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Stanley Black & Decker, Inc. (SWK)

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

All right. Thank you, everybody. Chris Snyder, a US multi-industry analyst. Super excited to have Stanley Black & Decker up here with me. We have CFO, Pat Hallinan; Chris Capela, Director of IR; and then, Michael Wherley, Vice President of IR, who just joined the company and will be replacing Dennis Lange, who many of you know, who's moving now into a strategy role with Stanley Black & Decker.

Before we get into the Q&A, Pat's going to start off with some remarks.

Patrick D. Hallinan

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

Yeah. Well, thanks, Chris. Good to be here. And thank you for attending this afternoon. As we have Chris Nelson, who's been our Chief Operation Officer for the last 2.5 years, stepping into the CEO role in October; and Don Allan, our current CEO going into Executive Chair, just want to reinforce the fact that we think we still have a great organic self-helping growth story in front of us, and that's where our focus is for value creation, is finishing the transformation, mitigating tariffs to get our margins to 35-plus-percent and really pivoting to growth, and doing so by heavy emphasis on accelerating very targeted innovation and activating our brands with greater precision and greater purpose in the marketplace.

And, obviously, the macro environment and the political environment has given us some new fun things to work on, but we still feel, despite all of that noise and tumult, that the targets we laid out a year ago at the Capital Markets Day we had last fall are very much still the appropriate targets for the business and very much still within reach. The tariffs probably put a 12-ish-month lag to achieving those targets, but they're still the right targets for the business. And we're looking forward to having Chris in the CEO role and are very confident in the road ahead.

So with that, Chris?

QUESTION AND ANSWER SECTION

Chris Snyder
Analyst, Morgan Stanley & Co. LLC Q

Thank you. Kind of maybe starting with that Investor Day from last year you guys talked about that you're really focusing spend on three brands. DEWALT seems like first and foremost, but then also STANLEY and CRAFTSMAN. Can you talk about that decision, why it was made and, ultimately, what benefit that brings to company?

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

Yeah, yeah. I think a few things. One is, we went through a period, as did many durable products that go to market through construction channels, whether they're retail big boxes or trade-centric channels, where a proliferation of brands maybe helped a channel exclusivity exercise. And so, we – obviously, if you followed our story for a long time, we acquired many brands, many you didn't list and I'm not going to spend the time here listing them. But the road from here forward in accessing growth is really about resonating with end users as your channel partners and not promising lots of exclusivity.

And so, therefore, having these brand boundaries is a less valuable route forward. And now, we need to be able to invest to demonstrate to end users that we're giving them productivity or safety improvements or supporting them in the field better. And so, by prioritizing brands, it enabled us to allocate capital in a much more concentrated, scalable manner. And when you look at DEWALT, STANLEY, and CRAFTSMAN, those brands are 75-plus-percent of our dollar revenue to begin with, and they allow us to access the three big market segments that we're targeting more specifically.

DEWALT, very much targeted at pros across a number of trade channels. STANLEY, a brand that is targeted very much at the kind of sole proprietor pro. And if you follow STANLEY outside the US, it's a very powerful brand in power tools, as well as hand tools, whereas, the US, it's still a hand tools brand. And then, CRAFTSMAN gives us the entrée to DIY. And so, there are places where we had good scale, we had good route to market, and we had good attachment to the end markets we're chasing more specifically.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC Q

Appreciate that. DEWALT has had really good growth. You guys kind of have talked about that. Are you seeing improvements at STANLEY or CRAFTSMAN from the focus and the investments you're making?

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

We are. I mean, obviously, they're not quite at the pace and magnitude of DEWALT yet. The ex-US parts of our STANLEY brand were on that game, probably in kind of second order relative to DEWALT. And we are, in Europe and Latin America, seeing much greater performance from that brand. And we're going to be bringing that more to the hand tools marketplace in the US. Some of it's industrial design and packaging and some of it's merchandising. But yes, we are starting to see that in the European market.

