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PRESENTATION

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Well, here we are.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Here we are. All right. It sounds like we're mic-ed. So why don't we get going? We're going to continue the presentations with Stanley Black & Decker. And very pleased this morning to welcome Jim Loree, CEO; as well as Dennis Lange, who's the VP of Investor Relations. Thank you both so much for joining us today.

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Our pleasure.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

So I think what we're going to do is kick things off with some opening comments and some slides. So I'll turn it over to you. And then from there, we'll jump into some Q&A.

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Terrific. Yes, I'll make this super quick because I think the Q&A is probably going to be a lot more interesting than these early charts. But nonetheless, welcome, everybody.

I've been with Stanley for 23 years now. And as a C-level exec, we were $2 billion in revenue roughly when I joined. And this year, we're running around $20 billion. So 10x revenue growth over the years, and we've migrated from a hand tools and hardware and automatic doors company to a world leader in outdoor power equipment tools and industrial. And so as you can see, the breakdown of the revenue, the -- this happens to be last year's information. So it's a little bit less than $20 billion, but you can see 47% power tools, 28% hand tools and about 25% outdoor power equipment. And then we have this industrial business, which is a couple of billion in revenue; wonderful business that is poised to benefit from the rebound in automotive, electrification of automotive, electric vehicles, hybrids and also the lightweighting and so forth that's going to go on there and the recovery in the market. And then there's also an aerospace component that sells into the big OEMs, fasteners into the big OEMs of the aircraft industry.

So a great company. It's known for innovation, known for its performance, continued high performance and a big focus as well on social responsibility and ESG.

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Now in recent months, we've undertaken to streamline the portfolio to be a much more focused company on tools and outdoor and industrial. So we sold recently our electronic security business and our Access Technologies business, got really excellent prices for those, 16x trailing EBITDA for the security business and 18x trailing for the automatic door business, which we sold to Allegion. And by the way, I understand the Allegion people are very happy with their purchase, and we're very happy with the sale. So it worked out for everybody. But about $3.5 billion coming after tax from all of that, and then we put that to work recently with finalizing our purchase of the MTD and Excel acquisitions that we announced last year as well as committing to a $4 billion stock repurchase, of which $2.3 billion will be executed in 2022 and the rest, the remainder in 2023.

So great, great story in terms of streamlining the portfolio, becoming a more focused tools, outdoor and industrial company. And then just to wrap it up here because I know we want to get done with the Q&A. Strong track record. We told you the long-term growth track record was pretty amazing, but also the short term is pretty good, too; 10% CAGR over the last couple of years. Really focused these days on growth and margin expansion, and we're driven by a vision and our purpose for those who make the world trying to be a force for good in society as well as a value-creating capitalistic enterprise.

So with that, I can turn it over to you, Joe.

QUESTIONS AND ANSWERS

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Terrific. So thanks for the overview. I think I want to start off on the tool side of things and calibrating volumes. I think there's a tremendous amount of focus on kind of cycle and where demand is and obviously, what COVID meant for some of the activity. And one of the things, if we look at kind of 2019 through what's expected in 2022, when you look at just volumes and tools, it looks like roughly a 5% CAGR over that period of time and you look at kind of 2016 through 2019 sort of pre-pandemic, and you're doing a 6.5% CAGR on volume. So the question is, and I want to kind of tackle it from verticals, but trying to get a sense of where demand is relative to, call it, your normal growth algorithm.

And let's start on the do-it-yourself kind of segment and if you could talk about kind of where that got to maybe in peak demand levels for you over the past, call it, 18 months, whatever, and where it is today, just to help kind of understand the strength there.

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Yes, I think the -- it's been a really interesting 5-year period, 6-year period. The demand has been relatively consistent in the aggregate over that time period, even though you've identified a bit of a slight disconnect. But I'd say the vast majority of any difference associated with the last 2 years versus the -- or 3 years versus the previous years would be associated with supply chain challenges. And we've had our share of those, particularly in power tools and particularly as it relates to semiconductors. And we are in the process, as we speak, of alleviating those constraints, and expect by the third quarter to be in an unconstrained environment.

But today, in the first quarter and as the shipments -- our semiconductor receipts are increasing by about 20% this quarter, we'll increase it by another 20% in the third quarter. And so we cut some deals with Tier 2, Tier 3 and Tier 1 manufacturers in that supply chain, that electronic supply chain to ensure that we have adequate supply, particularly on the chips, which becomes the biggest issue of all. So those demand constraints or supply constraints are going to be lifted very shortly here even as we speak. And once we enter that new environment, then we have the ability to serve all the demand that we have, and there's plenty of demand right now.

