04-Nov-2026

Stanley Black & Decker, Inc. (SWK)

Q3 2026 Earnings Call

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CORPORATE PARTICIPANTS

Michael Wherley
Vice President-Investor Relations, Stanley Black & Decker, Inc.

Christopher J. Nelson
President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.

Patrick D. Hallinan
Executive Vice President, Chief Financial Officer & Chief Administrative Officer, Stanley Black & Decker, Inc.

OTHER PARTICIPANTS

Nigel Coe
Analyst, Wolfe Research LLC

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Jonathan Matuszewski
Analyst, Jefferies LLC

David S. MacGregor
Analyst, Longbow Research LLC

Sam Reid
Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Stanley Black & Decker third quarter earnings call. My name is Shannon, and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Following the company's prepared remarks, we will conduct a Q&A session. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the call over to the Vice President of Investor Relations, Michael Wherley. Mr. Wherley, you may begin.

Michael Wherley

Vice President-Investor Relations, Stanley Black & Decker, Inc.

Good morning, everyone, and thanks for joining us for our third quarter earnings call. With us today are Chris Nelson, President and CEO; and Patrick Hallinan, Executive Vice President, CFO and Chief Administrative officer.

This morning's earnings release and the supplemental presentation, which we will refer to, are available on the IR section of our website. A replay of today's webcast will also be available at approximately 11:00 AM Eastern Time.

Chris and Pat will review our third quarter results, along with our updated outlook for 2026, followed by a Q&A session. During today's call we will be making some forward-looking statements based on our current views. Such statements are based on assumptions of future events that may not prove to be accurate, and as such, they

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involve risk and uncertainty. It's therefore possible that actual results may differ materially from any forward-looking statements that we might make today.

We direct you to the cautionary statements in the 8-K that we filed with our press release and in our most recent 1934 Act filings. Additionally, we will also discuss non-GAAP financial measures during the call. For applicable reconciliations to the related GAAP financial measures and additional information, please refer to the appendices in today's earnings release and supplemental presentation.

I'll now turn the call over to our President and CEO, Chris Nelson.

Christopher J. Nelson

President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.

Thank you, Michael, and thank you all for joining us today. Stanley Black & Decker delivered a strong third quarter, with 4% organic growth, 39.4% adjusted gross margin, and strong cash generation.

Overall, the quarter reflects solid execution across the company. From a strategic standpoint, we continue to see encouraging brand and industrial momentum. Our three core brands each delivered organic growth, reflecting the benefits of our focused investments in brand activation, innovation, and commercial execution. These results give us further confidence that our strategy is resonating in the marketplace and positioning the company for sustainable value creation.

During the quarter, we also received a meaningful amount of IEEPA tariff refunds, and we have now received the vast majority of what we have applied for. Those refunds, net of the related costs and investments, are reflected in our results and updated guidance that we will share with you today.

It is important to note that even excluding the net benefit of tariff refunds, adjusted gross margin performance for the third quarter was strong, and at the high end of our second half guidance range. Adjusted EBITDA of 16.3% was up 400 basis points year-over-year. Adjusted earnings per share was $2.31, which was $0.76 above the midpoint of our guidance range.

The tariff refund effect, net of all related costs and reinvestments, contributed $0.67 to the third quarter earnings per share. We also realized some benefit from the lower share count due to buybacks in the quarter, as well as lower net interest expense.

Regarding capital allocation, we repurchased more than 2.5 million shares for about $250 million in the quarter, fully utilizing the $500 million authorization that was approved by the Board of Directors in April. Given the third quarter performance, continued strength in execution, and the confidence we have in the business for the balance of the year, we are raising and tightening our full-year EPS guidance.

Pat will unpack the results and underlying guidance assumptions when he takes you through the financials in more detail. In addition to our operating performance, we also took two important actions over the past two months to strengthen our portfolio and capital allocation flexibility.

In September, we announced a definitive agreement to sell Excel, the Hustler-branded large-format mower business, which is expected to further streamline our portfolio and allow us to focus resources on the areas and brands where we see the best opportunities to grow and create value. Excel will remain in our results until the deal closes, which we expect around year-end.

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Also, after the third quarter ended and at their meeting last week, the Board of Directors approved a new $1 billion share repurchase authorization. This new authorization extends our flexibility to return capital to shareholders in a thoughtful, disciplined way while continuing to invest in the business and advance our strategic priorities.

Together, these actions underscore our confidence in the outlook for the business and our commitment to balance shareholder-focused capital allocation. With that context, let me briefly review how the quarter played out across our segments.