And then, I think, CRAFTSMAN is a brand where we're retooling its positioning with DIYers. It probably got a bit too broad in terms of category and product offering, and we need to focus that a little bit more. We have two big retail partners there. One, we're humming on all cylinders, and one, I think we need to do some work to retool the actual product offering in the marketing and then align strategy. But I do think, in 2026, you're going to see progress in both of those brands that starts to read through to the top line in both of those brands.

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

Appreciate that. You guys talked about, with the growth investment, obviously, product innovation. So, I guess, are there any specific innovations that you want to call out that are really having a material – or having or could have a material impact on demand? And the second piece you guys called out was you added more than 400 customer-facing employees. So maybe just kind of talk about what they're doing to help support growth?

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

Yeah, yeah. So on innovation, I would say, we have some areas of historic strength, like carpentry and concrete, and we've had products in both of those categories over this year and into next year. And we've always had good presence in mechanical, plumbing and electrical, but not where it needed to be. And I think, as you see things rollout next year, you're going to see a lot in plumbing, mechanical and electrical spaces and, I think, that's where you're going to see the growth in DEWALT in those categories.

I'd say, in terms of resources, they're kind of equally, if not biased, a bit towards sales and then some in-field service. And as we've gotten back to a historic strength, which is field support of the brand, and as you go to market with trade customers, whether it's a Grainger or a White Cap or whomever as a channel partner be, they expect you to have your own sales people in the field with their sales people, driving relationships with big contractors and driving sales initiatives. I'd say, that's where about two-thirds or more of that head count has gone. And then the rest is supporting product, customer service support and field support of product on big job sites or with channel partners where we – whether we run a repair facility that's co-located with a channel partner or some of our own.

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

I appreciate that. You mentioned that these three priority brands account for about 75% of the portfolio. The other 25%, is the investment into those three brands coming at the expense of the other 25%? Or is the investment there just being kind of held steady? It's just not increasing like...

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

It's the latter. And we have general managers in charge of those brands and we expect them to be much more kind of bootstrappy, entrepreneurial. But we're not – for example, we're not starving LENOX to feed DEWALT. It's just, as we've talked about our transformation journey since 2022, while we were saving $2 billion, $500 million from SG&A and $1.5 billion from COGS, we were also saying, hey, we're going to be deploying about $100 million incremental a year to growth, and those incremental dollars are going towards those three big brands.

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

Appreciate that. Obviously, there's a lot of cyclical pressure in the market. The consumer's weak, interest rates have been high, tariffs aren't helpful. But I think the investors that have a more structural negative view of Stanley would say, you guys want to outgrow the market by 2x to 3x, but there are competitors in the market who is willing to run at lower margins versus what you're targeting. I know there's more than one competitor. I know we always focus on the one. So, I guess, what would you say to that? And then, like who is the company taking share from? Or who do you think you could take share from?

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

A

Yeah. Well, I'd say, there's three things in there, right. One is, I think – and we sometimes talk about [ph] 2 times to 3 times the (00:09:58) market and, I think people get either excited or very anxious. But the market, we're talking about real GDP. So, if you're thinking real GDP is 2-ish-percent plus or minus 50 basis points, we're talking about 4% to 6%, and I think if you look at a brand like DEWALT that's had a CAGR over 6% for the last 10 years.

So, we're kind of talking about performance that's within the bounds of our long-term trajectory. It's not easy, but we're not out there chasing 12% or 18% and trying to incite price competition. That is certainly not our objective. I feel that we can compete and grow this business mid-single digits in a market that's probably a 3% to 5% market. If we're growing 4% to 6%, that's probably the framework we're talking about. And if we compete on the basis of innovation and the way we support our...

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

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

A

...products in the field, we can do so constructively without creating lack of pricing discipline in the market.

I think in terms of share, the two of us that you're mentioning, together globally, are each about 12%, 12.5% market share. So the two of us together have 25% market share. There's still 75% of the market to go chase. So it's not just two people tearing steak off of each other's plate. We have 75% of the market to go after. And if you look at other durables market, it's not atypical that you have two to five players that are of reasonable equal size and capability.

