REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SWK.N - Stanley Black & Decker Inc at UBS Global Industrials and Transportation Conference

EVENT DATE/TIME: JUNE 06, 2023 / 7:30PM GMT

OVERVIEW:

Company reported SG&A of $0.5 billion.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

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

Patrick D. Hallinan *Stanley Black & Decker, Inc. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Christopher M. Snyder *UBS Investment Bank, Research Division - Analyst*

PRESENTATION

Patrick D. Hallinan *- Stanley Black & Decker, Inc. - Executive VP & CFO*

We have a few slides to share more than anything just to provide a useful backdrop and then we'll turn it over to Chris for some Q&A, Chris is in the audience. So we'll go through about 4 slides here. By the way, I'm Pat Hallinan, new CFO, Stanley Black & Decker, about week 8 or 9 or thereabouts.

Obviously, this presentation includes some forward-looking statements and estimates as they all do. But it's helpful to start with an update of the portfolio. A lot of changes over the last 1.5 years and in particular, taking place in the middle of last year and through to the present around portfolio simplification and business simplification and a set of streamlined priorities and focus.

Last year, we sold off security business, oil and gas businesses. The portfolio is focused on 2 asset platforms, Tools & Outdoor, which is just shy of about $14.5 billion in revenue or 85% of the total revenue. And Industrial business, that is about $2.5 billion in revenue, about 15% of the business. The Tools & Outdoor business has many brands that you likely recognize STANLEY, DEWALT, CRAFTSMAN Black & Decker and some more specialty brands, things like LENOX, but a long-standing set of brands, many of these brands, well over 100 years old. And together with the Outdoor business of MTD and Excel, the largest Tools & Outdoor business globally and a business we're very proud of. We look forward to getting back to its former growth trajectory.

And then in Industrials business, 3 elements of the Industrials business largely a fastener business that is automotive and industrial-centric and Aerospace Fasteners business and then an Industrial Goods business that has a lot of attachments that's used for making infrastructure. And we're focused on these 2 parts of the portfolio and becoming the world's best Tools & Outdoor company and then returning to our historic levels of growth and margin performance. And doing so through 3 or 4 rather, key foundational elements of our brands, innovation, our channel exposure and the operating model that we're building to drive our margin structure to its historic levels of 35-plus percent.

To do that, we're going through quite a significant transformation. And I tend to talk about where we're going first and then how we're getting there. The business has typically grown at 2 to 3x the market. The market largely is driven by GDP and with the U.S. being our largest market, if you think of U.S. GDP kind of a 2% to 3% growth CAGR, we're talking about getting the portfolio back to a 4- to 6-plus percent growth rate. Getting gross margins back to 35-plus percent through a number of tried and true operating levers, strategic sourcing, SKU rationalization, footprint rationalization and the continuous improvement of our plants since we get that new footprint rationalized. And then finally, returning to the growth rate through innovation.

But one thing has been the foundation of the company is an exceptional innovation engine, and that is alive and well. We were together as a team a couple of weeks ago in Maryland, looking at the innovation pipeline, and it's exceptionally strong, and we're very excited about where innovation is going and where we're going to be investing behind it.

And so to drive that, we've really simplified the portfolio and the operating structure to get there. And we're really focused on driving a transformation that I'll talk about in a second here, that's going to drive a total of $2 billion of run rate savings by the end of 2025. About $1.5 billion of that is COGS and the other $0.5 billion is the SG&A. The SG&A change has already taken place. That doesn't mean we're going to stand still, but we've achieved that run rate, and we'll optimize from that point forward, both how we're allocating that expense for growth but we've gotten that behind us. And by the end of this year, we'll have a run rate of $0.5 billion of COGS and well on our way to the full $1.5 billion is the way we're tracking.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

And we're going to turn that into innovation for growth, specifically around electrification, both in tools and in outdoors and then back into our field sales and service. So we're going to be turning a chunk of that innovation, about $300 million to $500 million a year into growth-based innovation.

