Jan 14, 2020

Stanley Black & Decker (SWK)

$165.30 (As of 01/13/20)

Price Target (6-12 Months): **$174.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/03/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: D | Momentum: D	**4-Sell** VGM:D

Summary

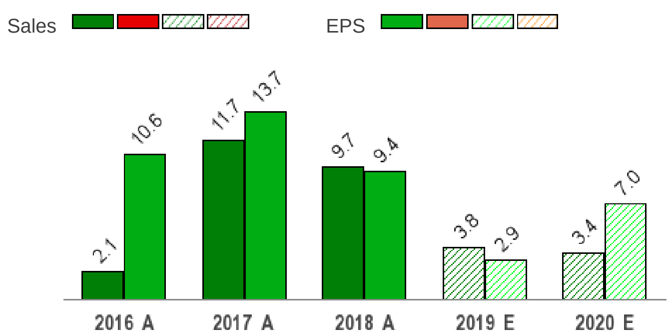
In the past year, Stanley Black & Decker's shares have outperformed the industry. In 2019, the company anticipates gaining from the exposure in emerging markets, favorable e-commerce trend, cost-saving initiatives, pricing actions and solid product demand. Also, it believes that its multi-year initiatives will be boons. However, the stock currently seems overvalued compared with the industry. Anticipating weakness in industrial and emerging markets, the company lowered 2019 organic growth forecast to 3.5-4% from 4% mentioned previously. It expects earnings of $8.35-$8.45 per share for 2019 compared with $8.50-$8.70 stated previously. Also, tariffs, forex woes and commodity inflation will likely adversely impact 2019 results by $445 million versus $390 million stated earlier.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$169.54 - $115.02**
20 Day Average Volume (sh)	**917,054**
Market Cap	**$25.1 B**
YTD Price Change	**-0.3%**
Beta	**1.41**
Dividend / Div Yld	**$2.76 / 1.7%**
Industry	**Manufacturing - Tools & Related Products**
Zacks Industry Rank	**Top 43% (110 out of 254)**
Last EPS Surprise	**5.5%**
Last Sales Surprise	**-0.2%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**01/29/2020**
Earnings ESP	**1.2%**
P/E TTM	**19.9**
P/E F1	**18.4**
PEG F1	**2.0**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	3,461 E	3,863 E	3,769 E	3,913 E	15,004 E
2019	3,334 A	3,761 A	3,633 A	3,776 E	14,511 E
2018	3,209 A	3,644 A	3,495 A	3,635 A	13,982 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$1.58 E	$2.63 E	$2.33 E	$2.42 E	$8.98 E
2019	$1.42 A	$2.66 A	$2.13 A	$2.16 E	$8.39 E
2018	$1.39 A	$2.57 A	$2.08 A	$2.11 A	$8.15 A

*Quarterly figures may not add up to annual.

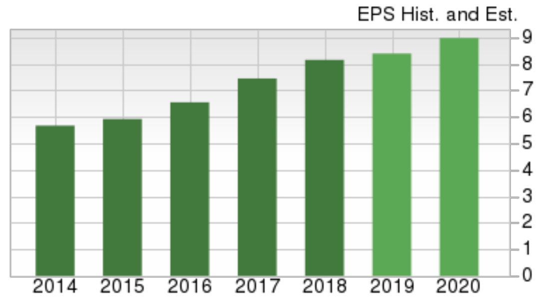
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

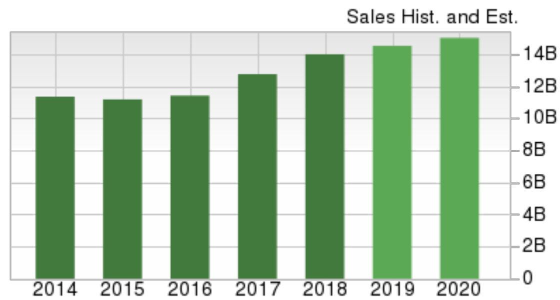
Overview

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** (12.8% of third-quarter 2019 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** (17.4%): 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** (69.8%): 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:

Stanley Black & Decker has significant upside potential, backed by growing exposure in emerging markets, cost-saving actions, solid product line and sound capital-allocation strategies.

