividends of $105.6 million, up 8.2% from the year-ago quarter.

Outlook

For 2020, the company has suspended its projections (on Apr 2) due to the adverse impact of the coronavirus outbreak. Share buyback activities and acquisition for now have been stopped, while actions are being considered to lower capital expenditure. Also, the review of Security has been postponed.

In addition, deleveraging remains a priority for the company. It noted that its solid liquidity position — $1 billion of cash on hand, impressive credit rating (investment grade), $1.7 billion outstanding commercial paper program, $3 billion of revolving credit facilities, and cash generation capability from convertible preferred stock — will help it tide over the difficult environment effectively.

It noted that revenues have declined so far in the second quarter of 2020.

Recent News

Q2 Organic Sales View Update

On **Jun 3, 2020**, Stanley Black & Decker provided an update on its second-quarter revenues, while taking part in the 2020 UBS Global Industrials and Transportation virtual conference.

The company noted that retail channels in the United States — with double-digit growth in POS performance — are likely to perform better than previously expected. The improvement will primarily be seen for the global security business and the company's Tools & Storage segment. The Security business is now predicted to fall 10% as compared with the initial expectation of a 25% decline in the second quarter.

Considering the above-mentioned improvements, the company now expects an organic sales decline of 15-20% for the second quarter. This marks an improvement from a 35-45% decline anticipated in April and a decrease of 20-30% communicated in May.

Stanley Black Hikes Q2 Organic Sales View

On **May 19, 2020**, Stanley Black & Decker provided an update on its second-quarter revenues. It noted that shipments fell just 25% in the first seven weeks of second-quarter 2020. This reflects an improvement from a 40% decline in shipments in the first four weeks of the quarter.

Also, it mentioned that retail POS in North America strengthened through the first seven weeks of the second quarter. Also, the security business has performed well so far in the second quarter, having declined less than what was experienced in the first four weeks.

Considering the above-mentioned improvements, the company now expects an organic sales decline of 20-30% for the second quarter. This marks an improvement from a 35-45% decline anticipated earlier (communicated on Apr 30).

Remarketing of Preferred Stocks

On **May 15, 2020**, Stanley Black & Decker announced the completion of remarketing of 0.75 million shares of Series C Cumulative Perpetual Convertible Preferred Stock.

Dividend

On **Apr 17, 2020**, Stanley Black & Decker announced that its board of directors approved the payment of a quarterly cash dividend of 69 cents per share to its shareholders of record as of Jun 2. The disbursement will be made on Jun 16.

Withdrawal of Annual View on Coronavirus Concerns

On **Apr 2, 2020**, Stanley Black & Decker provided a business update on the impacts of the coronavirus outbreak on its operations. Also, the company expects its healthy financial flexibility to help it overcome the uncertain environment.

The company noted that the safety of its supply-chain partners and workers along with the continuity of businesses remains the top priority. In the current demand environment, adjustments will be done for manufacturing labor, supply chain and non-essential staffing. Also, the company intends on working toward lowering indirect spending and gaining from lower raw material price environment. It is lending all possible supports in the fight against the pandemic.

Considering the uncertainties, the company suspended its projection for 2020, predicting negative impacts of the coronavirus outbreak on its operations. Also, a temporary suspension of buyout activities was announced along with the intention of lowering capital spending.

Cost-Reduction Program

On **Apr 2, 2020**, Stanley Black & Decker announced its cost-reduction program that is likely to yield annualized savings in costs of $1 billion. The program is also predicted to result in $160 million of pre-tax charges in the second quarter of 2020.

Valuation

Stanley Black & Decker's shares have moved down 17.6% in the year-to-date period and 3.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have decreased 13.5% and 7.4% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector moved up 1.9% and down 0.4% respectively.

The S&P 500 index has moved down 0.5% year to date and increased 11.3% in the past year.

The stock is currently trading at 22.24x forward 12-month earnings, which compares to 23.32x for the Zacks sub-industry, 23.25x for the Zacks sector and 23.18x for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.21x and as low as 8.18x, with a 5-year median of 16.69x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $143 price target reflects 23.35x forward 12-month earnings.

The table below shows summary valuation data for SWK.