The Transformation, progressing very well and very much on track for our expectations this year and teeing up nicely for next year. We saved about $230 million in the first quarter. And since the start of this program last year, $430 million. And by the end of this year, the run rate will be about $1 billion, as I said. A couple of hundred million of that will be hung up on the balance sheet, but that will be very much the cost structure transformation savings.

And then obviously, with the balance sheet where it is, we do need to delever. And a big part of that is organic deleveraging via inventory reduction and margin improvement. We reduced inventory $200 million in the first quarter. We've done $1 billion to date since last year. And for this fiscal year, we're targeting $750 million to $1 billion, and we're tracking well on to that target.

As I mentioned, we're driving this transformation through some proven methodologies, but we're doing it with a lot of capability enhancements so we can sustain this going forward. So strategic sourcing has been the earliest lever along with SKU reduction. And then as those things take place, we're going into footprint rationalization and operating excellence within the plant. And we're very, very much on track this year to deliver the targeted run rate of $1 billion of savings.

And then we're making the progress we need to make to get back to the growth rate. That's going to be our most powerful lever of value creation. And the business is well tracked to have the talent of its people and its brands and its innovation shine in '23 and beyond the way it has in the past. So we're very excited about where we are and where we're going.

And with that, I'll turn it over to Chris in the audience for the questions.

QUESTIONS AND ANSWERS

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Thank you, Pat, and thank you, Dennis, for joining us. Pat, couple of months in the new seat, maybe starting off with kind of a high-level one. What has been the biggest surprise to you over the last few months, obviously, kind of a lot going on?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. Obviously, we come into a dynamic macro environment in a business that's in flight on change. But the things that we're anchoring our future to are innovation and margin enhancement via cost structure improvement. And so I think the surprises to the positive have very much been that the historically strong innovation engine is still there and alive and well, and there's a lot of exciting things coming out, latter part of this year and into next year. And then I would also say the quality and the capability that's being built to drive the cost improvement and the ability to sustain that cost improvement has been exceptional.

I think given all the macroeconomic and geopolitical uncertainty, the fact that the operations supply chain team has made as much progress in the last 12 months that they have is really quite impressive. I think then the opportunity in front of us is how do we activate that on the ground with our end buyers and our channel partners and get the momentum back to the top line. And I think that's the work to be done.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

I appreciate that. And maybe just kind of following up on those -- on the restructuring actions and the margin drivers. It seems like to me that the plan was running kind of ahead of schedule in Q1. And the 2 things we always look at is gross margin, that came through a little bit faster than we

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

would have thought, and also inventory reduction, the destock on your own balance sheet was ahead of, I think, market expectations. So is that fair? Do you feel like this plan is running a little bit ahead of schedule or maybe too much to...

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

I do. I do. I think, I'd look at it, yes -- the direct answer is yes. I'd look at it a little bit less through how the quarterly phasing of the year goes perfectly. There's been a choppy start to the outdoor season. And so that affects the rate at which sales and inventory flow across Q1 and Q2. And so -- but I do feel very much like we're likely to get to the savings targets I shared with you or beyond this year. The momentum is great in that part of the business, both around the cost savings and the cash generation.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No, I appreciate that. And then kind of taking that and bringing it to gross margin. Gross margin in the kind of the low 20% range, path to get back to 35% plus, which is really just kind of massive when we're thinking about $16 billion of sales where you're seeing double-digit percentage point improvement in the margin rate. What's the cadence that we should expect that to follow? You guys have kind of given the curve into the back half of the year. What should we expect then as we kind of bridge the gap from that to 35% plus?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. I'd say we expect -- right now, the year is tracking towards the midpoint of our guidance ranges. If you recall, we kind of had a minimal and a high and a low and that's kind of a mid-single-digit revenue number is consistent with our full year guidance. At that level, we would expect the operating margins we're exiting the year with to be in the high 20 percentile range. But given the momentum of the cost savings initiative, we probably have anywhere from 100, maybe even north of 200 basis points of margin improvement that are backed up on the balance sheet and we'll, therefore, by default, roll off into the early part of next year. So that's another way of saying we kind of exit this year at the very high 20s or almost 30% run rate level. And then we're driving $500 million of incremental savings each of the next 2 years, '24 and '25. You always have some of that, that will be on the balance sheet, but you should be during the year next year, another $300 million plus of COGS savings that are going to be in the income statement along with the momentum we have coming out of this year.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No. I appreciate that. You kind of mentioned choppiness to the kind of the outdoor selling season. That's very consistent in our -- some of the higher frequency data we check even channel checks that we've done and it feels like outdoor (inaudible). I guess kind of any update on that? On the Q1 conference call, you guys see March lower, April, better. Is it fair to think May is kind of choppier?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. I mean we always have to be careful in these conferences that we're not kind of extending unduly beyond where we left the quarter. I'd say that what we've been sharing consistent with our Q1 is in tools. Tools is running probably ahead of our projections, driven by Pro tool consumption.

