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Stanley Black & Decker, Inc. (SWK)

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CORPORATE PARTICIPANTS

Christopher J. Nelson

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

OTHER PARTICIPANTS

Sam Reid

Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Sam Reid

Analyst, Wells Fargo Securities LLC

My name is Sam Reid, homebuilder and building product and distributor analyst at Wells Fargo. Joining me here today is Chris Nelson, President and CEO of Stanley Black & Decker. I'm really excited to have Stanley here today. This is my first opportunity to meet with you all on a public setting like this. So, great to connect, Chris, and looking forward to some good dialog.

Christopher J. Nelson

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

Absolutely. I'm very excited to be here. And it's been an exciting year and part of an exciting journey for the company. And we wrapped up our kind of our transformation coming into this year, punctuated by the divestiture of our CAM asset and that allowed us to really put our balance sheet in good position and be front-footed for executing our strategy going forward. And that's really all about activating our brands with purpose, the core STANLEY, DEWALT and CRAFTSMAN brands, making sure that we drive operational excellence throughout the organization to be able to fuel the investments back into the business and then really working hard to innovate our pace and innovation because this is an industry that rewards innovation with higher sales and higher margins. So, we're excited about that. And we've made a lot of progress and we're looking forward to the years that come as well.

QUESTION AND ANSWER SECTION

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Absolutely. You sort of front ran my question but – so I'm going to re-ask in maybe a slightly different way.

Christopher J. Nelson

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

A

Maybe I'll answer more interestingly.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

You already answered it perfectly interestingly. So – but in terms of the transformation, just to take a step back...

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

...you've gone from being a multi-industry company to really more of a pure-play building product type company. Talk through kind of what's gone out – how that transition has come inline with expectations versus perhaps some of the surprises that might have come up along the way?

Christopher J. Nelson

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

A

Well, as you know, we have, as a part of the transformation, really honed our portfolio to really – we're a tools, outdoor and fastener business that is really focused on making our end users more efficient, more productive and safer on their job site, whether that's a construction site, an automotive factory, whatever it would be. So, as a part of that focus, we then really needed to make sure that we were focusing on what we were going to do to win within that. We like the end markets. We love the construction end markets. We think we have a great position in those markets. We think that they are long-term durable and are going to be growth oriented as well. And we think we like the competitive structure and the margin structure therein.

So, making sure that we understand – understood where to focus, how to focus, how to play was the first thing. And that focus has really allowed us to hone-in on our strategy and making sure that we really worry about our core brands, our DEWALT, which is about \$7 billion of our sales. And we've invested significantly in that brand, not only in the technology, the product development, but also the market activation, working closely with those professional end users, revitalizing the STANLEY brand with new product line, new design language, new technology, and a focus on that smaller res con contractor and then CRAFTSMAN focused on the DIYer.

So, that is – the good news is a lot is going well and there haven't really been many curveballs that I've seen, and I've been with the company for three years now, as far as the strategy, how to execute and then our road to execution, making sure that we hit all of our kind of checkmarks along the way. And we've been doing that with

the balance sheet. We've been doing that with our margins. We've been doing that with pivoting to growth. And we've been really excited with what we've accomplished.

Of what has been the biggest kind of, as you said, the unknown or the surprises, have really been the macro has not been what we anticipated. And certainly when you look at whether it'd be the housing market, the extended issues there, and then certainly as we've entered into the tariff regime, that was some things that we needed to react to. And I'm very happy with the way the organization has reacted and shown our execution chops through that and now as we kind of navigate what's going on in the Middle East.

I'd say it's an interesting kind of perspective to have because while it has been a lot of things to navigate and it's been unexpected, I would say that in the long run, it's going to make us a stronger company because as we've been able to navigate that, execute and continue along our path through those unexpected twists and turns, I think that we've become a leaner and more focused, better execution company. And it's going to make us better in the long run. And certainly then when we start to see those – more stability and a little bit more tailwind in some of – certainly in the housing market, I think it's going to be a nice upside as well.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Absolutely. We'll probably have some questions on that a little bit later. So stay tuned.