Now in the periods that you cite, there were spikes in DIY, in the post-February time frame. March, April was kind of slow, but then May, June of 2020, May, June really picked up dramatically. I mean we had volume spikes at the point of sale that were up 40% year-over-year in those months. And so that was what the big -- everyone was dealing with this lockdown situation where just having something to do at home was helpful. Repurposing your home, lots of folks were doing that for work-at-home situations. And there was a lot of things like that going on that really drove demand in both tools, DIY tools and outdoor during that time frame. And the pros were kind of in the background at that point of time. They

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weren't really out there doing the same level of projects that were being done previously. And I'd say probably around the third quarter or so the pros came back.

And so within this period of time, there's been some DIY spikes. There's been some pro spikes and so on. But in the post-'19 time frame in the pandemic era, I think we're growing at literally at a 5% to 6% rate versus the 2019 numbers.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And maybe if we just think about trajectories and think about do-it-yourself and then think about pro, I mean, is pro kind of on this trajectory of moving up still? And do you think do it yourself has kind of navigated that, went up, maybe kind of came off a little bit? Is that more like a flattish trajectory? Does that still have some to come down just from like a cyclical perspective?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Yes. I think the 2 kind of offset each other. The DIY spike, but it came down to still at a very healthy level. And pro demand was down. It was replaced by DIY for a while, but now pro's back still at a very healthy level. Lots of repair remodel. Homebuilding hasn't blinked yet despite the specter of higher interest rates and the reality of higher interest rates. So I think continued healthy demand, supportive demand until we see otherwise.

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

And the pro is a bigger driver for us, Joe. So it's just something to remember that 70% of the business is pro-oriented.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And maybe just as you think through cycle, what do you think about is the volume growth algorithm in the tools business? And so what do you think market growth is through a cycle? What do you think that kind of share opportunity is for you? So we try to put that together and think about the overall volume algorithm?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Yes. I think the historic industry kind of average has been about 3% to 4% growth. As you pointed out, we've been growing a bit faster. So some growth in market share over that time frame. And I would expect that the market would continue to grow in kind of somewhere in that 4% to kind of 6% range. And so maybe a little bit more growth going forward. And if I include outdoor in the equation, I think even more growth because electrification of outdoor is going to be a huge -- it is a huge opportunity ahead of us. And so there will be a massive transformation of the combustion engine-powered base of outdoor power equipment to -- and I'm talking not only as handhelds like today are very significantly penetrated by electrification, but also the large format ones. And that will be a big, big growth driver in the future.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And I'll kind of keep an eye out. So if you have questions, feel free to raise a hand. And with that, go ahead.

Unidentified Participant

Just to follow up on this (inaudible) what do you think that means in terms of overall growth rates? And then address this [moderate decision] by the Department of Commerce they've launched in terms of [free port] various components, at least on the [solar] side of the business, not necessarily

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the [push in terms of the items that are now for China], tariffs. Basically not all, of course, but the parts that are supposedly [done in Vietnam] really are now in China and Vietnam (inaudible) just explain to us what is Washington doing now?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Now that's a tough question. All I can really say on that is that everything that we know at this point in time says none of that affects us. So we feel positive that at least that particular bullet, we can dodge from a tariff perspective. There's other tariffs that are on engines and things like that, that we are impacted by, but -- and have been and are. And I'm sorry, what was the first part of your question?

Unidentified Participant

The growth.

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

The growth, yes. So I mean, I think we're going to see a growthier outdoor power equipment business than people think because there's going to be this transformation from electric to combustion. But we're going to be in a much better position, I think, than anybody else because we've been working on new product development for 2 years, 3 years with MTD. We have large-format battery systems that we've designed and can implement and will implement in the 2023 season that are differentiated from a performance point of view. We have semiautonomous units that are already out there that cut incredibly beautiful lawns with perfect lines and using technology.

There's an autonomous line that will come out in 2023, '24, which will be well-branded product and electric-powered autonomous, which will actually take some of the labor challenges that these landscapers have and help solve them because literally, we'll program in the cloud the area of map for the lawn, and then the landscaper would drop it off on the lawn without a person on it and let it go. And it cuts the lawn beautifully.