In Tools & Outdoor, third quarter revenue was approximately $3.3 billion, up 2% year-over-year. Organic revenue was up 4%, led by 7% volume growth, which was partially offset by 3 points of price. Total revenue growth was also impacted by 2 points related to the impact of the previously announced strategic transition to a licensing model for the gas walk-behind outdoor products. Currency was flat.

We were encouraged by another quarter of organic growth for our priority brands: DEWALT, STANLEY, and CRAFTSMAN, which are contributing to more sustainable above-market growth across the portfolio. The volume strength was led by power tools, which saw continued momentum in both the US retail channel and the commercial and industrial channel.

We delivered another quarter of well-executed demand generation and market activation in US retail. We maintained the promotional plan set in place for the third quarter, and the plan was well received, supporting strong revenue performance in the channel that was up mid-single digits. Within the US commercial and industrial channel, demand was even stronger than last quarter, with revenue up by a mid-teens percentage year-over-year. That performance reflects continued professional demand as well as the benefits of our targeted growth investments, including expanding our field presence to support end users on the job site and serve customers more directly across the channel.

Tools & Outdoor third quarter adjusted segment margin was 17.6%, which was up 560 basis points year-over-year. Net tariff refunds contributed approximately 430 basis points, with the balance driven by net productivity gains and favorable product mix.

Now for additional details on the third quarter top line performance by product line. Power tools organic revenue increased by 10%, and hand tools, accessories, and storage organic revenue increased by 2%, which were both driven by strong market activation and global priority brand performance.

Outdoor organic revenue declined 12% as the season continued to be pressured by weather in the US and ANZ, which remained a headwind for the quarter. From a regional perspective, North America organic revenue increased 6%, supported by strong mid-single-digit growth in retail and continued sequential improvement in commercial and industrial. North America point of sale in aggregate was slightly ahead of reported home improvement consumer credit card data.

In Europe, organic revenue increased 1%, with continued strength in Eastern Europe and Iberia, regions where we've strategically invested in sales resources to fortify our presence across channels. Growth in Europe was weighed down by a more challenged macro backdrop in France. Across the rest of the world, organic revenue declined 1%, driven by modestly softer performance in Latin America.

Overall, we remain encouraged by the progress in Tools & Outdoor. The quarter reflected strong volumes, continued momentum in our core brands, and improving underlying profitability, reinforcing our confidence that our targeted investments are helping to position the business for more durable, profitable growth over time.

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Turning to Engineered Fastening, revenue was down 21% year-over-year, primarily due to the aerospace fasteners divestiture completed earlier this year. On an organic basis, revenue increased 2%, driven by broad-based strength in our industrial business, which more than compensated for a soft automotive market.

Adjusted segment profit margin was 11.7%, down 110 basis points year-over-year, largely driven by automotive demand pressure. This segment was not affected by tariff refunds for the quarter. In automotive, organic revenue declined 2% as OEM customers became more cautious on launches, production schedules and capital deployment.

In industrial, organic revenue increased by 10%, supported by project-driven wins, customer momentum and solid commercial execution. Overall, industrial demand remained solid and our higher-growth industrial verticals continue to perform well, helping offset the more challenging automotive backdrop. The progress we are making in both segments reflects the efforts of our teams around the world who are executing with discipline in a dynamic environment.

Our strategic priorities are delivering results and we remain confident in both the direction of the company and our ability to create long-term shareholder value. Having become a focused, brand-led organization, there are several dimensions to the work that we have been doing to fundamentally evolve how we operate.

We have invested more to support our channel partners, to serve end user categories where we see the greatest opportunity to activate each of our brands, deepen market penetration and generate attractive returns. We have focused our innovation process to methodically embed the platforming approach with the aim of accelerating innovation to solve end user challenges and we have strengthened our brand positioning to be present at the critical points along the end users' path to purchase.

We have done this by strategically positioning our brands in the market, thoughtfully supporting our brands in global channels and serving end users with innovative solutions. While each brand serves a distinct end user type, our approach to activating our brands is consistent. One, lean further into digital marketing, building brand campaigns that resonate with each brand's target audience. Two, use social media and influencer ecosystems to extend reach, relevance and engagement. And three, and most importantly, pair this brand building and amplification with innovation, channel support and in-field end user engagement. Combining these things ensures the brand promise is well supported and translates the end user engagement into higher demand and organic growth.