Outdoors remains choppy, but choppy in the sense that we have some really, really strong weeks and we have somewhat strong weeks. And so it's just kind of a bit choppy, which is where it was when we ended the first quarter. And I think the weather has been consistent throughout the spring and the early part of the summer. So I'd kind of characterize it as where we left off the quarter.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. So it sounds like the Pro hanging tough. A lot of concern around the Pro. Really coming into the year, the idea that the Pro is just simply kind of lagging the consumer. You guys, even in the guide, you guys guided the Pro down into the back half. And then we got all the kind of the mid-March credit events, maybe the way to categorize that led to more concern on the Pro. I guess what are you guys seeing from the Pro I would say today?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. I can kind of speak to the time that I've been here, but coming into the year, both from my prior world and to this world, a lot of very significant concerns of NAFTA, new home construction and remodeling construction, which is not all of the exposure we have. It's only a part of the exposure we have. But that has actually held up better than you might expect given the rate environment and given just all the geopolitical uncertainty for people to be making big lifetime purchases like a single-family home. And I think that, that stand among the things that have kept the Pro very much engaged and very much kind of in a relatively speaking, strong position is as much as new home construction and R&R are down from the COVID peaks, they're still much stronger than anybody anticipated this year.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No, I appreciate that. Maybe turning over quickly to Industrial. The exposure is there. We found favorable infrastructure, a lot of support. Auto, Aero kind of things that are still below cycle trends. How do you guys -- how do you see the Industrial piece of the business kind of shaping up here with all -- a lot of macro uncertainty there as well?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. Auto has been a bit like housing in this rate environment, you would have maybe expected more headwinds to auto just based on rates, but has been very much within our expectations and growing and being very stable. Aero is ramping. As you would expect, we're kind of back into a ramp. The narrow-body ramp has been ahead of the wide-body ramp as domestic travel has been ahead of international travel, especially international travel to Asia. And there's been some manufacturers like a Boeing that had some regulatory issues. So the ramp there is happening but happening maybe a bit slower than we would have anticipated. But I think the long-term tailwinds in that industry are going to basically be showing up just months or quarters later.

And then Industrial, it's a great opportunity with the Industrial legislation that's been passed. It's -- I think it's going to go out at the pace that labor really allows it. So it's going to be a slow burn as opposed to a massive ramp. And we saw some of our channel partners build some inventory in that space at the end of last year. That's kept things moderated this year, but that business is set up for some secular tailwinds for sure.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No. I appreciate that. Maybe if we could switch over to kind of price trends in the market. The company guided to some price contribution this year, really just wrap around. But I think the price resiliency has generally surprised people when they say, STANLEY has a lot of inventory on its own balance sheet. Some of your other competitors have a lot of inventory in the channel. I guess is it fair to say that the industry is behaving pretty rational on price. Does that surprise you? What's the view there?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes, I would say both manufacturers and channel partners are behaving rationally. And I don't know that it surprises me. It's welcome. I think it's the reality of -- with the consumer being the relatively weaker part of the equation, there's not a ton of traffic in stores that can just be swayed

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

solely by price because pros are in there because they need to be in there and they're paying for performance and productivity. There's not an impulse buyer there to be swayed.