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

But when I think about your growth outlook, when you look at STANLEY, I think you guys are targeting something closer to mid-single-digit growth...

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

...in the context of low-single-digit industry growth. So, just talk through kind of, one, what's underpinning those assumptions; and then two, kind of where the share gains potentially would be coming from?

Christopher J. Nelson

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

A

Yeah. So, really, as you referenced, I mean, we're thinking – we don't have a lot in our three-year outlook. We're not counting on much, if any, market help. So, then it comes down to growing above the market. And really where we've been focused is on those core brands.

When I first started with the company, I think we had gone through – kind of looking back at history, we had gone through a lot of acquisitions, had a lot of complexity in the company. And I think maybe had kind of a diversified or

focused too much. So, really honing in and saying we're going to put our resources, our capital and our efforts behind three core brands that we believe are well-positioned in the marketplace. We're going to focus on being a brand-led company. We reorganized ourselves as opposed to product based. We now have for our [ph] core (00:16:51) brands, we have a DEWALT GM, we have a CRAFTSMAN GM, we have STANLEY GM, we have an organization. That's how we think about it. That's how we talk to our customers.

And then, within that, saying, the decision, it wasn't that difficult to figure out. But starting out with DEWALT. DEWALT is about a little bit more than \$7 billion of the sales of the company, it's very well-positioned with a professional end user and the professional markets are certainly performing better than the DIY markets. And I thought that there were things that we could do to accelerate that performance.

Specifically we decided to take a step back and take a look at the core, what we thought the core trades were that we needed to invest in and continue to build on our strength in carpentry, continue to launch products to penetrate the concrete trade, and then really focus on accelerating and working out the workflow for our key battery ecosystems in the mechanical, electrical and plumbing spaces.

So, that first step on really reorienting all of our product development to a trade-driven, end user-driven approach, while it may seem simple, before it was much more from the standpoint of thinking about a channel-focused approach, going after the highest volume products as opposed to the products that really the end user needed to be able to round out their suite.

So, the product development changed. And then we have, over the past two years, put more than 600 salespeople in the marketplace specifically for DEWALT to work with the contractors, work with the end users, and be there every day, not only seeing the things that they needed from a product perspective, introducing them to our products technology, supporting them in the training and the technology and launch our new products with them. And that has been – the momentum has been great. We're certainly growing above market with DEWALT. We believe we have a big roadmap and – to be able to come and continue that growth. So, that was the first step.

And then the second I'd say in the line was then what were we going to do with STANLEY? And STANLEY was something that I think had been – although it's in the company's name, had been by and large neglected for a while and had lost its way, it didn't have a really well-defined end user that it was going after. So, we said it's basically a hand tool business, have some power tools in it, but by and large it's a hand tool business. It's focused on that smaller residential construction and kind of contractor.

And we went and rounded out those product lines, and everything that needed to be, over the past two years from a – what it takes to lay out, measure, cut, et cetera from a hand tools perspective. And then once again STANLEY, which is about 60% of its sales are in Europe, a little bit more than that, we revitalized the sales force in Europe as well to be able to specifically focus on driving STANLEY growth with those wholesalers that merchandise the professional hand tools. And then making sure that we updated the look and feel of those products as well. So that is actually going really well and we expect to pivot to growth as we go into the back half of this year.

And then the third key area of the share is going to come from was really taking a look and saying, what do we need to do in order to get the CRAFTSMAN brand to where it needs to be. It's our DIY brand. We have said very specifically that we're going to target that DIY end user. When we acquired the brand in 2017, we acquired a brand with no product. So, getting the brand product was first out of the gate. And then what we didn't do was really define what customer are we going after and what end user?