▲ In the past year, Stanley Black & Decker's shares have gained 28.2% compared with the industry's growth of 23.7%. In third-quarter 2019, it recorded a positive earnings surprise of 5.4%. On a year-over-year basis, the bottom line improved 2.4%, driven by healthy sales performance and solid operational performance. Revenues improved on growth in Tools & Storage and Industrial segments. For 2019, the company anticipates gaining from strengthening foothold in emerging markets, favorable e-commerce trend and efforts to innovate products as well as growing recognition for Craftsman, Lenox, Irwin and DeWalt FlexVolt products. Also, new pricing and multi-year initiatives, aimed at margin expansion, will be beneficial. Further, the company introduced a new cost-reduction program, which will likely yield $200 million in cost savings annually. It believes that transformational activities and efforts to develop electronic security solutions will aid the Security segment. For the fourth quarter, the Security segment’s organic sales and margins are likely to grow.

▲ 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. Since acquired in March 2017, Newell Tools has been strengthening Stanley Black & Decker's tools business, with its two prime tool brands — Irwin and Lenox. Conversely, the Craftsman acquisition (in March 2017) fortified Stanley Black & Decker's existing global tools and storage brands. It also has been building growth opportunities in the lawn and garden end markets. Notably, the company anticipates generating $1 billion in sales from Craftsman products by 2021. Stanley Black & Decker acquired the industrial business of Nelson Fastener Systems in April 2018, strengthening the Engineered Fastening business. Further, the acquisition of 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). Notably, acquired assets contributed roughly 3% to sales growth in the third quarter of 2019.

▲ Stanley Black & Decker is committed to rewarding shareholders through dividend payments and share buybacks. In the third quarter of 2019, the company paid out cash dividends of approximately $102.3 million and repurchased shares worth $2.7 million. It is worth noting here that during 2018, it executed a capped-call transaction and secured the option to purchase roughly 3.2 million shares by March 2021, while it hiked the quarterly dividend rate by roughly 4.5% on Jul 17, 2019. In the years ahead, it wishes to follow the 50/50 capital-allocation strategy of acquisitions and rewarding shareholders. The dividend payout is predicted to be 30-35% in the long run.

▲ Stanley Black & Decker anticipates witnessing 10-12% (CAGR) growth in total revenues by 2022. This projection includes organic sales growth of 4-6%. Earnings per share are predicted to grow 10-12% or roughly 7-9% (excluding acquisitions). Cash flow return on investments will be 12-15% while free cash flow will be greater than or equal to net income. The company believes that its multi-year initiatives aimed at margin expansion will yield $300-$500 million savings in the next three years.

Reasons To Sell:

- On a P/E (TTM) basis, Stanley Black & Decker's shares look a bit overvalued compared with the industry. The stock's current P/E is 19.87x, higher than the industry's current multiple of 19.33x. Also, the company's current multiple is above the industry's highest multiple of 19.33x in the past year. For 2019, Stanley Black & Decker predicts organic sales growth of 3.5-4%, lower than 4% mentioned earlier due to global factors weakening emerging and industrial markets. Also, earnings guidance has been lowered to $8.35-$8.45 per share from the previously stated $8.50-$8.70 mainly due to the charges associated with the new cost-reduction program. We believe that weak projections created bearish sentiments for the stock. In the past 60 days, Stanley Black & Decker's earnings estimates have been lowered by 0.2% to $8.39 for 2019 and 0.6% to $8.98 for 2020. This makes us cautious about the stock.

Risks arising from unfavorable movements in foreign currencies, increasing costs and expenses, huge debt level, and weak Industrial segment are likely to hurt Stanley Black & Decker's results.