Valuation Multiples - SWK

		Stock	Sub-Industry	Sector	S&P 500
	Current	22.24	23.32	23.25	23.18

P/E F12M	5-Year High	24.21	23.32	23.25	23.18
	5-Year Low	8.18	12.5	12.55	15.23
	5-Year Median	16.69	16.61	16.66	17.49
EV/EBITDA F12M	Current	14.37	11.65	20.66	14.17
	5-Year High	14.37	11.65	20.66	14.17
	5-Year Low	6.58	5.77	10.6	9.01
	5-Year Median	10.95	8.93	14.15	10.94
EV/Sales F12M	Current	2.17	1.77	3.4	3.38
	5-Year High	2.3	1.96	3.4	3.51
	5-Year Low	1.11	0.95	1.76	2.28
	5-Year Median	1.78	1.45	2.32	2.82

As of 06/10/2020

Industry Analysis **Zacks Industry Rank:** Top 36% (90 out of 252)

Top Peers

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

Industry Comparison Industry: Manufacturing - Tools & Related Products

Industry Peers

	SWK	X Industry	S&P 500	ALLE	KMT	LECO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	C	C	D
Market Cap	21.04 B	3.28 B	22.63 B	10.05 B	2.50 B	5.19 B
# of Analysts	10	6.5	14	5	5	7
Dividend Yield	2.02%	1.72%	1.87%	1.17%	2.65%	2.24%
Value Score	D	-	-	D	B	C
Cash/Price	0.04	0.08	0.06	0.02	0.03	0.03
EV/EBITDA	13.23	10.77	12.91	18.29	6.68	12.14
PEG Ratio	4.51	3.86	3.07	4.45	6.65	2.97
Price/Book (P/B)	2.82	2.82	3.09	16.38	1.93	7.77
Price/Cash Flow (P/CF)	11.32	11.32	12.15	18.63	6.84	14.22
P/E (F1)	24.18	29.68	22.10	27.13	33.26	29.68
Price/Sales (P/S)	1.48	1.38	2.40	3.50	1.19	1.76
Earnings Yield	3.98%	3.37%	4.30%	3.69%	3.01%	3.37%
Debt/Equity	0.63	0.41	0.76	2.33	0.48	1.07
Cash Flow ($/share)	12.06	3.14	7.01	5.85	4.42	6.15
Growth Score	F	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	8.77%	9.32%	10.87%	13.48%	18.05%	9.32%
Proj. EPS Growth (F1/F0)	-35.38%	-35.80%	-10.71%	-17.83%	-69.93%	-37.33%
Curr. Cash Flow Growth	4.61%	4.61%	5.46%	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	1.06	2.52	1.29	2.02	2.52	1.62
Debt/Capital	34.23%	29.09%	44.75%	69.94%	32.59%	51.73%
Net Margin	6.46%	6.81%	10.54%	11.20%	3.10%	9.41%
Return on Equity	16.40%	11.65%	16.08%	69.68%	10.16%	35.65%
Sales/Assets	0.66	0.72	0.55	1.00	0.81	1.25
Proj. Sales Growth (F1/F0)	-14.86%	-14.86%	-2.59%	-7.80%	-20.18%	-15.79%
Momentum Score	A	-	-	A	F	C
Daily Price Chg	-3.36%	-3.33%	-1.68%	-2.91%	-2.83%	-3.56%
1 Week Price Chg	16.89%	9.79%	7.51%	15.70%	9.19%	9.03%
4 Week Price Chg	33.29%	23.29%	16.99%	16.40%	38.53%	23.29%
12 Week Price Chg	74.24%	44.24%	37.11%	12.76%	62.72%	24.17%
52 Week Price Chg	-3.19%	-3.19%	0.02%	4.29%	-8.95%	11.76%
20 Day Average Volume	1,719,856	52,130	2,620,901	762,455	785,295	314,000
(F1) EPS Est 1 week change	1.08%	0.00%	0.00%	0.00%	-1.30%	0.00%
(F1) EPS Est 4 week change	4.69%	0.00%	0.00%	0.83%	-1.52%	-1.29%
(F1) EPS Est 12 week change	-38.83%	-37.46%	-15.86%	-21.87%	-30.86%	-37.46%
(Q1) EPS Est Mthly Chg	369.32%	-4.46%	0.00%	2.91%	-8.97%	-8.91%

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	D
Growth Score	F
Momentum Score	A
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.

Disclosures

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