So, I think players, like ourselves and the TTI brands, we can go to the market and we can compete for the other 75% and we can compete against one another on the basis of innovation without killing one another. I do think on the – where else the share coming from? I mean, I do think there are a number of other players. Some of them are global, some of them are local.

And they've been retrenching a bit for various reasons, whether they have other lines of business that are more important than power tools, or whether they're going back to some of their more traditional geographic markets, and I think that's kind of where the share has more than not been coming from. I also think the innovators like ourselves and I certainly have to give TTI some credit, we're innovating for the pro and we're growing the market by growing dollar share in terms of higher-priced tools that drive higher productivity.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, absolutely. The company has had a strong gross margin recovery. I think the trough was about 20%. I think you guys are kind of targeting low-30s in the back half. The target is 35%. It sounds like you said earlier maybe that's kind of out 12 months from the original year-end 2025. And I think it's very reasonable that we've had a very challenged market, down-volumes the whole time. Obviously, tariffs aren't helpful to that. But you're also going to end the year roughly all the way through the $2 billion restructuring program...

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

Right.

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

...So like what drives that next? What gets you from low-30s to mid-30s plus? Is it just volumes? Is there more cost savings?

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

A lot, a lot. If we get to the end of this year, we'll be – and this is consistent with the dialog we had at the end of the second quarter, we'll be roughly around 31% for the full year in 2025. Obviously, we want it to be farther along than that. Tariffs have brought in about $800 million in annualized new cost. What gets us through that by the end of next year is, we'll have a second price increase this fourth quarter, we'll have tariff mitigation next quarter, and then we have some additional activity in supply chain opportunities.

We have every confidence we get there, but the biggest – in the simplest terms, the biggest is mitigating the tariffs out of the system is the biggest...

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

Yeah.

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

...Because when we look at tariffs, by this fourth quarter, we're kind of dollar-for-dollar price neutralized amount of run rate, meaning, like if we have an $800-ish million tariff bill, we're kind of at that level of pricing, but that doesn't recover margin. So, the supply chain actions that we're attacking to get product out of China to elsewhere, whether that be Mexico or other Asia and a little bit North America or US rather, that'll be the margin expansion of next year.

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

Appreciate that. Maybe turning to the market, it feels like the story here has been the same for the last three years. The pro is resilient and healthy. The consumer is not. It's feeling pressure. I guess, are you seeing any rate of change as you look across either side of the market?

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

No. I mean, there's been – and some of these were dialogs, say there's been ebbs and flows across the months and quarters of this year in that there has been months where the POS has actually been surprisingly strong and then there's months when the POS has been weak. It does seem like the consumer and especially the DIY consumer or anybody buying higher price point items, they kind of ebb and flow with the political mood.

But we set out this year. We thought we'd be flat to maybe up a point. And then across the first quarter close and the second quarter close, we revised that to kind of flat to down a half a point, and we still feel like we're roughly in that zip code. And I do think, if there could be some certainty on the tariff/pricing front, and I do think there's meaningful movement when the [ph] 10-year is getting to 4% or low versus 4.5% (00:16:25) and up. And we'll see if the current dynamic holds, right. I mean, there's a lot of noise in interest rates right now. But construction broadly, not just US housing, will benefit from a [ph] 10-year that's 4% (00:16:41) or lower.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. I mean, that was kind of going to be my next follow-up. If you look at Tools & Outdoor volumes, you have been down for three years, below pre-COVID levels from my sense. I guess, is that it? Do you think need rates to get it? Is it just maybe consumers need to see certainty, feel better? What could kick-start this?

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

A

Yeah. I do think – I think rates are part of it and are a big part of it. I also think, and I'm not naïve, I don't think that these things click over quickly because, obviously, rates ultimately will rise and fall with deficits. I also think immigration and employment policy, because that drives construction activity, for sure, not just housing construction. And then, finally, how is the government, both local governments and federal governments are going to deal with infrastructure. Because we care, obviously, about residential construction, but commercial and infrastructure construction is as valuable to us.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, absolutely. I think you guys said on the last conference call that you're seeing about one-for-one price elasticity. Price goes up [ph] 1%, volumes go down 1% (00:17:52). Is that still what you're seeing...