Ultimately, we are investing to drive durable organic growth across our priority brands. The positive organic growth we generated across DEWALT, STANLEY and CRAFTSMAN over the last two quarters is early evidence that these targeted investments are gaining traction and translating into results.

Starting with DEWALT, our focus is on deepening our connection with the professional end user. We are seeing strong penetration of new products that support our end-to-end workflow solutions across the trades, including products that deliver full-size 20-volt power in a compact profile that allows users to transition from pneumatic to cordless, along with a major expansion of cordless carpentry tools built with industry-leading features to support the toughest job sites.

One lever we are using to amplify DEWALT end user engagement is our global No Quit campaign. The message behind this digital marketing effort is simple, DEWALT is one with the mindset of the professional, resilient,

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productivity-oriented and committed to getting the job done right. We are bringing that to life through digital storytelling and direct job site relevance.

On the back of that campaign, we are scaling brand activation around the pro user and leveraging industry influencers and targeted digital channels to meet professionals where they work, learn, discover, and make purchase decisions. DEWALT delivered organic growth across all regions, with notably strong performance that outpaced the broader business and underscored the brand's momentum across markets and channels. For us, that is a strong signal that our pro-focused brand investments are resonating and we are continuing to deploy resources to build on this progress.

Moving next to STANLEY. This is an iconic, trusted brand with deep heritage, and our work is focused on modernizing the STANLEY brand message, refreshing and sharpening the product story and creating clear reasons to choose STANLEY. This includes enhancing how the brand shows up both in-store and online, and improving the clarity and consistency of the message. We are refreshing our offerings across tool categories, and have completed two of eight waves of our product refresh initiative, with wave three currently underway. We have also made targeted investments to add dedicated STANLEY resources in the field to better serve our customers.

We are seeing clear evidence that these investments are working, and we are continuing to invest behind that momentum. STANLEY generated positive organic growth in each of the past two quarters. This progress reflects the combined impact of brand revitalization, product refresh, and stronger commercial execution.

Shifting to CRAFTSMAN, we are laser focused on the DIYers in North America, and we are meeting them throughout all parts of the DIY journey, from planning and researching to navigating through the project to successful completion. We are supporting that with stronger digital storytelling, social engagement, and product-focused activation that helps consumers understand the value proposition of CRAFTSMAN. Our ADVANCED V20 battery that launched earlier this year is quickly penetrating the market and supporting strong adoption across the breadth of the product ecosystem.

New tool introductions and product refreshes across categories have been notable this year. In fact, we are launching the most new products this year since we first acquired the brand, and they have meaningfully contributed to organic growth over the past few quarters and are supportive of our expectations for the balance of the year.

Consistent with our approach to DEWALT and STANLEY, our influencer partnerships and brand collaborations are helping end users connect with the CRAFTSMAN brand. We are seeing record engagement for the brand, with performance exceeding industry averages across channels, and our strategic retail partnerships continue to play an important role in building momentum. Our strong brand activation and new product introductions are beginning to translate into results.

Taken together, these brand building and activation efforts are not standalone initiatives. They are part of our strategic imperatives in the broader operating framework we have been building to drive more consistent, profitable growth. Combined with innovation and the continued expansion of our field presence to better support end users on the job site and serve customers across our global channels, we are seeing early indicators that our investments are resonating in the market. I will now pass the call to Pat to provide more detail on performance in the quarter, outline our 2026 guidance, and share progress on a few key performance metrics.

Patrick D. Hallinan

Executive Vice President, Chief Financial Officer & Chief Administrative Officer, Stanley Black & Decker, Inc.

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Thank you, Chris, and good morning to everyone joining us today. I will start by providing a bit more detail on our adjusted EPS and adjusted gross margin outperformance in the third quarter, and then turn to guidance.

As Chris noted, third quarter adjusted EPS was $2.31, exceeding the midpoint of our July guidance range by $0.76. Above the line operating performance was largely in line with our expectations, with the outperformance primarily driven by the net tariff refund benefit, plus contributions from lower share account and lower net interest expense.

The net tariff impact in the quarter contributed approximately $0.67 of the outperformance. This net benefit reflects the tariff refunds we received during the third quarter, partially offset by targeted growth investments, higher incentive compensation, and taxes associated with those refunds. Importantly, a portion of the growth investments we already contemplated in our prior guidance, as they were related to tariff refunds received during the second quarter.

We continue to take a disciplined and returns-based approach to reinvesting a meaningful portion of these tariff refunds in brand health to support sustainable and profitable organic growth over the long term. Share repurchases in the quarter contributed approximately $0.02 to our EPS, and below the line items added another $0.02, predominantly due to lower-than-expected net interest expense, helped by the strong operating cash flow throughout the quarter. Adjusted gross margin was 39.4% in the quarter, which included approximately 430 basis points of net tariff benefit.