And so we went into this year expecting that price was not going to be the lever to drive inventory through the system. We were actually going to have to curtail production. And that's -- our inventory lever for the year is taking production in our facilities down around 30% and not driving it through price. And -- but I think retailers and other manufacturers are living in the same environment and facing the same circumstances. And so among the difficult choices of getting inventory out in the system, we've chosen production and procurement curtailment as opposed to using price.

I would say price is very steady. We'll be more engaged in promotions in the back half of this year, but that's just us returning to traditional holiday promotions now that the supply chain is healed as opposed to a new pricing dynamic. I say your observation of pricing being steady and very thoughtful given the environment is the correct observation for sure.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Appreciate that. Has there been any kind of pickup in discounting above what you would just kind of consider like normal levels?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Not that we've seen. We've actually seen quite the opposite, I think as it happened in other categories where usually you have to talk over people in your retail prices and make sure you're not going below minimums and that is not the dynamic we're facing right now.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. And what about -- when you think about price going forward, is there a different outlook on the Pro versus the consumer? Obviously, the Pro is probably -- the businesses have probably done well like you said they're paying for performance. This job is -- the tools help them turn jobs and they generate. It's a return driver for them. Is there a difference there?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. I mean obviously, the ticket on average is a bit bigger for the Pro. But there's been no change in our strategy for pricing to either of the customer segments over time.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. I appreciate that. A lot of kind of questions from investors around market share trends in this space over the last couple of years. How do you think market share has trended for the company? Obviously, there's a lot of people within that market share, not just maybe the 3 or 4 big ones we hear. How do you feel like Stanley's market share has trended within the entire matrix? And what gives you confidence that you guys can kind of drive that 2x, 3x market growth going forward?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes, I'd say -- I mean, I'll address a few of those. Dennis may want to add to some of those he sees a little more longevity. I think the ultimate confidence of the longer-term growth performance is around the history we have for innovating based on the types of advancements that users really value and will pay for. And so we're talking about getting to growth rates in our Tools & Outdoor business that is very consistent with our

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

history. And much of what we're focused on investing in, in terms of both technology innovation and feet on the street and service centers is kind of going back to our roots that has long driven that. So that's the long-term confidence.

I'd say the share over the recent past, we had quite a bit of supply chain challenges from the latter third of '21 through at least the first half, if not beyond the first half of '22. And certainly, when you're talking about share in certain product categories, especially those that were dependent on chips, we probably lost some share in those arenas. Our focus in getting it back is let's get it back through innovation and service. There's not kind of a knee-jerk response to get that back. Not that we don't want it back. But we don't want to, in a durable space, create pricing dynamics or competitive dynamics that are tilted towards price as opposed to innovation.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No, I appreciate that. And then you kind of said last year, you guys maybe bore some of the brunt of the supply chain disruption relative to some competitors that led to growing you guys last year. But now a couple of the more high-profile ones have given pretty significant declines for the North American market in '23. You guys are now more stable on this side. Does that just reflect the kind of supply chain dynamics? Is there too much some competitor inventory in the supply chain channels like, what do you make of all that?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Again, Dennis, you can jump in if you want to correct me here, but I think there's a lot of different business models out there of where our people's production and supply base is. Where does the channel partner take inventory. Is that taking inventory here in the States. Or do they take it freight on board in a for market. Do they use LIFO/FIFO. There's a lot of noise in -- for the whole group in the room but it has to be difficult to sort out. So I think every manufacturer depending on where were their supply chain strengths and weaknesses, what's their business model, could be in a very distinct spot. And I think that's why you're seeing the myriad of commentary from various manufacturers.

