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EDITED TRANSCRIPT

SWK.N - Stanley Black & Decker Inc at Wolfe Research Global Transportation & Industrials Conference (Virtual)

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PRESENTATION

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Thanks. So good morning, and thanks for joining us again for the Wolfe Global Industrials and Transportation Conference. We're going to kick it off with Stanley Black & Decker. And we've got Stanley here virtually with us. And I should be looking at the camera as well. I've got this natural tendency to look at the screen, but it should be the camera. So very pleased to welcome back to the Wolfe Conference President and CFO, Don Allan, and of course, Dennis Lange, Head of Investor Relations. So thanks for being with us, Don, as always. I think you going to open up with some slides, if I'm not mistaken, and then we can get into Q&A.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes, we'll try to spend less than 10 minutes on the slides, then we can go to Q&A.

Okay So if we move to the first slide, just as a reminder, everybody, we have had a fairly substantial portfolio transformation in the last 6 months with the sale of our 2 pieces of our security business. And now when you look at the company, we are heavily weighted to a tools and outdoor business that makes up a substantial portion of our revenue. In the case of last year, $12.8 billion, and the industrial piece was $2.5 billion last year.

When we add in the acquisitions of MTD and Excel this year, our outdoor business will be close to $4 billion in revenue, which adds about $3 billion to that base, and then you have some organic growth. So you're looking at a business that's fairly substantial that makes up close to 80% to 90% of our company. And when we think about Stanley Black & Decker today, we feel like we have created something that could be very intensely focused on our tools and outdoor business. With some energy in our Engineered Fastening businesses that recovers from a very difficult set of cyclical markets, including automotive production and aerospace.

But if you think about Tools & Outdoor for a minute, this is an area that we have incredible brands, and I'll touch on in a few minutes, great innovation track record. And then with the addition of the 2 acquisitions I mentioned, it does position us very well to have a broad portfolio across these categories to serve various channels and various customer needs. The one thing to keep in mind is our vision has not really changed for our company, which was put in place about 6 years ago, which is we want to continue to be known for innovation and driving innovation across all our businesses. Continue to have high performance over the long term. And so even though you may deal with short cyclical periods of time, we want the TSR performance to be in the top quartile over a long period of time and then also making sure we're doing our part from a social responsibility point of view.

If we dive into Tools & Outdoor a little bit, so if we go to the next page, the one thing I just want to bring forward to everybody or remind everyone is that, this business has an amazing set of brands. It has the incredible premium brand of DEWALT, next to hear down of STANLEY, Facom, CRAFTSMAN, Black & Decker, et cetera. And now we have some great additions with our outdoor acquisitions of Cub Cadet, Hustler and Troy-Bilt.

All meeting various needs across the market from the high-end professional to the Tradesmen all the way down to the Do-It-Yourself depending on the brand and the category. And then, of course, it also has industrial mechanic needs with Facom and Mac Tools and serving those particular markets. And then there's sub-tier brands that you don't even see on this page that actually serve other categories within the industrial channel.

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The businesses have both been known for strong commercialization focus, strong relationships with the customers and the markets we serve, a long history of innovation and of course, the great brands that I mentioned. 5 different categories, you see of types of tools that we have efforts and invest in on a regular basis. And then you see the major customer segments that I touched on.

One of the things that we just want to continue to point out to folks is that there's been a lot of questions about market share, and what's happened with market share, in particular in Power Tools. And when we looked at the POS that was reported within the 10-Ks of our major home center customers for the end of 2021, their fiscal years, it demonstrated that we are continuing to gain share in those customers as we also gain share globally in all the different channels that we serve. So just another reminder that as we grow and our competitors grow, we are a market share gainer, and we continue to do that, and we expect that to be the case as we go forward.

One of the benefits of creating the company that we have is we're now a simpler company. And a simpler company allows you to facilitate simpler organization structure, simpler processes and more laser-focus on your Tools & Outdoor business in our particular case. And so one of the things that we're going to be doing going forward is how do we really streamline the organizational structure so that we are very much focused on investing and where it's important.

And where it's important is with engineers, with feet on the street and then the various areas of digital to serve marketing needs or manufacturing needs in our supply chain. The other area that we're going to really invest in is our supply chain. We think our supply chain has become very inefficient over the last few years because of the pandemic. It's not due to anyone's fault. It's just the nature of the beast of the time frame and the growth that we experienced as a company.