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

A

That's still what we're seeing. As we went into this tariff/pricing environment, the reality is, the industry hadn't taken a lot of price recently. And so, most of what we had to observe data-wise was our promotional elasticity, which was really, if we take price down 1%, what do we get? And it was about a one-for-one lift. And so, we went into a price increase environment, which was mostly a list price increase environment, not exclusively so, and that's about what we've seen. Now, obviously, it doesn't hold across every SKU equally, and we didn't take price equally across every SKU. There are certain categories that are more elastic and some that are less elastic. But that is a good rule of thumb on average for our experience.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

Appreciate that. You guys, very successfully, it seems like went out to the market and got price in the spring. And I know that's not an easy thing to do with the channel partners you guys have. But I guess, my question is, is that getting harder as time goes on? And do you feel like there is any pricing fatigue in the market because – maybe not due to the absolute level of price, but just due to the consistent every other month having to come back and ask for more?

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

Yeah. So, both very fair questions. So, I think, on the first price increase which we launched in the spring, middle of the second quarter, we had the good fortune of kind of starting those dialogs early, meaning the fourth quarter of 2024, less with the, we know precisely what we're going to do and we know precisely when we're going to do it. More of, we're anticipating tariffs, we're anticipating them to be significant, and we're anticipating them to stick, and we need to have 35% gross margins to give you, Mr. and Mrs. retailer or the end consumer innovation that you want.

And so, we had, for almost nine months before they were activated, been in constant discussion and healthy give and take of how are we going to do this? How much is list price? How much is change in promotion? That kind of stuff. We got the first one in, as you mentioned, and we were probably on the early side on both Tools & Outdoor equipment there.

I think it's a fair question on the second. We're only doing two. I mean, we might be talking about it all the time, but the way the world's experiencing it is, at least this year, there'll be two of them and the second one will be in October. We still have the ground to stand on. If we're not one, we're not where we need to be from the margin journey. And two, I think now, the retailers themselves are realizing that this tariff regime is for real. A lot of the prior regime, they were exempted from, either in total or by category and they're now living it. And so, it doesn't make the discussion easy or quick, but it makes it fact based.

And I have every confidence we get the next one in. I do think in our industry, power tools in particular, because we haven't been taking a lot of price, I don't want to say that means it's easy for retailers or end buyers to digest our price increases. But some other industries in pretty close adjacent spaces have been pushing that envelope even way before tariffs pretty hard. And I do think some other places are seeing some price fatigue, whether it's because copper is also a force there, or whether it's in industry like HVAC where they've been really pushing the outer boundaries for a long time. I don't know those industries all that well, but I don't sense those same dynamics in our space.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC
Q

When we look at the tools market – really the power tools market, there's a lot of imports from Asia and some of them could be even from yourself if we look back historically. But I guess, kind of the question is, do you think that you guys are in a net competitively advantaged by the tariffs, given off of the North America production base?

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

We certainly believe that that's a potential and we're trying to make that the reality. I think it hinges on our ability to maximize USMCA achievement by product line because then you're going to zero...

Chris Snyder
Analyst, Morgan Stanley & Co. LLC
Q

Yeah.

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

...And we had the good fortune, which didn't seem like good fortune a couple of years or months ago when, in 2018, the last tariff regime we probably overexpanded in Mexico. And until this tariff regime, we're wondering, do we hold onto all that capacity or not? Now, we're basically moving volumes from China into that capacity.

One, there's a speed because we already had the four walls. And then, two, it doesn't instantly become USMCA-compliant. You have to do some other things to the product content-wise to get it there. But we do believe if we optimize that part of our value chain, that, net-net, we're advantaged from a tariff perspective. And then the more you develop the local supply chain in Mexico over multiple years, the more you can take inventory out of the system as well, because you're a bit more closer to market.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC
Q

Appreciate that. We saw in August, they expanded list of derivative products on the Section 232 metal tariffs. Does that have any impact? I think you guys last sized the gross tariff impact of $800 million. Is that impacted by this? And is that going to maybe be rolled up into the October price increase you talked about?