- Stanley Black & Decker is currently dealing with adverse impacts of rising cost of sales. In the third quarter of 2019, its cost of sales grew 6% year over year primarily due to tariffs and unfavorable impacts of foreign-currency movements. Gross margin was down 120 bps year over year. We believe, if unchecked, rising costs and expenses can hurt its margins in the quarters ahead. Moreover, the geographically diversified business of the company exposed it to risks arising from adverse movements in foreign currencies and geopolitical issues. In the third quarter of 2019, forex woes adversely impacted sales growth by 2%. For 2019, the company predicts that adverse impacts of tariffs, foreign currency woes and commodity inflation will affect results by $445 million, higher than the previously mentioned $390 million.

- 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 degradation in investment grade ratings. Exiting the third quarter of 2019, it had a long-term debt balance of $3,908.8 million. Its interest expenses (net) rose 11.8% year over year in the third quarter.

- 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. For 2019, organic sales for the Industrial segment are predicted to decline in a low-single digit on a year-over-year basis due to weakness in automotive and general industrial markets. Also, the segment's margin is estimated to be down year over year due to external headwinds and lower volume.

Last Earnings Report

Stanley Black Beats on Q3 Earnings, Lowers '19 View

Quarter Ending	09/2019
Report Date	Oct 24, 2019
Sales Surprise	-0.21%
EPS Surprise	5.45%
Quarterly EPS	2.13
Annual EPS (TTM)	8.32

Stanley Black reported better-than-expected results for the third quarter of 2019, with earnings surpassing estimates by 5.4%.

Earnings, excluding acquisition-related charges and other one-time impacts, were $2.13 per share, surpassing the Zacks Consensus Estimate of $2.02. Also, earnings grew 2.4% from the year-ago quarter's $2.08 per share, driven by robust sales and operational performances (negating the adverse impact of $90 million of external headwinds).

Tools & Storage and Industrial Segments Drive Revenues

In the quarter under review, the company's net sales were $3,633.1 million, reflecting 4% year-over-year growth. The improvement was primarily driven by 3% rise in volume, 1% impact of positive price and 3% gain from acquired assets. These were partially offset by 2% adverse impact of unfavorable movements in foreign currencies and divestiture of 1%.

However, the top line lagged the Zacks Consensus Estimate of $3,641 million by 0.2%.

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

Tools & Storage's revenues totaled $2,534 million, representing 69.8% of net revenues in the quarter under review. On a year-over-year basis, the segment's revenues grew 3.5% on 4% gain from volume growth and 1% from favorable pricing, partially offset by 1% adverse impact of currency movements.

The Industrial segment generated revenues of $632.7 million, accounting for roughly 17.4% of net revenues in the reported quarter. Sales grew 12.6% year over year, primarily driven by 16% gain from the buyout of IES Attachments, partially offset by 1% negative impact of foreign-currency woes and 2% from volume decline.

The Security segment's revenues, representing roughly 12.8% of net revenues, declined 3.8% year over year to $466.4 million. Gain of 2% from favorable pricing actions was more than offset by 3% adverse impact of foreign-currency woes, 1% volume decline and 2% adverse impact of the Sargent & Greenleaf divestiture.

Forex Woes & Tariffs Hurt Gross Margin

In the reported quarter, Stanley Black's cost of sales rose 6% year over year to $2,388.3 million. It represented 65.7% of the quarter's net sales versus 64.5% in the year-ago quarter. Gross margin slipped 120 basis points (bps) to 34.3% as impact of adverse currency and tariffs negated the positive impact of volume growth, favorable pricing and improved productivity.

Selling, general and administrative expenses declined 2.2% year over year to $718.8 million. It represented 19.8% of net sales in the reported quarter versus 21% in the year-ago quarter. Operating profits grew 3.9% year over year to $526 million while margin remained flat at 14.5%.

Adjusted tax rate in the reported quarter was 21.5% compared with the year-ago quarter figure of 19.5%.