Many companies have seen this happen. But it does drive home the point that we need to get our footprint closer to our customer. And that's something we were working on before the pandemic as most of you know, we put it on hold for about 2.5 years. And now it's time to accelerate that again. We think there's a significant value capture opportunity in our supply chain over the next 3 to 5 years as we execute on that transformation.

So 2 things I want you to take away: simpler company that will focus its investments in areas that would drive growth and margin rate expansion and strong free cash flow. The second area is transformation of supply chain in these 2 businesses in particular, and how much value that can create both from a cost perspective, an inventory management perspective, and ultimately help drive more revenue opportunities going forward.

So to summarize the presentation on the next page, we think we obviously believe we've had a very strong record of performance, and we're excited about the opportunities looking forward for more growth, margin expansion and strong free cash flow. We will complete our $4 billion return of capital to shareholders in 2023, made a big step forward in the first quarter of this year, with about $2.5 billion of that completed. And now the remaining portion of that will be completed, as I mentioned, next year.

We have these attributes that allow us to achieve the growth and the margin expansion you see in the middle of the page that I touched on. And then along with that, underneath the umbrella of continuing to be a force for good, that delivers top quartile long-term performance, continues to be recognized as a significant innovator and then make sure we maintain our focus on corporate social responsibility.

With that, that's the end of our presentation, and I'll pass it over to you, Nigel.

QUESTIONS AND ANSWERS

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Thanks, Don. That was great. And that was a lot less than 10 minutes as well. So I appreciate that. So a few things that I heard from the presentation, obviously, simpler company. You've done a lot of heavy lifting on the portfolio with the sale of the 2 security pieces. Should we now think that this is the portfolio that you like going forward. So we now have reached a point where you want to grow this entire portfolio or might there still be some work to do here.

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Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

I think on the whole, this is really the portfolio we like. And I think there's 2 question marks that are still out there. One is our oil and gas business, and one is our Engineered Fastening business. The Infrastructure business actually has a nice complementary fit to our Outdoor business and the channel that we serve, the independent dealer network, which is where a lot of the professional landscapers do their kind of purchasing activity.

What you also see in there there's a lot of attachments are purchased through a lot of those dealers as well. So things, buckets that go on the end of a significant piece of equipment that might be digging a hole in a construction project for piping as an example.

So actually, I think we'll see as we integrate the outdoor businesses and really keep our focus on Excel, MTD and our core handheld business. Once we get past the large part of that integration, does it make sense for our infrastructure business to be folded into that business. I think there's a good possibility that could happen. Oil and gas, we'll find the right time to probably divest of that business when the timing makes sense.

And then Engineered Fastening, I think it's a situation where we really love the business. It's just tied to 2 tough markets right now in automotive production and aerospace production. And so we want those to recover. We think that's a cyclical recovery of $300 million in revenue that likely will come over the next 3, maybe 4 years. We want to benefit from that because we really positioned the business well to leverage that growth and expand margins along the way as it grows. And we do believe those industries will recover. It's just a question of when and how fast. And so we feel good about that.

Now 3 years down the road, 4 years down the road, we may look at that business and think it belongs in another portfolio. But at this stage, we see enough attributes around innovation, manufacturing, front-end commercialization that is very consistent with other parts of our company that we can leverage. But we'll see, I think that's still the question mark in our mind for the long term.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

It doesn't sound like anything imminent on Engineered Fastening, oil and gas, we'll see that loud and clear. And then obviously, you touched on the market share issue, and there's obviously a lot of noise around that. How do you feel about market share going forward on? I mean how do you feel about your vitality compared to your competitors?

And perhaps if you have to say where you could think maybe there's some opportunities to reaccelerate some market share, where do you think that is?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I think the interesting thing about market share is we feel like we've achieved what I described, we have been gaining significant market shares. But I actually look at the funnel of innovation that we have for our Tools & Outdoor business and see a lot of opportunity for the next 3 to 5 years. And they're going to be in categories like electrification for outdoor. That market is changing quickly towards electrification. Handheld is moving very fast, is almost all battery operated. Walk behind is starting to move very quickly, too. So you're moving away from gas to electric mowers and walk behind. Ride-on mowers are starting to gain some energy as well. And then the big platforms are going to take a little bit longer. So that's an area that we think we can continue to gain share and go aggressive after.