What I would say for us is when we look at our channel partners broadly, and this is the U.S. and elsewhere and across categories, we're kind of at historic norms. And you look at it from a week of supply standpoint, there is nothing that's elevated and some concerning level. But we do have channel partners who are dealing with short-term interest rates that are 500 basis points higher than they were a year ago. And also some geopolitical and macro uncertainties.

So I would say even though the -- if channel inventory is kind of at historic norms, I'd say everywhere, channels are trying to keep it tight. And that's just a rational thing for them to do. And then I think you had some manufacturers that have their dynamics depending on whether it's a LIFO/FIFO issue or whether they're just -- somebody took a bunch of inventory very late in the game, and it's kind of just showing up as an inventory build, they have to work down much later than we do.

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

And the only thing I'd add, Pat, is if you really think about it for us, it is working down on own inventory. It's usually the production curtailments to do that. And then getting to the other side of this, where you start to see the gross margins improve getting through the stock and then add on top of it the supply chain transformation that we had.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No. absolutely. So while the channel -- Stanley's inventory in the channel, it seems like largely appropriate levels. If some of the -- so some of the competitors, maybe the channel partners have too much competitor inventory but appropriate Stanley inventory, does that impact their demand for tools from you guys, even though, okay, we're running even on you, but I need to get rid of all the competitor inventory I'm holding before I want to take it more? Or is it more siloed than that?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

It's more siloed than that. I mean I think they have a planogram that is designed to appeal to the buyers that they capture in their stores, and they have to keep our product current in that arrangement. So -- and we right now feel like from a POS perspective aside from choppy outdoor season, we're competing handily on the POS side of the equation. So they got to keep them.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No. I appreciate that. From a -- maybe stepping back from a regional perspective, it does feel like the past couple of years, whether it's geopolitics, rolling COVID disruption. It feels like regions are on maybe more different cycles than they've been historically. What are you guys seeing from a regional perspective across the markets?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes, I would say to kind of at least provide a framework that simplifies because any -- as you say, any one region can mean different spaces, the regions, especially in a place like the United States, where the government got very active through COVID and provided a great deal of incentives. They went on a big demand like up and then we kind of are seeing that live down. And all the other disruptions that came along with that, other economies didn't do that. Europe maybe is a smaller version but a much smaller version.

And so when we look at the rest of the world outside the U.S., we see relatively stable. There's much less of a peak in a valley during COVID. And for the most part, we're seeing growth. And the only thing that might -- from a reporting standpoint, be the quirk in that is if you adjust Russia out of Europe. But if you kind of take that out of the mix, then you're really seeing stable performance and moderate growth globally outside the U.S.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

I appreciate that. I guess going back to the investment in innovation, obviously, that's kind of a hallmark for the company. Going back pre-COVID mid-single-digit volume growth, obviously, innovation is a big piece of that. I believe the expectation is that innovation spend will kind of return to maybe $100 million kind of run rate this year. And then I think going to $300 million to $500 million. Can you just maybe talk about the cadence of that spend coming through? And then also the focus areas, there are certain product categories that are going to get the big focus on that?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

What I would say is this year, we're going to be investing $100 million to $150 million of incremental SG&A inside this fiscal year. It won't be 100% R&D. Some of it towards the latter part of the year. We'll be more feet on the street and other field service investments, but it will be biased towards R&D. And then we'd be ramping that depending on the macro environment and our performance up from that incremental $100 million to $150 million towards $300 million to $350 million or $500 million rather over each of the next 2 years and persisting that. I would say that's a pretty meaningful delta for us when you look at what I'd call traditional marketing and R&D spend.