We note this was above the 35% threshold, with or without the benefit of net tariff refunds. Importantly, net productivity gains and favorable product mix were the leading factors driving the remaining 350 basis points of year-over-year improvement. This achievement reflects the structural progress we have made over the past year, as well as the favorable product mix in the quarter.

Now, let me walk you through some of the key underlying assumptions embedded in our updated 2026 guidance. First, the temporary period of lower tariffs, which began in late February, has persisted and is still largely offsetting the increasing inflation in our 2026 forecast. We continue to expect overall tariff rates to increase to the former IEEPA tariff levels. However, we assume this occurs very late in the year, having no material impact on our 2026 earnings.

Inflationary headwinds have grown over the past three months, particularly for steel and electrical components. Whether or not tariff levels rise to the former IEEPA levels, we will have meaningful inflation to address in 2027. We plan to do so with productivity measures and pricing actions, with a price increase likely around the turn of the year.

Second, our 2026 adjusted EPS guidance includes a net impact of $0.60 resulting from tariff refunds. This includes the gross refunds received during the second and third quarters, along with the partially offsetting cost and taxes associated across the balance of the year.

Moving on to our 2026 guidance metrics. From an operational perspective, excluding the tariff refunds, our outlook for this year remains consistent with our prior expectations. However, we are raising and tightening our adjusted earnings per share forecast to be in the range of $5.95 to $6.25. The midpoint is $0.60 higher than the midpoint of our prior adjusted guidance range, and it represents 31% year-over-year growth. $0.55 of the guidance increase reflects the incremental net tariff refunds we received in the third quarter, including the partial offsets from related costs and taxes.

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A meaningful portion of the offsets related to the refunds already received are landing in the fourth quarter. The remaining $0.05 of our increased guidance reflects the reduced average share count, as well as the below the line items, including lower net interest expense. Share repurchases completed in the third quarter are driving a reduction in weighted average shares to 150 million for the full year 2026, versus our prior estimate of 151 million.

As a reminder, this updated EPS guidance does not contemplate any potential fourth quarter tariff refunds because the timing and amounts remain too uncertain to include. Further, we have received most of the IEEPA tariff refunds for which the government has provided a refund pathway. Our revenue outlook is consistent with our prior guidance framework. Total company revenue will be about flat compared to last year, and organic revenue is still expected to grow by a low-single-digit percentage year-over-year, driven by solid volume growth and roughly flat pricing for the full year. This outlook reflects our continued focus on pivoting to growth and our confidence in seizing the share opportunities across our key markets.

Moving to gross margin expectations. We anticipate full-year gross margins will expand by approximately 350 basis points year-over-year, inclusive of approximately 150 basis points from the net tariff refund benefit. The remainder of the gross margin expansion is primarily driven by underlying operational business improvements. We continue to have conviction in achieving 34% to 35% adjusted gross margin in the fourth quarter, and I will talk more about that on the next slide.

We now expect full-year SG&A as a percentage of sales to be around 23.5% to 24%, which includes about 80 basis points of incremental costs related to the tariff refunds received, including growth investments. Keep in mind, this allocation of refund dollars to growth investments will further advance our robust innovation pipeline and fuel market activation, with the goal of enhancing brand health and accelerating organic growth.

We will continue to manage SG&A thoughtfully, allocating capital to strategic investments to drive sustainable growth and position the business for long-term value creation. These tariff refunds have clearly given us the rare opportunity to ramp up and pull forward certain growth investments into 2026.

Our initial view on 2027 is that we can manage our SG&A levels back down to approximately 23% of sales, as some exceptional items from this year roll off. Coming back to 2026, we are increasing our forecast for free cash flow by $400 million at the midpoint. We now expect to be in the range of $1 billion to $1.2 billion. This increased guidance incorporates both the stronger free cash flow generation we have seen year-to-date, as well as the tariff refunds received in the third quarter.

Our free cash flow performance is supported by a disciplined approach to working capital management in light of our ongoing tariff mitigation, footprint optimization initiatives, and inflationary trends.

Looking at our segments now, Tools & Outdoor is still expected to deliver low-single-digit organic growth in 2026, led by market share gains in what we anticipate will be roughly a flat to down market. We expect fourth quarter organic revenue to be up between 3% to 4%, fueled by the continuation of our strong and effective brand activation initiatives. On a full-year basis, adjusted segment margin is expected to improve year-over-year, driven primarily by productivity gains and tariff refunds.