On the Power Tools side, the Hand Tools side and the Storage side, the funnel is really significant for opportunities. It's battery technology, it's motor technology, it's the size of the tool, it's the productivity of the tool, it's technology around digital aspects of a storage cabinet. There's all these different things that are coming to market and will continue to come in the market that make us feel comfortable that we can grow 2 to 3x the market in both Outdoor & Tools. And so whatever the market is, if the GDP is 3%, we think we should be somewhere between 6% and 9%. If GDP is 1%, then obviously, you can do the math.

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So I think we're going to continue to focus on multiples of the market, and I really believe strongly with the brands we have and the innovation funnel that we have in front of us, there's still a significant innovation story here that hasn't been achieved. And frankly, given our track record of innovation, it's exciting to see that, that's on the forefront of the next 5 years.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Great. I'll continue to ask questions. But if you've got any questions, please put your hand up and we'll get them back to you. You mentioned complexity of supply chain as well. That's actually one of the questions I had on my list here. I think in the past, we've always felt that the kind of the -- obviously, the Power electronic supply chain is in APAC. So you're limited in terms of what you can actually bring back to North America. But how is your thinking evolving with the tariffs and COVID and obviously, now China lockdowns, it seems it's one thing after another. What can you do to accelerate the transition back to local for local manufacturing?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I think, I feel good about our overall strategic plan in this particular case. We have to think about it in different categories. So there's a lot of storage, things that are already here in the mature markets. So that's migrated because of just the size of the product, the automation of that manufacturing process allows us to do.

That. The handheld side, we're starting to migrate certain things like mechanics tools. We opened up at Fort Worth, Dallas Fort Worth facility a few years back that continues to ramp up, highly automated eventually, lights out facility to manufacture mechanics tools. We already have significant hand tool manufacturing in the European and U.S. markets around screw drivers, tape measures. And automation and digitization really allows that to happen. We're going to continue to drive that on the hand tool side.

So to your point on the power tool and the outdoor side is the electronics technology aspect of this that makes it a little more challenging. Now the good news is many companies, including us, are developing partnerships with battery makers and semiconductor players. And one of the things in the partnership is really looking at where those products get made. And so in our case, we've developed a partnership with 1 battery maker that will start making battery cells with them in a co-invested line here in the United States later this year.

Semiconductor, a similar situation will play out next year with the semiconductors being constructed here in the United States. So we're moving some of that production in a partnership relationship into the United States, similar to what you're seeing in auto industry for batteries and some other players who also are on the electronic side. We're going to continue to do that.

And then in automation of manufacturing, using contract manufacturing, we don't need to make everything. We need to make where we think our prime products are where we can be unique and really be able to create value. But there's also a lot of great companies out there that will make it for you on your behalf and they will be partners with you in the design and the productivity of that product over time.

Those are all things that we need to do to transform the supply chain to get closer to our customer and to make sure that we can be more agile in our supply chain. Clearly, the pandemic has demonstrated to so many companies, including us, that when you have a 6-month lead time coming from Asia and this type of fluid environment, it's a bit of a bottleneck for you. And so you need to figure out our view is you need to figure how to change that and it needs to go fast. And you'll be hearing more from us over the coming weeks and months about how we're going to transform the supply chain. But the more time we spend looking at this, the more value we see as an opportunity in front of us.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Got it. That sounds great. So no targets today, but this is a huge shift that's underway here, I understand. And again, 6-month lead time for a business that's got lead times in terms of short cycle, you mentioned in days and weeks, that doesn't work really.

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Maybe just talking about sort of the demand environment. We heard from some of your big customers last week. I think Home Depot was good and Lowe's maybe a bit more challenged with the consumer. How do you see the demand environment playing out through the quarter, through the second half of the year relative to expectations, better, worse, better in line, how do you see that playing out, Don?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Right now, we feel like we're in line with expectations for the quarter and the year. I would say that there's some fluid things going on right now though. You had an outdoor season that started very late because of weather. And so -- and some of our -- those customers kind of flagged that as a concern. The month of April in the northern part of the United States, the weather was very challenging. It was cold, it was rainy. Most of us experienced it, so we know.

Things have turned in the last 10 days from a weather perspective. And I think this weekend, there will be another kind of data point to look at to see if it's really starting to ramp up in a big way. And then we'll see what the month of June brings. But that season is behind. And so it's clearly not aligned with our expectation at this point, but we do believe it could actually catch up here in the later stages of May and June, and we'll see if some of it trickles over into July. Time will tell.