So I think these kinds of innovations are going to revolutionize the industry. And I suspect that we now have the ability, the plant structure, the engineering talent, all the things that you need to make this a very successful product line in the future and growth driver for us.

Unidentified Participant

It hasn't changed the process that (inaudible).

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

I think it's going to be closer to double digit. I just feel like the regulatory momentum, the performance achievements that are going to come out to market, not just from us but from others. The rising cost of gasoline as well as engines because the engine market is now very constrained. Nobody's investing in new capacity. And you have a private equity owner that owns Briggs & Stratton and is essentially running that as a runoff portfolio. So get as much cash out of it as you can before it goes away. And so the price of gas engines is going to continue to go up. The electric-powered outdoor equipment is so much more economical -- sorry, ecologically friendly. It's quieter. It runs at like 70 decibels versus 90-plus. So -- and CO_2 emissions are vastly lower. The world is carbonizing. I mean there's a lot of reasons to think this is going to be a growthier segment than it has been historically.

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Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And then I wanted to circle back on the other side of organic growth with tools and talk the pricing piece of it. Clearly, significant inflation again this year that you're reacting to. But talk a little bit about the internal process, right? So we get these like massive waves of inflation. And how long you need to see that in place before you have the opportunity to respond? And then how long it takes those responses to get into the market?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Yes. It's really the second massive wave of inflation before -- excuse the word massive -- I mean before that, we had smaller waves from time to time. But these last 2 waves, the second half of last year and then the post, I'd say, call it, the post-Ukraine invasion wave, have been like nothing we've ever encountered in our business careers.

It's a lot -- similar feel, similar to maybe what we encountered back in the '70s and early '80s. But it takes a different kind of management intensity to successfully work through this kind of environment. So we've upgraded the frequency of our deep dives into operating variables in the company by a substantial amount, and we are now at a senior level meeting weekly going through everything related to inflation, to price recovery, to pricing strategy, to supply chain, progress, and just trying to synthesize all those different inputs to determine what the best course of action is.

And one of the courses of action related to that is pricing. We're now in our fourth round of price increases since the beginning of the wave of the inflation. So the first wave was somewhere in the -- pricing actions were implemented. Last year in the -- I guess, what was the October time frame, the first one.

Dennis M. Lange - *Stanley Black & Decker, Inc. - VP of IR*

Yes.

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

And that was 3% to 4%. That was succeeded by a 5% increase at the end of the year, which was then further succeeded by the -- another 5% increase, which just literally became effective this week across the markets, and we're now working on #4. And so we've had -- our inflation estimate for this year is now $1.4 billion. It was $800 million at the end of the year. We've had $600 million of inflation.

The great news is that while -- it came upon us very quickly. So because of our weekly routine, we were able to see the first week was $100 million-ish estimates. Second week was $200 million. Third week was another $100 million. And like nothing we've ever seen like in history. But then it got all the way up to $700 million and then it backed off to $600 million, and it's been steady at $600 million now for probably 5 weeks.

So that's essentially how we're handling it, Joe. I mean it's a very, very intensive experience and requires senior management engagement, which it's getting.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And the objective is to have fully offset the cost inflation by the time all these prices are in based on kind of the plans for the additional wave of pricing that needs to go in. By when in the year do you think you'll sort of fully have that implemented?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

This one -- this fourth increase, which impacts this year by about $200 million to $250 million, will be implemented probably within the next 8 to 12 weeks, and that will be in place. And then we'll see where inflation goes from there.

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Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And conversely, if we ever see something like deflation, what happens with the pricing? How much of the pricing is surcharge-related? And how much of the pricing is sort of pure pricing? And kind of what's your anticipation for what a market reaction would be to a deflationary environment on your pricing?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

A lot of this will obviously depend on the dynamics in place at the time. However, everybody in the value chain tries to capture as much of the arbitrage as they can, and we will not be an exception to that. But that said, we're also about selling tools. And if the market prices start coming down, and pricing gets more aggressive, we obviously will be defending share and serving our channel partners as well in that process. So only a very minuscule amount of the pricing was actually -- is actually in the form of surcharges now. There was probably about -- one of the increases had a pretty substantial amount of surcharge in it, but that's now been converted to pure price. For the most part, there's a little -- maybe 1 point of price in that 20 point -- 1 point, 1.5 points in that 20 points of amount of price that surcharges.