So, I would say we had a over-specified professional product selling into a DIY market. So, for the past two years, we've been working to really purpose design those products at the right spec level, the right cost level for that DIY market. And that'll not only help our ability to hit the right price point, but then with the margin structure that we like as well. We're going to be launching more products this year in CRAFTSMAN than we have any time since the acquisition of that business. So, I think going into next year, we'll be pivoting to growth there.

So, those are really the three core building blocks of where the share will come from. Two of them with STANLEY and DEWALT are really playing in a nice market with the professional end user. CRAFTSMAN being more in the DIY world is something that we believe we can certainly grow share in. And then as that market continues to recover a little bit, we'll see some tailwind there as well.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Switch gears and talk a little bit about pricing. You took pricing perhaps a bit earlier than some of the peer set. Just talk through kind of the rationale for that? And then also walk through how you treat your promo strategy as some of your peers have pushed through more price?

Christopher J. Nelson

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

A

Yeah. So, while – I mean, we hit the same thing as everybody else did with the tariff shock. And we had been, for months and months before that, running different scenarios of what we needed to do in order to mitigate that issue. And first and foremost, we wanted to make sure we had the availability for our customers. And then we said, we were going to continue to support our increases in margin regardless of the tariff environment, in order to be able to fuel the investment that we needed for the brands.

And we knew that it was going to be something that was going to – everybody was being facing. We could obviously analyze everybody's cost position and their manufacturing footprint and everybody was going to be similarly affected. We made the decision and I stand by it and I think I would do it all over again the same way of coming out aggressively and quickly on pricing. We believe that's the right thing to do to make sure that we protect our shareholders and not permanently impair any of the structural margins that we have in the business. At the same time, we had been working with our channel partners to let them know what it was going to look like. And we [ph] have a (00:23:29) good back and forth there.

We came out a little earlier on pricing and we expected it – the industry to kind of hit its equilibrium over the next several months. And in fact, this year in Q1, it kind of did, was – there were some larger pricing increases coming through from competitors. And everybody is kind of now, by and large at a – at the same equilibrium level. What that allowed us to do as well was not only that, as the pricing environment normalized, we having come out early, we're able to really take a look at what the by SKU, tactical, elasticities look like as we went through and analyzed our pricing.

And coming into this year, given that we were resetting the promotional environment from what was a difficult year last year, we were then able to tweak individual SKUs to say what would be the right way for us to maximize our price volume tradeoff there specifically in the promotional world. And we talked about it, that we were going to be doing it in Q4 of last year. And then the fact that the – we had come out of the gates in our Q1 earnings and talked about it and those are – those actions and the results are progressing right along our plan.

Sam Reid

Analyst, Wells Fargo Securities LLC

Let's maybe switch gears and talk a little bit about inflation.

Q

Christopher J. Nelson

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

Yeah.

A

Sam Reid

Analyst, Wells Fargo Securities LLC

Highly topical for just about everybody in the space. And you faced your own set of inflation, whether it's battery metal...

Q

Christopher J. Nelson

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

Yeah.

A

Sam Reid

Analyst, Wells Fargo Securities LLC

...tungsten, petroleum, maybe just talk through kind of how you're managing through those inflationary pressures, hedging mechanisms...

Q

Christopher J. Nelson

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

Yeah.

A

Sam Reid

Analyst, Wells Fargo Securities LLC

...et cetera.

Q

Christopher J. Nelson

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

So, I would say that the interesting dynamic we're facing or we're managing through right now is that, yes, we have those inflationary elements coming into our business, which interestingly are almost exactly dollar for dollar offset with a temporary low – lull in tariffs. So, as we look at what's been happening over the past several months or for a six-month timeframe with the lower level of effective tariffs in the 122s, it's essentially offset it almost dollar for dollar.