So I think that's a bit of a watch and see at this stage, but we're not calling off our numbers at this point based on what we know. The other areas, Power Tools continues to be very strong. Demand is very healthy of professional power tools. We're finding that pretty much everything we can make with DEWALT-branded power tools is can be sold. And so we continue to try to max out as much capacity as we get more semiconductors in that space, and that continues to improve.

We're pushing that through to our customers as fast as we can. Hand Tools & Storage I would say that things have kind of flattened out from a demand perspective. We're not seeing major retrenchments, but it's still a significant growth over 2019 levels. I mean, numbers like 20%, 30% over those levels. It's just when you start to compare it to last year, it's relatively flat or consistent or down depending on the category. But so far, still aligned with expectations.

But we're watching things very closely. The -- you know how the short cycle business is, it can turn very quickly. And so customers can start to get concerned about inventory levels, they can start pulling back on orders. And -- we'll see how that plays out. At this point, we're not concerned that's going to happen in the second quarter, but it's something we're watching very closely day-to-day and week-to-week. And then we're in close contact with our customers really making sure we understand what their mindset is as well.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Okay. That's great.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

It's a very fluid time, as you know.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Very fluid. No question about that. I do want to come back to that a little bit in a moment, Don, but maybe you can -- I do want to make sure we touch on pricing and also inflation and how you're seeing that playing out. So maybe just address the price initiatives on the way, what's been done, what needs to be done to get to the 9%, 10% in the back half of the year? And then maybe talk about where the inflation [caves] are tracking relative to plan?

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Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. So the pricing, we've done 4 rounds of pricing in Outdoor, those are complete. We've done 3 rounds of pricing in the Power Tools and the Hand Tools space that are complete and they were all completed by sometime between late April and the first week of May. So that's behind us. We're watching very closely to see the impact of that. At this stage, we're not seeing any major impact on demand as a result of those price increases.

The fourth wave of price is really more focused to Power Tools and Hand Tools. We feel like the outdoor one, we just did is adequate to address the inflation that they experienced. But for Power Tool and Hand Tools what we saw with a lot of the categories of inflation. We need to do a fourth round. So we're in the process of formulating the details of that. We've had informal communications with most of our major customers about it. They obviously heard about it because we talked about it publicly on the earnings call.

So we've had discussions with them since. And there will be a formal communication that happens in early June with all the details. And then from that point forward, it will be anywhere from 45 days to 90 days of the price being implemented based on the contract or regulatory market constraints that require us to use those time frames.

So at this stage, we feel pretty good about where we are. The initial responses are mixed from our customers of anything, okay, we understand it to we just don't like it. And so -- but frankly, that was the same response we had the last time around. We just have to navigate through and help them understand why this is necessary to ensure that we're passing on these inflationary increases that are just sticking frankly, to the P&L at this stage.

And to answer the second part of your question, which is what's happening with inflation? Not a lot. The good news, it's not going up. And so what we experienced when the war began in the Ukraine. We saw a little bit of volatility in that first 30 days or so, but things just kind of regulated and flattened out in the subsequent 5 to 6 weeks here. And so the good news is we're not seeing any increase in inflation commodities. We're also not seeing any substantial decreases.

So we're watching that. We get that information every almost every day. But at least weekly, we're looking at it. And so we feel like maybe this has flattened out, maybe we are at the peak. It would make sense that we're at the peak. It would be difficult for me to really develop a concept in my head where we actually could see more inflation going forward, given the amount of price that everybody has put into the marketplace.

So I think we probably hit the peak here. Now it's a question of -- do we start to see deflation, does that -- do we start to see some demand pull back, and those are all kind of things, as I mentioned earlier, it's a very fluid situation that we're all watching very closely.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Right. Right. Well, I think the good news, if you -- if there is any weaker demand would be, hopefully, inflation has to moderate, but you never know. I do want to get you bit of a chance to ask questions. If you have any questions, please raise your hands. Otherwise, I will continue.

All right. Okay. That's the green light for me to continue. So we talked about price, talked about inflation. Let's talk about in prior downturns, when you've seen demand turn negative in Tools & Industrial, you've managed to do an outstanding job of cutting costs and preserving margins and in many cases, expanding margins through negative volume environments. What is the scope to do that here? What sort of measures could you take if we do see a negative kind of demand environment to preserve margins and actually even grow margins?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I think we have a -- I wouldn't say it's a standard playbook, but we have a playbook that we've used quite a few times in different types of recessionary environments. We're doing scenario planning now. So we're looking at different types of recessions from a very modest recession, which is maybe it's more European focused and less of an impact globally to something that might be more severe, which is more of a global recession that maybe we're down 5% to 10% from a volume perspective.