And I'd say we'll be feathering that out based on the rate at which we're driving productive growth off of that investment and that we're maintaining our gross margin. Because we really want to get the leverage we're getting from our SG&A to be much more powerful as well.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. I appreciate that. And maybe this is a better one for Dennis just given -- being at the company longer. Do you guys feel like the company has underinvested in innovation for some period of time? Or just like it was a function of maybe the portfolio broadens?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

I mean we get that question a lot, and it's an interesting question. Particularly, if you think about -- if you look at the R&D spend last year, we've never spent more as a company. It was up 25% versus the year prior. And I think some of that perception may have come from during the COVID period, there was a pause on some investments. It was actually coming off of a tariff period as well, which was difficult from a cost perspective for the company. And we went through a lot of temporary measures to do furloughs or things along those lines during 2020, and things did take a step back. But it was a temporary pause, and we're committed to continuing to invest in innovation. And I would say that, that part of our business model is strong. And like Pat said, the portfolio looks good, and there's a lot of exciting things on the horizon as it relates to innovation. .

I think the area that we obviously want to continue to feed it as we've been talking about. But I think that the impactful areas that you're hearing from us on where we can really drive more spend and drive more value is investing in the front end of the business. And so it's investing in the feet on the street, into the channels, getting people out there that are talking to our end users and really maximizing the great innovation that we have out there and helping them understand why it's so powerful. And so that's definitely going to be an area of focus on top of continuing to feed the innovation model for the company.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No, I appreciate that. Maybe kind of taking that and kind of centering on the restructuring program. And typically, the bigger $1.5 billion supply chain transformation. Sometimes I find that when a program is kind of -- is big, it's a multiyear, investors kind of have trouble following the progress. Pat, what would you recommend that investors look at or monitor to say, okay, yes, Stanley is delivering on what they're telling us. Because it doesn't seem like the stock is getting much credit for getting a 35% gross margin at any period in time, let alone some point in '25?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

I'd say the most straightforward way to look at it is the -- this year, we really -- other than we can already see freight deflation at the latter part of last year. So when we baked into our inflation assumptions in COGS this year, it was largely break down, especially ocean freight, everything else relatively steady. And that's for the most part of the world we're living in. Those savings metrics do not have commodity deflation baked into and those are savings irrespective of the commodity cycle.

And so I think the thing is to look at is what's our rate of achievement of gross profit, which will move with the macro, which will move with our revenue number and that's a way to look at it. And then we should be able to deliver improvement irrespective of the commodity cycle. And if there is a deflation that comes on top of that. And I think that's a way to kind of gauge through that percentage and through the commodity environment, how to look at it.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Obviously, with the growth algorithm being 2 to 3x the market and the market is kind of roughly GDP, it's saying, expect mid-single-digit type growth. Is that needed -- to get back to 35% gross margin, is that okay, yes, well, not only do we need to do all the self-help, but we also need sales to go back to here?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. No, it's not a volume-based algorithm other than, obviously, we have to get out of production curtailments. It does assume we get out of production curtailments. Because we're running a number of our facilities at 30% down. We can't get the 35% margins with that in perpetuity. But it's not predicated. We just -- we're hungry for the value creation opportunity. And once you have a sustainable and attractive margin structure, the most critical component to add to that is growth. It's also a way to delight customers and channel partners.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

And so I don't want to leave people with the impression is we're growing that level no matter what, and risking a bad competitive dynamic, it's more we have grown at that rate in the past and preserved a healthy competitive dynamic, and we believe we can and will innovate back to that level. But it's not a -- that volume is needed to get to 35% type dynamic.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

I appreciate that and only a few minutes left here. Maybe switching over to the portfolio. The portfolio has become more focused, more streamlined over the past couple of years. Now you're kind of -- Dennis, you said kind of the biggest R&D spend and now we're going to continue to grow into a more focused portfolio. Can you just kind of talk about what the advantages of the more focused portfolio, particularly as it relates, I don' know maybe the channel partners or the rate of innovation?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. I would say it gives us, as a leadership team, a more focused way to build those capabilities and then to get returns on those capabilities. And historically, the secret to the tools and outdoor business has been innovate for the Pro in a very powerful way that gives them a big productivity advantage. And to Dennis' point, then have people who are out there interfacing with the Pro in-person feet on the street and illustrating just how productive these tools can make the individual and then use that halo to drive it through a broader channel base, including the do-it-yourself consumer.