A

Now the question becomes, and where we're really going to have to and we are spending the time right now is understanding what we think the environment is going to look like Q3 going into Q4 because that's when Q3, Q4, our model and our assumption and we've talked about this publicly is that on January – or I'm sorry, July 25, the 301 tariffs are going to come in and essentially replicate what IEEPA was. So, you're going to go back to right where you were. So, that means the pricing we put in is the right amount of pricing, and we haven't changed that. The only variable now is going to be what inflation remains and what dissipates, if at all, based on what we're seeing with the potential resolution in the Middle East.

When we have that data in the Q3, Q4 timeframe and get ready to head into 2027, we'll make the judgment of what we need to do. I think the important thing to note is that order of magnitude, we're talking much, much, much, much lower numbers than we were faced with when we had the tariff shock. And if we look at the way that we've been able to bolster our productivity pipeline, the answer to the question of what will we do with inflation is going to be much more productivity than price going into next year. And any price that we would do would be likely more targeted in nature.

If you think about the areas that we see inflation in battery metals, if everybody's seeing battery metal inflation, you would expect everybody to have some level of pricing actions in batteries, tungsten's the same way. And I think the interesting thing is going to be see obviously what happens with resins. But we don't know exactly how things are going to look coming out of Q3, but we do know we're just like we were before, we're on top of it and we're going to be poised to move decisively to continue our margin journey that we've been on.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Absolutely. Maybe let's double click on some of those productivity initiatives a little quickly. When you say productivity, can you just walk me through maybe one or two examples...

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

...where you think you can bring some additional production out of the business?

Christopher J. Nelson

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

A

So, there's really three areas that I'd say that we're very focused on. And if I take a step back, one of the questions I get asked the most is, boy, you just went through this transformation, you took \$2 billion of cost out of the business, how much more could there possibly be? Well, the interesting thing was that the majority, more than 80% of the dollars we took out during the transformation was kind of what I'd say, basic blocking and tackling sourcing. So, working with suppliers, aggregating spend and driving better acquisition costs.

I have not been with the company all that long, three years. And I came from – I've spent a long time at United Technologies, which had the continuous improvement kind of DNA very deeply embedded into it. And I would tell you that my view of where we are as a company, in driving to that level of execution performance, we have a lot of runway. So, three specific areas, one is our ability to really implement and drive lean on the shop floor at a much more holistic level to continue to take labor content out of our products is one key area.

The second area is we are aggressively moving to reduce our manufacturing footprint. We have a lot of capacity and we have been moving quickly to more right-size our capacity in the region that the capacity needs to be resident. That has been a little bit – up until kind of the beginning of this year, a little bit delayed because we needed to trigger all of our production moves for tariff mitigation. And it's difficult to consolidate plans when you're moving product lines all over the world. But we have now started to hit a steady clip there. So, there's a nice pipeline of opportunities for us to take our fixed cost base down.

And probably – and the third and kind of most consistent and largest lever we have going forward is, I refer to it as overall material productivity and that is through engineering, design and platforming to continue to reduce the input or the overall material costs for our products, which is, call it 80% of our cost. So that's the biggest lever to pull. By way of explanation, we were very much a siloed product development organization, where you had individual project – product managers that were paired with their own team of engineers. So, you'd have a drill – a team that did drills and circ saws and impact wrenches, and they'd all be separate, which is great from the standpoint of being able to work together, to come out with a new product and really being best-in-class there. What we were giving up was the fact that essentially across the landscape of tools, all the components and inputs are very similar across the categories. And we were not – we were designing the perfect motor for a drill and a different perfect motor for a saw.

And if you think about not only the way that you could commonize those key components, use the scale to then leverage with your supply base, but then also from a speed of innovation, you can not have to requalify all your new motors and design new motors. So, that's a huge lever that we've been able to, on a very regimented basis, put in a program. It really didn't exist in any real way until the past couple of years. And now, we're starting to see all that pipeline of savings flow through from those initiatives. So, these are the three areas that we've got a lot of the productivity lying ahead of us.

Sam Reid*Analyst, Wells Fargo Securities LLC*

Q

Awesome. And then on tariffs, you've got a few initiatives that you've been working through over the past few years. China sourcing and then USMCA compliance.