Balance Sheet & Cash Flow

Exiting the third quarter of 2019, Stanley Black had cash and cash equivalents of $311.7 million, up 0.3% from $310.7 million recorded in the last reported quarter. Long-term debt (net of current portions) was roughly stable sequentially at $3,908.8 million.

In the third quarter, the company generated net cash of $192.7 million from operating activities, 0.6% higher than $191.5 million generated in the year-ago quarter. Capital spending totaled $96.7 million versus $109.4 million in the year-ago quarter.

During the reported quarter, the company paid out cash dividends of approximately $102.3 million while spent $2.7 million for purchasing treasury stocks.

Outlook

In the quarters ahead, Stanley Black anticipates gaining from a growing recognition of its brands — Craftsman, Lenox, Irwin and DeWalt FlexVolt. Further, business expansion in emerging markets, innovation and favorable e-commerce trends will be beneficial.

The company anticipates gaining from the new pricing and cost-reduction initiatives. Also, multi-year initiatives, aimed at margin expansion (three-year savings are predicted to be $300-$500 million), have been enhanced. Transformational activities as well as efforts to develop electronic security solutions will be beneficial for the Security segment. The company believes that the Security segment is poised for growth in organic sales and margins in the fourth quarter.

For 2019, the company lowered adjusted earnings projection to $8.35-$8.45 per share from the previously stated $8.50-$8.70 mainly due to the new cost-reduction program. Annual cost savings are predicted to be $200 million from the new program, while restructuring charges (pre-tax) are likely to amount to $150 million. The company believes that most of the restructuring charges will be incurred in 2019.

Organic growth will be 3.5-4% versus 4% mentioned earlier. Global factors weakened the outlook for emerging and industrial markets, and this in turn will modestly impact organic volume.

Tariff and forex woes will likely have an incremental headwind of $55 million. Lower tax rate, cost actions and margin resiliency actions will have positive impacts. Free cash flow conversion is predicted to be roughly 85-90%.

Recent News

Dividend

On **Dec 17, 2019,** Stanley Black & Decker paid out a quarterly cash dividend of 69 cents per share to shareholders of record as of Nov 29.

Stanley Black & Decker Prices 6.75-M Equity Units Offering

On **Nov 7, 2019**, Stanley Black & Decker announced the pricing of 6.75 million equity units offering. The company gave underwriters an option to purchase up to 750,000 equity units in excess of 6.75 million units offered. The option will help the company cover over-allotments.

It expects to receive $675 million in gross proceeds from the equity units offering. After payment of offering expenses as well as commissions and discounts to underwriters, the company can use the proceeds as well as available cash for the redemption of its 5.75% Junior Subordinated Debentures (to mature in 2052). Additionally, it may use the funds for purchasing common stock options from counterparties.

Valuation

Stanley Black & Decker's shares have moved up 28.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved up 23.7% and 17.4% over the past year.

The S&P 500 index has moved up 24.2% in the past year.

The stock is currently trading at 18.34x forward 12-month earnings, which compares to 18.19x for the Zacks sub-industry, 18.04x for the Zacks sector and 18.88x for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.94x and as low as 12.24x, with a 5-year median of 16.55x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $174 price target reflects 19.26x 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	18.34	18.19	18.04	18.88
	5-Year High	22.94	20.19	19.9	19.34
	5-Year Low	12.24	13.13	12.59	15.17
	5-Year Median	16.55	16.29	16.54	17.44
EV/EBITDA F12M	Current	11.75	9.46	17.8	12.66
	5-Year High	13.66	11.02	18.2	12.66
	5-Year Low	8.7	7.15	10.68	9.08
	5-Year Median	10.88	8.86	14.01	10.78
EV/Sales F12M	Current	1.97	1.6	3.14	3.26
	5-Year High	2.3	1.96	3.14	3.37
	5-Year Low	1.4	1.18	1.76	2.3
	5-Year Median	1.76	1.43	2.28	2.78