Engineered Fastening is now expected to grow by a low-single-digit percentage organically, due primarily to the recent deterioration of the auto market. The industrial portion of this business is expected to remain more resilient. Adjusted segment margin is now expected to be flat year-over-year due to increasing material inflation and auto volume softness. While we expect auto to continue to be soft during 4Q, we are working to manage this without it impacting overall company earnings.

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Turning to other 2026 assumptions. Our pre-tax non-GAAP adjustments are expected to be in the range of zero to $20 million, which consists primarily of charges related to footprint actions, partially offset by the second quarter CAM gain. The approximate $0.40 to $0.50 difference between our GAAP EPS and adjusted EPS ranges is explained by these adjustments as well as the related tax impact on the CAM gain.

Our full-year net interest expense is now expected to be about $250 million, which is improved from lower debt levels and strong free cash flow performance year-to-date. We still expect other net expenses to be around $230 million. We now expect the adjusted tax rate to be 20% for the full year, up from 19% in our prior guidance, reflecting a higher portion of our net earnings in the US due to the tariff refunds.

Now, for the balance of the year. Our views on fourth quarter underlying operational performance have not changed materially since July. We anticipate net sales to be around $3.6 billion, flat overall due to the CAM divestiture and transition of gas walk-behind mowers to a licensing model. On an organic basis, we expect sales to be up by 2% to 4% for the total company.

Adjusted earnings per share are expected to be approximately $1.45, which includes roughly $0.25 worth of incremental costs and taxes directly related to the tariff refunds received already.

Our adjusted EPS for the quarter assumes a planned tax rate of approximately 17% and a share count of about 148 million.

Turning to slide 8. Our path forward on margin expansion and capital deployment remains consistent with that outlined in July. As we look to the fourth quarter, we continue to have conviction in adjusted gross margin reaching the 34% to 35% range, consistent with our operational expectations. The improvement is expected to be driven by productivity and tariff mitigation initiatives.

Our third quarter adjusted gross margin performance, even excluding the net tariff refund benefit, reinforces our confidence in our ability to continue driving year-over-year profitability gains in future periods. We continue to target long-term adjusted gross margins above 35%, towards 37%.

Free cash flow outperformed in the third quarter and it is approximately $836 million year-to-date, which included positive contributions from both operational cash flows as well as tariff refunds in the quarter.

On capital deployment, we executed $250 million of share repurchases during the third quarter, completing our prior authorization of $500 million. This reflects our continued commitment to thoughtful capital deployment, including returning capital to shareholders. The board's new authorization of $1 billion reinforces our focus on proactive, thoughtful capital allocation.

We remain on track for net debt to adjusted EBITDA to be at or around 2.5 times at year-end. We remain committed to disciplined capital allocation and accelerating value creation for shareholders, including funding organic growth, returning capital to shareholders efficiently and considering bolt-on M&A when appropriate. All the while, we plan to maintain an investment grade credit rating.

The pending sale of Excel that Chris mentioned is also an example of how we are continuing to prune our portfolio to focus on the core assets we believe can drive sustainable and profitable growth.

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With our sharpened portfolio, disciplined cost and capital allocation and a relentless focus on our customers, we have the foundation in place to respond to market dynamics, deliver growth and create long-term value for our shareholders.

Thank you. I will now turn the call back to Chris.

Christopher J. Nelson

President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.

Thank you. Pat. Before we open the call for questions, I want to thank our teams around the world for their relentless focus and disciplined execution in what continues to be a dynamic economic environment.

We remain firmly focused on the actions within our control, driving operational excellence, accelerating innovation through our platforming approach and investing behind our brands so we can better serve end users, strengthen demand and improve the long-term earnings power of the company. That mindset is central to how we operate, with discipline, urgency and a clear focus on advancing our self-help journey.

With the progress we are making, the strength of our team and the clear conviction of our board, we are confident in our strategy, optimistic about the opportunities ahead, and believe Stanley Black & Decker is increasingly well positioned to deliver stronger long-term shareholder value.

We are now ready for Q&A, Michael.

Michael Wherley

Vice President-Investor Relations, Stanley Black & Decker, Inc.