So it's -- I don't see surcharges snapping back, but everybody understands what commodities are trading for today, and everybody understands when they decrease by really substantial amounts, then prices probably will drift down. It'll be good for the consumer.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Got you. Sure.

Unidentified Participant

(inaudible) your observation is (inaudible) [and every manager] has not seen we're operating (inaudible) the change in technology pool is an enormous (inaudible) So my question to you is where (inaudible) because the industry has no (inaudible) and all of a sudden, people in their 50s and 60s who are running businesses are (inaudible), doesn't it?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Yes. Well, there's a lot to unpack in that whole discussion. But I was just thinking back recently to the late '70s when I was in college and graduated in 1980, and my mortgage rate, my first home mortgage was at 12% interest rate and the inflation was ramping. My first auto loan was at 14%, and everything chugged along. It's amazing. You'd say, "How can I afford this?" But then you were getting raises and the economy, of course, in the '80s, it was wonderful. So I mean, obviously, no one really knows where this all goes, but I suspect that a lot of this will get embedded, and some of it will probably drift down over time.

Unidentified Participant

So your bet is that it doesn't stay here and it gets down? Or most of the spacing...

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

I think a lot of it's going to be structural and stays here. Yes.

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Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And then I want to -- go ahead.

Unidentified Participant

I just had a few questions. So historically [I want to go back], how long, the inflationary environments, how long does it take you [to recover from] inflation Is it 1.5 years? Is it 2 years? Or eventually? And what (inaudible) something like [80% of your kind of CapEx]? There's something about this particular cycle -- there's something about this structure (inaudible).

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Yes. So we are recovering 100% of our inflation, this cycle. We are in the process of doing that. In the past, the inflation has been so less impactful. It's been impactful, but it hasn't been like this. So it was possible to offset a good portion of that inflation with productivity, in particular, and still kind of get some margin accretion. But with the numbers, the size, that's just not possible. And I do think this gentleman's observation about this generation of people that are experiencing this and realizing it is possible to flourish in an inflationary environment.

So -- but for a company like ours, it takes about 4 to 6 months to really recover the inflation that you get hit with. And then if you get hit with multiple waves, like we have recently, obviously, that time frame extends because you're kind of chasing it. But hopefully, if we -- as we sit here today, hopefully, where we are as we've now stabilized, I mentioned that earlier. The pricing mechanisms are working. Some of the customers don't love it. Some of them are more amenable. They kind of see the positive in it, too. But we do know we're supply chain constrained. Pretty much many, many industries are supply chain constrained, which is why one of the reasons we're seeing this capacity constrained or a supply chain constrained and seeing this as a wave of inflation. So I think it will go on for a while. But at the moment, it's stable, and hopefully, that will be the case for a long time.

Unidentified Participant

Okay. Can just (inaudible) what do you think about demand elasticity and kind of discretionary nature (inaudible) Do I really need to buy a brand-new shiny thing right now (inaudible)?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Well, there's no doubt that there's some level of elasticity of demand. And I think the pro is going to be more inelastic than the DIY-er would be my guess. But people love their tools and, we've got a business that is called Mac Tools, which competes with Snap-On and Matco and what people pay for -- and these are professional auto mechanics that buy these tools. And what they pay for the status of owning an aspirational brand is really quite amazing.

And we have seen in other places like -- I'll take Brazil as an example where FX -- weakening of the local currency has created the need to raise prices dramatically in places like Brazil over the years. And what we found is we still have a flourishing business. It hasn't really killed the volume in that particular region. Margins are good and life goes on.

So I think there's a lot of adjustments to get made. But in the end, people need tools. And the grass doesn't stop growing, no matter what the cost of the lawn lower is. So it's kind of a long answer to almost an unanswerable question, but I try to give it my best.

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Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And then I wanted to pivot to chips. And I think what we've heard by and large over the course of the quarter is that these constraints are still in place, and in a lot of cases, people aren't really expecting much benefit until next year. I think you're different in that regard, where you've got visibility to supply improving this quarter and then a continuation of that.

So firstly, maybe just march us through the cadence of your expectations on the improvement in the chip supply, when do you reach that point where you feel like it kind of lines up with the production levels that you want to be at.