As of 01/13/2020

Industry Analysis **Zacks Industry Rank:** Top 43% (110 out of 254)

Top Peers

Actuant Corporation **(EPAC)**	Outperform
Allegion PLC **(ALLE)**	Neutral
Acuity Brands Inc **(AYI)**	Neutral
Hubbell Inc **(HUBB)**	Neutral
Johnson Controls International plc **(JCI)**	Neutral
Kennametal Inc. **(KMT)**	Neutral
Lincoln Electric Holdings, Inc. **(LECO)**	Neutral
Sandvik AB **(SDVKY)**	Neutral

Industry Comparison Industry: Manufacturing - Tools & Related Products

Industry Peers

	SWK Neutral	X Industry	S&P 500	ALLE Neutral	KMT Neutral	LECO Neutral
VGM Score	D	-	-	B	D	B
Market Cap	25.13 B	4.37 B	24.31 B	11.58 B	2.96 B	5.91 B
# of Analysts	10	6	13	3	5	7
Dividend Yield	1.67%	1.67%	1.76%	0.87%	2.24%	2.03%
Value Score	D	-	-	D	C	C
Cash/Price	0.01	0.08	0.04	0.02	0.04	0.03
EV/EBITDA	16.32	8.58	14.12	20.76	7.61	14.11
PEG Ratio	1.98	2.19	2.05	1.98	2.42	1.69
Price/Book (P/B)	3.34	3.34	3.34	16.85	2.22	7.27
Price/Cash Flow (P/CF)	14.33	14.33	13.66	22.94	8.10	16.03
P/E (F1)	18.59	19.02	18.82	23.32	20.15	19.02
Price/Sales (P/S)	1.75	1.58	2.64	4.08	1.29	1.96
Earnings Yield	5.43%	5.26%	5.29%	4.28%	4.97%	5.26%
Debt/Equity	0.52	0.45	0.72	2.08	0.47	0.88
Cash Flow ($/share)	11.53	3.14	6.94	5.43	4.42	6.04
Growth Score	D	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	9.55%	9.55%	10.56%	14.60%	14.99%	7.53%
Proj. EPS Growth (F1/F0)	7.01%	7.01%	7.49%	9.53%	-41.19%	8.40%
Curr. Cash Flow Growth	9.16%	10.92%	14.83%	15.57%	10.92%	21.25%
Hist. Cash Flow Growth (3-5 yrs)	7.27%	6.20%	9.00%	5.85%	2.02%	0.36%
Current Ratio	0.98	2.71	1.23	1.90	2.54	1.89
Debt/Capital	32.10%	30.87%	42.99%	67.50%	31.78%	46.73%
Net Margin	4.80%	7.48%	11.08%	16.00%	8.31%	10.50%
Return on Equity	17.10%	14.13%	17.16%	69.28%	15.40%	36.00%
Sales/Assets	0.69	0.84	0.55	1.00	0.89	1.27
Proj. Sales Growth (F1/F0)	3.39%	0.00%	4.23%	3.82%	-7.71%	1.03%
Momentum Score	D	-	-	B	D	D
Daily Price Chg	-0.42%	0.58%	0.73%	0.99%	1.25%	0.16%
1 Week Price Chg	-0.67%	-1.40%	0.39%	-0.33%	-3.15%	-0.67%
4 Week Price Chg	0.76%	-0.54%	1.84%	2.46%	-5.19%	0.85%
12 Week Price Chg	9.62%	9.62%	6.48%	18.68%	20.07%	11.10%
52 Week Price Chg	26.29%	19.18%	23.15%	52.44%	1.22%	19.18%
20 Day Average Volume	917,054	27,264	1,578,594	475,413	655,197	254,891
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.53%
(F1) EPS Est 12 week change	-3.77%	-3.77%	-0.48%	0.99%	-37.91%	-7.00%
(Q1) EPS Est Mthly Chg	-0.13%	-0.40%	0.00%	0.00%	0.00%	-0.67%

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	D
Momentum Score	D
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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