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And we're looking at everything in between. We're not necessarily looking at a situation like we saw in 2009, where volumes went down 20%, 30%, 40%. We know what to do if that happens, but I think we're more focused on the band I described, which is something that's more regional or something that's more of a, I'd say, more than modest global recession where you could be down 5% to 10%. And what were the levers we would pull.

And so we have a supply chain set of levers that we pull that are focused on going after the deflation in the commodities and getting that as fast as we can into the P&L, going after the indirect costs in our supply chain, which is pretty much anything that's not commodity related, what are those things that we can pull back and reduce from everything from travel to MRO to consulting to you name it, everything under the sun and indirect.

And then you go and you look at all the different SG&A categories of where can we be leaner and meaner in a time where we have less volume. And so we will protect certain things for sure in a recession, we'll protect our engineering resources without a doubt. Those are the lifeblood of this company, and we always try to do that in any downturn that we experienced.

We'll try to certainly protect some of our commercial -- a lot of our commercial resources as well as they are the relationship with our customers and our channels. And then everything else is fair game to look at and how you really pull back and make those decisions.

So I feel pretty comfortable that we have a pretty robust playbook to go after that. And I agree with you, I don't like recessions, no one likes recessions. But one of the things that I've noticed in our company is it does give you an opportunity to accelerate a margin rate expansion in that period of time and then get yourself back to the margin rates you want to be at and then grow from there.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Yes. No question. We're getting short on time here, but there's a few things I did want to touch on very quickly. We've seen a lot of unusual movements in FX. The RMB has gone into a good direction to you in terms of the RMB is weaker. But then obviously, the dollar is stronger against [a basket of] currency. So how does that net out is your $100 million guidance, if you will?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

It does fluctuate a lot. So we get that every week, Nigel. And we're still around the $100 million. We've seen it pop up a lot. And then it pulled back last week quite a bit. And so we're still pretty close to the $100 million. But it's one of those lovely reports we get Friday afternoon or Monday morning that we're all kind of anxiously waiting for. But so far, it's still pretty close to the $100 million.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Okay. That's great. That's good. And then on the free cash flow, obviously, free cash is always back-end loaded. This year is going to be very back-end loaded. I'm just wondering when do you see the inventory starting to really peak and reversing and turning into a good guy.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I mean we'll probably see inventory peak a little bit more here in the second quarter. It might come down a tad, we'll see how revenue plays out in the month of June. Ideally, what we'd like to do is see some modest free cash flow in Q2. And so maybe $200 million to $300 million of free cash flow and then substantial numbers in Q3 and Q4, which is where we actually do believe we'll see more significant reductions in inventory in the back half of the year.

It is a back half plan. There's no doubt about it. It always was. It will be dependent on us really continuing to pull back on production in certain categories, which we've been doing. We started that about 2 or 3 months ago. We have nice levels of inventory and certain Hand Tool, Storage

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categories, other areas like Outdoor and professional Power Tools, we've been going kind of at max production because those markets have been very, very strong.

And so as we get into the back half of the year, we'll regulate our outdoor business because of the seasonality of it, for sure. And then our Power Tool business, hopefully, we continue to be in a situation where we're just everything we make, we're selling because the demand continues to be strong. If that changes, then we will quickly pivot and modify our production levels.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Okay. And then I just wanted to finish off on tariffs, what better subject to finish off on than that. And I'm not sure how much perspective you have on this in terms of your DC policy folks. But Biden dropped that comment last week. Any thoughts on kind of like the direction of travel for tariffs?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

I think we keep getting reads through the administration and through some of the agencies that oversee this that there seems to be a desire to want to either change the policy or modify it, help U.S. manufacturers like us who are being burdened by it when we're actually making things here in the U.S. and just because we get a part and the component from China that goes in that, why should we have a tariff on that particular situation when you can't actually get that supply here in the U.S. or anywhere else for that matter.

So there seems to be the desire to want to do this. I don't really feel like there's going to be a full rollback of tariffs. But I do feel like there might eventually be this kind of tweak and modification that would result in a modest benefit for us. I don't think it would be substantial, but it would be modest.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Okay. All right, we're out of time. So thank you so much for your time. That's great perspective, and good luck out there, it's a fluid environment and best of luck. Thanks, Don.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Thanks, Nigel. Good to see everybody.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Bye-bye.

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