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

It doesn't change our total number, and the only reason is that we did not anticipate the further Section 232 increases. But what we have done on the second quarter outlook as anticipated that the rest of world tariffs would be higher than they turned out to be. If you recall, around that July timeframe, Vietnam had gone from 10% to 20%. And so, we kind of just [indiscernible] (00:24:20) the rest of the world is going to be up 5 percentage points to 10 percentage points, on average, those things haven't happened. And so, we kind of overcooked our estimate on rest of world tariffs and then Section 232 went up. They roughly offset each other. And so, our run rate is still – kind of unmitigated run rate is about $800 million annualized, and it's just because we overestimated one and underestimated the other, but they roughly offset.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC
Q

Appreciate that. And then kind of me tying that to gross margin, you guys – obviously, there's productivity tailwinds that is boosting gross margin, but there's also kind of a lot of price coming through kind of to your point that's going to be margin dilutive because it's dollar neutral. I mean, can you just kind of talk about that and, ultimately, that gross margin bridge that you guys are forecasting into the back half of the year?

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

Yeah. I mean, so, we obviously had some serious headwinds in the second quarter because the second quarter had relatively low amounts of price. And for a period, had the Liberation Day tariff rates of 145%. So, you kind of had the extremes of little price and maximum tariff. We were around about, I think, 27.5% gross margin, and we'll be in the low-30s the back half of the year. I mean, a big chunk of that is price, including by the fourth quarter, some incremental price.

We are going to get some mitigation into this year and we're not speaking about that publicly, but there are our ability to take SKUs we were already making in both China and Mexico, get more of those to Mexico, and also some ability to change some of the things we're doing with our Mexican SKUs to get them more USMCA-compliant, so we can get an acceleration of tariff mitigation.

And then, third, we still have the transformation work that, if you've been following our story, for the most part, we generate those efficiencies that go on our balance sheet for six months and they come off in the fourth quarter. I'd say, all three of those are contributing significantly to that fourth quarter. If you're inferring, you're going to get into the low-30% in the fourth quarter, right.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. I want to kind of follow-up on USMCA. Can you kind of update us on STANLEY's USMCA compliance? I mean, like what is the process or timeline for getting compliance on a product? And then the USMCA is under review in 2026. Is that part of your thought process at all yet that perhaps things there could change?

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

A

Yeah. I have two different questions. I mean, I think, prior to tariffs and specifically tariffs on whether it was finished goods or components from China and whether they were coming from our own facilities or a supplier, the efficiency of on-tariff goods from somewhere in Asia could sometimes, in a prior life, trump the ability to get to USMCA, where you might have to develop more local capability to achieve that. And so, in the past, we weren't – it wasn't we were ignoring it. Anywhere we weren't doing it, because it was optimal to not do it...

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

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

A

...Obviously, 55% tariffs on China changed that equation quite a bit. And each of them, in the simplistic of terms, country of origin, which drives the tariff demarcation and USMCA have, in essence, their own rules on percentage of content. Because it's not just any dollar of content. It tends to be the content that drives the actual productivity of the tool. And so, there are two different criteria, but in the end event, they tend to be close enough to percentage of content.

And so, our mitigation path is, how do we optimize both? I think you're not going to hear us speaking very loudly about the level of USMCA compliance, because we feel like that's going to be a strategic advantage. We'll be guiding people by gross margin expectations. But you can be assured we're trying to push for maximum USMCA compliance. Some of that can be quick, because the supply base already exists, whether it's ours or somebody else's. Some of that will take some supply chain development.

I think on the notion of, hey, what happens with USMCA? I mean, I think if the last 5 or 10 years have taught us anything, it's going to change. So, we're going to have nodes around the world. We won't be only Mexico-dependent. We had a capability in multiple Asian countries – other Asian countries, not just Vietnam. But you can imagine, we're expanding those capabilities, and we also have capabilities in India we're expanding. So, I think you're going to see us be, and I'm going to assume, scaled, smart durable manufacturers are going to have to be multi-nodal manufacturing.