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

I think we reached that point in the third quarter, but we're (expletive) close now. And it's really more about, okay, you get the chip, and then a lot has to happen before the tool comes out, right? So I think we got the chips now. But we got to get the tools -- the chips into the tools, and that takes a little time. So that's why I say the third quarter instead of the second quarter.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And what have you done, right? Because you've been able, I think, to differentiate yourself in terms of kind of this access and your ability to better compete right now. But just walk us through what you've done there?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Well, we want to the semiconductor players, and we basically cut some deals to buy capacity. I mean it's available if you pay for it. And we thought that, that was the way to go. And then we also -- the electric -- so it starts with the chip, but then you've got to create the entire electronics assembly. And so we've also created some strong relationships with these Tier 1 and Tier 2 players as well. So we're in good shape. It's been painful for a couple of quarters.

And the other one is batteries. People often ask about batteries. We have procured capacity and battery manufacturers for -- sufficient for the foreseeable future. So I don't think you're going to run into any battery problems here at this point.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And then I wanted to come back to outdoor products. I think there's a view out there that you might be kind of behind certain areas or you might be kind of under scale where there might be other share leaders. And I think in actuality, you're the leader in outdoor electrified products. So maybe you think about across the brands, maybe you can kind of level set us there.

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Well, it happened so quickly. I think we might have taken some people by surprise. But yes, when you add up the market shares in the U.S., we are #1. And we are not behind in what we've done historically. So historically, what we've done are handhelds, okay? So blowers and trimmers and those types of things. We are actually the market leader in that as well. So this is a very significant misperception. But we bought MTD, we bought Excel, and there was a lot of discussion in the industry and so forth about why are they buying gasoline-powered mowers when the future is electric.

Well, who better to electrify the market than us, number one. Secondly, do you think it might be easier to electrify the large-format market, meaning riders and zero turns, if you had plants, if you had people that understood airflow, blade design, those types of system engineering elements of building a powered large format of any power?

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And then we have been working for 2 or 3 years with MTD engineers on the innovation pipeline. So what people are saying is mainly out of ignorance because they don't know what's coming. And so they can say what they want, but buckle your seatbelts, it's going to be exciting, from my perspective.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

You're willing to pull back the curtain on that at all? It sounds like maybe '23 is kind of an exciting year. But just when you think about some of the bigger launches in the pipeline, I mean, how soon is it going to be before we see some of this big splash?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

'23, yes. And the other thing that is really great for us is we got the channel access to the landscaper with these 2, MTD and Excel. We put together the 2 channels for the 2 companies, and we have 2,500 dealers now. So we have a dealer network. And the person who makes -- the company that makes the most noise about "there's no way we'll ever succeed at this" is -- doesn't even have access to the channel. It needs to build it from scratch. So I think we got kind of a head start. Looking forward to it.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

And then I wanted to ask on capital deployment. I think now kind of right now outlining maybe $1.3 billion or so in -- $1.7 billion next year in repo.

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

$1.7 billion.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

$1.7 billion next year. And -- but you're also kind of sitting on $6 billion of inventory, and maybe you need 3. So if supply chain kind of corrects, I mean what do you think you do as that cash kind of comes out of working capital?

James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

Yes, if it's 3, if it's 4, it's definitely materially below 6. So yes, that cash will come out. And right now, Plan A is a repurchase of $1.7 billion next year on top of the $2.3 billion this year. It's subject to economic assessment at the time. If it's a troubling economic environment, maybe that repurchase turns into debt reduction. So we're kind of thinking of those terms. We're not really thinking of anything significant in acquisitions because we don't have the balance sheet for that right now. And frankly, we don't need that right now.

What we need is to take these wonderful growth opportunities that we have and leverage the (expletive) out of them so that we can upgrade the organic growth of the company, do more reinvestment, engineers, feet on the street, channel development, e-commerce, which is a great business for us, $2.5 billion today growing. So there's, I think, a fundamental sea change. And as I've said, we've grown this company from $2 billion to $20 billion, and we've done over 150 acquisitions, and we've deployed 50% of our excess capital to acquisitions for 20 years.

I think there's a sea change coming where that probably the allocation to acquisitions may decrease over time. And the reinvestment would be a big deal. And of course, returning cash to the shareholders that we don't need for reinvestment, but maybe some acquisitions, too.

Joseph John O'Dea - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

I think we're going to have to take that one off-line because we're coming to the end of our time here, but thank you very much.

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James M. Loree - *Stanley Black & Decker, Inc. - CEO & Director*

My pleasure. Thank you, everybody.

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