Thanks, Chris. Operator, we can now start the Q&A.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will now compile the Q&A roster. Our first question comes from the line of Nigel Coe with Wolfe Research. Your line is now open.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Oh, thanks. Good morning. Hope everyone's well. Thanks for the question. Maybe just talk about the 3% negative price in Tools & Outdoor. Obviously, good underlying margins. Good gross margins. Just want to understand how the tariff refunds are playing into the commercial activity. And then, kind of the degree of confidence in kind of achieving price inflation in 2027 to offset what looks to be a very inflationary environment.

Christopher J. Nelson
President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.

A

Hey, Nigel. It's Chris. Great hearing from you. Thanks for the question. As it pertains to your first part of the question, which is the pricing in Q3, what I'd say is we're absolutely on plan where we want to be. Our list prices are where we put them as we raised price as a result of the tariffs coming out of last year.

And if you recall, in Q4 and Q1 we talked about resetting our promotional calendar and approach to be more targeted to driving higher margin opportunities and readjusting as we came out of that very disruptive cycle.

We have not changed that plan one bit coming out of Q1. And actually, we're executing right on the plan. What has happened is that we've had tremendous success with the plan. And you can see that showing up in the volume for power tools as well as the accretive margins and the margin expansion and levels being at the higher end of our range.

So we feel very good where we are on price. I think the next thing is, as we head into 2027, what my comment there would be is that our commitment and our role in leading this organization is that we have to continue to expand margins in any environment. It's vital to our journey in order to be able to support our end users with increasing levels of innovation in each of our core brands.

And as such, we've continued along all of the productivity along the way that helps offset some of that inflation. But as we go into next year, clearly some of the inflation we're seeing in areas such as metals and resins affect everyone and are kind of immune to some of the productivity measures that we can normally take. And we will be looking to supplement our productivity with price as we come out of the year.

I feel like the areas that we are going to be taking price are common across the industry, and therefore I think it's going to be that type of environment. That being said, I think that over the past number of quarters and months, we have learned a lot as we've gone through these pricing exercises. And we're going to be very thoughtful in working with our channel partners in order to make sure that we're putting the price in the areas most affected, as well as in the categories and SKUs that we understand have the greatest level of differentiation and favorable elasticity.

So we feel well positioned. And it's something that we've been spending a lot of time over the past number of months getting prepared for as we exit the year.

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Nigel Coe
Analyst, Wolfe Research LLC

Q

That's great. That's a great answer. And then just quick one on the portfolio actions. With the move the moves you made in the outdoor tools group, the licensing model for the walk-behinds, the sale of Excel, where do we stand right now on potential portfolio actions going forward?

Christopher J. Nelson
President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.

A

Yeah, I'd say that we're kind of at the – we're at the end of the major transformational cycle that we were in. And certainly there could be pruning opportunities, but they'd be more around the edges, with particular product lines or categories, if anything. But there's nothing on the docket as we see it right now. But we'll continue to challenge ourselves because our job is to make sure that we are allocating our resources and concentrating our efforts in the areas that we see the highest growth potential going forward, not only from a brand, but a category perspective.

And as it pertains to our outdoor business, we really like that business. And we feel that this latest evolution allows us the appropriate level of representation in that end market with great brands. We like the Cub Cadet brand, and we feel that our presence in the market as it relates to large format ride-on mowers is well represented. And we like that brand and we like the innovation that it brings with it.

And then with what we were doing on handheld, particularly with the DEWALT and CRAFTSMAN brands, we feel like we're well positioned and well – our portfolio in outdoor is well constructed at this point.

Operator: Thank you. Our next question comes from the line of Tim Wojs with Baird. Your line is now open.

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Hey, everybody. Good morning. Thanks for the time. Maybe just a first question. Pat, just on the margins in the fourth quarter, I think just doing some kind of quick back-of-the-envelope math, I think that the midpoint implies about mid 12% type margins in Tools & Outdoor for the quarter, which I think steps down a little bit sequentially on an underlying basis. Can you just kind of walk through kind of the moving pieces around the investments? And then I have a follow-up.

Patrick D. Hallinan
Executive Vice President, Chief Financial Officer & Chief Administrative Officer, Stanley Black & Decker, Inc.

A

Yeah. I mean, I would attribute that all to the increased investment in the quarter. There's kind of nothing else going on because we look at the gross margin we're expecting for the full enterprise and for T&O, it's very consistent with our outlook all year long, if not a little bit higher, I think, for the full year.

We had guided at 32 and a fraction for the full year gross margin. We'll probably be on the high side of that guide. So our gross margin performance in the year absent tariff refunds is very consistent with our plan and our guidance throughout the year. And, as we mentioned in the prepared remarks, we are going to be investing about $0.25 worth, predominantly flowing through SG&A in the quarter in both personnel and brand building and marketing efforts in the quarter that are all associated with the tariff refund investments.