And our Asia – our China hub still services Europe, right. So, it's not like that capability goes away either. I mean, you can imagine that one of the knock-on effects of taking US content out of China is the rest of world can go into China and then come out. So, we'll be, as best we can, a voice to preserving the current USMCA regime or something highly similar to it, but we'll have to be prepared to adapt if it changes.

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

Appreciate that. Can you maybe talk about some of the moving parts into 2026? Obviously, the macro and volumes are difficult to call, but it feels like the company has pretty material price wrap into next year purely following the October action...

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

Yeah.

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

...It sounds like you expect to get – you may exit at closer to that mid-30s gross margin, so you get nice margin expansion there. Anything else to call out or think about?

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

No, I'd say, we're – obviously, it's dangerous to come here and [ph] start getting too over your skis (00:30:42) on 2026. But our mindset of how we're tackling the year is, we're still expecting a volatile macro and political environment, which is creating at least uncertainty. What it does to GDP? I'm not here to kind of give a 2026 GDP forecast. But I think it creates uncertainty. I think that uncertainty puts a weight on end market buyers. So, as a company, we're just planning on we better be able to make gross margin and cash progress if it's a low-volume year and that's our mindset.

And so, we're going to be maniacal about holding on to the price, maniacal about driving the mitigation that gives us the gross margin expansion, and we're going to continue to challenge ourselves to be more efficient with SG&A in the back office, so that, even in a low-growth environment, we could pump $75 million to $100 million towards sales and marketing. And that's the way we're going to position ourselves. And I think, as you see gross margin improve, you're going to see EBITDA and cash improve, and that's the mindset going into next year. I think, if somehow the world is better than that, I think if there is growth, then it's a powerful force on next year.

Chris Snyder Q
Analyst, Morgan Stanley & Co. LLC

Thank you. I appreciate that. Maybe – and only a couple of minutes left, maybe finishing up with some strategy ones. At the late 2024 Investor Day, you guys talked about $500 million, if I remember correct, of divestiture. I think you gave around 18 months as a potential timeline for that. Kind of any update on that part of it?

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

Yeah, we're still tracking. I mean, I think we've been, in various forums, reasonably direct that it's most likely an asset in our fastener business, aero-centric, where you can get good multiples. And the time to get there has been less about waiting for the M&A market and more about us getting the profit consistency out of that business that enables us to monetize it in the best possible manner. And I would tell you, I think we're out with that asset sometime in the fourth quarter or the first quarter.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

I appreciate that. Just kind of you guys beyond aero, also, there's auto fasteners, general industrial fasteners...

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

A

Fasteners.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

...Can you just maybe talk about what the scale of that business would be without aero and why it makes sense...

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

A

Yeah.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Q

...to keep some and not all?

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

A

Yeah. That business – we're about $15.25 billion and that business is about $2.1 billion with aero in it. Aero is probably about $400 million, right. So, it's still a sizable business. You're talking of $1.7-ish billion, $1.8-ish billion business. And to your point, it's about two-thirds auto-centric, the remaining one-third is general industrial. From our perspective, our job is always to create maximum shareholder value. So, we'll always challenge ourselves about the composition of the portfolio. What makes sense? What doesn't make sense?

We do believe that business grows very similarly to tools, maybe more like 3% to 4%, instead of 5% to 6%, but it's still a decent grower. It's has the ability to innovate and grow beyond real GDP. And at an EBITDA margin, it's every bit as good. If not even slightly better by a point or so than our tools business, it might have a slightly different composition of gross margin SG&A. Maybe it's a point or two below in gross margin, but also a point or two below in SG&A kind of thing.

And right now, I don't think, if we monetize it, we'd somehow get paid more than 12 times for it. So, I know it's not a way to create value for shareholders. And we feel like we can compete to win in those businesses. And that business, just like our tools business, we're just being much more intentional about the end markets we're chasing and how we're allocating organic growth dollars to chase those end markets.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC

Well, we are up on time, but thank you so much. Really enjoyed the conversation.

Patrick D. Hallinan

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

Likewise. Thank you.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you.

Patrick D. Hallinan

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

Thank you.