And I think being streamlined around Tools & Outdoor and some like industrial parts of the models around fasteners, instead of having to make those allocation and priority decisions across some very diverse businesses like oil and gas or security, we're going to get back to the power of our innovation engine, but also being able to follow through all the way to the end market and unlock the value of that innovation.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

The -- kind of if you go back historically, the company in the 5, how many years pre-COVID, 5% to 6% volume growth. Is that apples-to-apples to what we see now just because, like you said, security gone, oil and gas gone, or like were those segments that you sold, were those volume accretive segments and no?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Well, I wouldn't -- security tended to be lower growth in the portfolio just because of its business model, the recurring revenue, the installed base et cetera. So that wasn't additive to that number. Oil and gas is dependent. Obviously, that wasn't highly cyclical end market for us. But really, if you look at those periods where we are driving consistent growth, it was around developing strong catalysts and tools that we were able to activate in the marketplace and really drive the benefits from those. And so it's not as if it's a completely different portfolio that we were comparing to, nor was that where the success was coming from the areas that we're talking about today. So it's definitely something that we stacked up a series of catalysts in the past. And now what we need to do is do the same thing here as we kind of look ahead and activate this innovation in the market.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No. And then kind of -- only couple of minutes left. But like looking at the portfolio going forward, are there places that you guys are still looking to bolster? Obviously, outdoor has been an area. And then conversely, are there areas that you guys would consider non-core? Maybe that could be a touchy subject. There were some headlines this week around some potential divestitures. Anything you guys can kind of share on the portfolio outlook?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

I think if you start with Tools & Outdoor, I think we feel like we have a pretty powerful set of brands right now. If anything, you could argue we need to even get focused inside of that set of brands, and we are and will. And I think we feel like we have the portfolio of brands we need to deploy our innovation globally and across the channel that allow us to monetize it best.

I think if then you go to the Industrial side of the business, we're always going to be working to maximize stakeholder value. We do -- it is a business that is smaller and distinct from our Tools business in some respects, which can challenge focus from time to time, and we do need to delever. And so I don't think it's been any secret that we think about that business in those terms, which is what's the best way to maximize shareholder value and what's the best way to get our leverage where we'd like it to be, which is historically closer to 2x net debt to EBITDA. And so we'll continue to do that. But those businesses, they have strong secular tailwinds.

Our transformation just as it's delivering value in Tools & Outdoor, is delivering like value in Industrials. And we've created the runway for ourselves given our current leverage situation to make the right decisions to drive value creation.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. Appreciate that. And then maybe I could just squeeze one last one in on Outdoor. Obviously, the company has made a couple of very high-profile acquisitions there in the past number of years. How -- you kind of -- as you kind of come to Outdoor, how do you think about managing that business? It does feel like a very difficult business to manage. And you're selling into small windows, you're allowing -- it's weather impacted. Nobody has any idea. Is there any ways to kind of manage that more effectively?

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Yes. I mean I think -- it's always going to have a cyclical component, right? You can do things with your channel partners to smooth out production and inventory flows. You can do things of platforming to smooth some things out. I do think though that what's underappreciated and we're only at the early innings of it is, the exceptional brand value of DEWALT. And DEWALT innovative around handheld product and now increasingly a Pro oriented, handheld outdoor product set that complements the channel position that MTD and Excel had with independent dealers is a powerful combination we're only starting to realize right now. So it will have a little bit more seasonal volatility than a Tools business, but I think a very powerful way to take assets we already had and leverage them into a new channel. And so we're quite excited about that.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Appreciate that. But up on time. But thank you both for the time today. We really appreciate it. Thank you to everyone here joining us live and listening on the webcast, and have a good day, everybody.

Patrick D. Hallinan - *Stanley Black & Decker, Inc. - Executive VP & CFO*

Thank you, Chris.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