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Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And is that investment that you would have done in 2027 that you're pulling into 2026?

Patrick D. Hallinan
Executive Vice President, Chief Financial Officer & Chief Administrative Officer, Stanley Black & Decker, Inc.

A

Correct. I mean, I think when you look at investments that are isolated from tax or compensation effects, you're talking on the full year from tariffs somewhere in the $70 million to $80 million range. And that's very much kind of in the range of the investment we would have had for next year, for 2027.

We're typically adding somewhere in the $75 million to $100 million of SG&A investment. So in essence what tariffs have allowed us to do this year is pull that investment forward into this year. I would expect next year then, as we said in the prepared remarks, be managing SG&A as a percentage of sales back down towards 23%. So, largely carrying forward the investment we put into this year because we pulled it forward into this year.

And obviously our teams may adjust the mix of that investment next year depending on the results they're seeing or the priorities they have. But I would consider the tariffs had provided a pull forward of what would have been the 2027 investments.

Operator: Thank you. Our next question comes from the line of Jonathan Matuszewski with Jefferies. Your line is now open.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Oh great. Good morning, and thanks for the time. My first question was just with regards to kind of rooftops. Obviously organic growth is becoming more consistent across your key brands. So how does that inform your view around where we go today in terms of the factory footprint evolution? Any thoughts there would be helpful.

Christopher J. Nelson
President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.

A

Hey Jonathan, thanks for the question. This is Chris. Yes, we're encouraged by the early signs of success that we're seeing in our core brands from growth. But as I talked about coming into the year, as we have wrapped up the transformation and the cost efforts within the supply chain, really those efforts were largely around what we could accomplish from some very well executed strategic sourcing as well as some kind of manufacturing productivity from the early start of our lean journey as a company.

Where we have a lot of opportunity is as we look at our footprint across the globe from the number of facilities that we have as well as the capacity in which we're operating, we're absolutely going to continue on that journey of making sure that we're making the right moves to have the appropriate footprint as well as making sure that we get our capacity where we need it. I don't see anything in the – based on what we're looking at from a growth and mix perspective, that would take us off of that journey.

And I think it's going to be something that is going to help us to make sure that as we talked about, we continue to have the fuel to work to maintain and expand our margins to be able to invest in our brands and growth going forward. So, it's an important part of the equation.

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Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Helpful. And then, just a follow-up. You've hit on a couple of times now obviously 2026 being a record year in terms of new product launches for CRAFTSMAN. Can you talk about kind of what's enabling that? Whether it is kind of the platforming obviously? And related to that, is this a new base to anticipate in terms of kind of new product launches going forward that's been enabled by kind of changes within kind of the brand's organization? Thanks so much.

Christopher J. Nelson
President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.

A

Yes. It's a great question. I would say that first thing that's really driven a lot of what you're seeing, the activity in the CRAFTSMAN brand is focus. Not only a focus on the brand, that it's one of the core brands that we see as having great potential that we want to invest in and grow, but focus from the definition of what type of end user and what types of products we should be, then, as a result, developing. And then, we have that focus. Then, it goes into how are we going to make that happen and how are we going to make it happen quickly?

And we have been able to really leverage our platforming approach to drive speed in making sure that we are able to deliver those products that are the most relevant for that DIY North American end user in those categories at the right performance point and getting those out the door as we've really focused on building out our V20 platform as well. So, it's really – I'd say that it starts with focus. And then, the execution has been enabled by our platforming approach for speed.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of David MacGregor with Longbow Research. Your line is now open.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yes. Good morning, everyone. Thanks for taking my questions. Congratulations on all the progress. Great quarter. Just to go back to our original discussion at the beginning of Q&A around price/cost for 2027, is there any way to dimension the 2027 productivity opportunity? And is it possible to achieve a larger benefit in 2027 than what you were able to get here in 2026? Maybe just talk about some of the drivers.

Patrick D. Hallinan
Executive Vice President, Chief Financial Officer & Chief Administrative Officer, Stanley Black & Decker, Inc.

A

Yeah, David. I think for 2027, we're still going to be focused on being at or very close to 35% for the full year. And as you heard us kind of guide this year, we'll be in the 34 and a fraction. But 150 basis points of that is tariff refund benefit, which obviously does not persist.

So, a lot of next year's objective will be both driven by the inflation forces and by our continuous improvement, is to address inflation with some productivity and price, but then have further productivity benefits net us that roughly 150 basis points to 200 basis points of gross margin gain year-over-year. And that'll be our objective when we set out the plan. And the forces that will drive that will be a similar mix that has driven the last 24 months, continuous improvements in the plants, platforming, in product innovation, fixed cost reduction and sourcing activities. So I think all of those will continue to be key levers for next year to drive that net improvement in an inflationary environment.

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David S. MacGregor
Analyst, Longbow Research LLC

Q

Got it. Okay. Thanks for that. And then just a follow-up. Can you just talk about the progress you're making in the C&I channel? Some big numbers this quarter. And how do you see the long-term growth potential in that channel?

Christopher J. Nelson
President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.

A

Yeah. So, in the C&I channel, I think part of it is a reflection of the fact that that really underlies the strength of that end user. So, the professional end user and specifically the end user that is involved in large commercial construction and infrastructure projects, they're utilizing that channel. So, it is a strong and continues to be a robust segment to the business is kind of conversation I'd have there.

And then our success, which has been, we think, above market, is a reflection of the strength of our value proposition with the DEWALT brand. And if you rewind the clock back three years, we started with the DEWALT brand and how we were going to make our investments for growth there in the way we were developing our tools to make sure that we had more solutions for the trades from an end to end workflow perspective, as well as making sure that we were investing in our resources in the field to help activate those brands and work with our end users and channel partners in what we saw as a robust market that we saw would be strengthening as well.

So I think it's a combination of a very strong underlying market. And then our performance in the market and consistency in our approach in investing in that brand and in that channel that is coming together to drive some nice results. And we do see continued strength in that channel.

Operator: Thank you. And I'm currently showing no further questions at this time. I'd now like to hand the call back over to Michael Wherley for closing remarks.

Michael Wherley
Vice President-Investor Relations, Stanley Black & Decker, Inc.

A

I see one question that just popped up. Can you take the question from Sam, please?

Operator: Sure. Our next question comes from the line of Sam Reid with Wells Fargo. Your line is now open.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

Awesome. Thanks so much, everyone, for taking my question. It's great to hear the optimism around 2027, around perhaps price cost. I'm just curious though, just put a finer point on how much of that is potentially dependent upon peers taking price versus your own productivity initiatives. I know we've talked a little bit about this, but maybe a finer point on the competitive backdrop as it relates to pricing.

Patrick D. Hallinan
Executive Vice President, Chief Financial Officer & Chief Administrative Officer, Stanley Black & Decker, Inc.

A

Yeah, Sam. It's certainly a fair question. The factors driving inflation in our industry, a whole range of metals throughout the year, battery metals and tungsten. While they've moderated slightly, they're still very significantly inflated from where we started the year. And then of late, steel, which has been a challenge all year, is even more

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so, and electrical components and resins. And so these are factors that are industry wide in very I'd say like manner.

And so our expectation is, as was the case during the 2025 tariff events, we may end up being more on the leading edge of that. We are certainly going to be thoughtful because we want to be competing for share, and we want to be working constructively with our channel partners to compete for share. And we may be on the leading edge of it. But what we've seen is an industry that, over this period of heightened inflation, has priced that in. And we would expect those dynamics as we go forward.

Sam Reid
Analyst, Wells Fargo Securities LLC

Q

That's really helpful. And then maybe one more margin-ish question here. Obviously you made an announcement to sell Excel's Hustler. Just would be curious in terms of some preliminary views on how that potentially impacts 2027 margins. I believe it is a lower gross margin business, so presumably that will help you next year. But any finer points on that margin bridge would be great.

Patrick D. Hallinan
Executive Vice President, Chief Financial Officer & Chief Administrative Officer, Stanley Black & Decker, Inc.

A

Yeah, I mean that's like a super small, fractionally beneficial mix dynamic to next year. Hustler is about $400-ish million of – $800-ish million of -

Michael Wherley
Vice President-Investor Relations, Stanley Black & Decker, Inc.

A

300.

Patrick D. Hallinan
Executive Vice President, Chief Financial Officer & Chief Administrative Officer, Stanley Black & Decker, Inc.

A

$300-ish million of revenue. Sorry. Correcting me. So in the scheme of our $15 billion plus revenue, it ends up being a really small mixed dynamic overall in the year.

Michael Wherley
Vice President-Investor Relations, Stanley Black & Decker, Inc.

Okay. We'd like to thank everyone again for their time and participation on today's call. If you have any further questions, please reach out to the IR team directly. Have a good day.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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