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

A

Yeah.

Sam Reid*Analyst, Wells Fargo Securities LLC*

Q

Just kind of curious the state of the union on both of those.

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

A

Yeah. So, in our copious free time, we are...

Sam Reid*Analyst, Wells Fargo Securities LLC*

Q

[ph] Few thoughts on that (00:32:09).

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

A

Yeah, we are then – we were – publicly we said that we were going to be at or below 5% of products produced in China for US consumption by the end of the year. We're on pace to do that. Now that is – there's been a lot of great work with – between the engineering teams, operations teams, product teams to make that happen. And we're ahead of our ramp there. So, that's been going well. And then similarly, once we would move the products

from – or concurrent with moving the products from China into our North American manufacturing base, we have then been working to take up the level of USMCA qualification by way of kind of baselining.

When we started this kind of Q1 of last year, I believe it was, we were roughly 30% USMCA qualified. There are just – candidly, there wasn't that much of a financial incentive in our case to be so. The average industrial kind of baseline or USMCA qualification percentages in call it the 75% to 85%. And we said that we'd be able to be there within a couple of years. We're well ahead of that. And we would expect to be kind of running around that average by the end of this year.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

And then switching gears, you made some moves on your walk-behind mower business earlier this year...

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

...moving that more to a sourced model.

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Just maybe talk through the rationale for that. And are there any opportunities to do more of that type of transition in other areas of the business?

Christopher J. Nelson

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

A

Yeah. So, taking a step back from it, I would say that – to answer the question that wasn't asked is that the CAM divestiture, I would think is the last big portfolio shaping thing we're going to do. But then things that are what I'd say is more pruning around the edges, we're going to be doing as we take a look at every aspect, every subcategory, every part of the business that we are in, making sure that we are in the categories and the product lines that we believe have the best long-term growth and margin structure and competitive structure going forward.

Specifically, the area that we spend a lot of time is making sure that we believe that we're in the right areas of the outdoor business. Outdoor in general is a really good business. We like the long-term growth characteristics. We like the synergy between our tools and our outdoor products when it comes to a battery platform perspective.

I would say that not all parts of that business do we love. And so, we went and we did a full analysis of what we thought the subcategories were within outdoor that we thought were going to be growth above market, that we're

going to have the right competitive structure, the right technology structure that would drive the right types of returns going forward. And now, we've been pruning around the edges.

One of the things that we did along those lines was, as you said, we've got or we're getting out of the manufacturing of the gas walk-behinds. It's a fairly commoditized, low-margin, low-growth business that we think is moving into electrified. So, we didn't want to be deploying any of our capital there. Similarly, I'd say that there are different parts of the portfolio that we're taking a look at around the edges to get that outdoor portfolio down to what we think is the right structure, but nothing big. It's more on a product line by product line basis.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Absolutely. And maybe moving down the P&L a little bit, let's talk gross margins. There's some exciting gross margin targets...

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

...that you all have outlined, getting to 35%...

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

...and then 35% to 37%. Maybe just bridge the margin today relative to that near-term 35% target...

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

...and then the 35% to 37% longer term.

Christopher J. Nelson

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

A

Yeah. So, if I think about where we're going to be in first half of this year to the climb that we have in the back half of the year where it's – we talked about it on the earnings call as we go exit close to that 34% rate. Really the bridge is – 40% of that bridge is driven by what I'd say is the enhanced productivity portfolio that we see coming through, so all the things I was referencing earlier. 40% of it is really driven by the fact that we – as we saw the volume come down last year and due to the market as well as from the elasticity due to our pricing changes, we were – we moved to take the excess capacity and structure out at the end of the year coming into this year.

Part of the reason was that it's difficult to take your capacity down while you're moving things all over the world. And I didn't want to be reducing capacity in Mexico temporarily, only to build it back up and ramp back up as we move product over. So – but the way that our P&L works with what goes on the balance sheet, that kind of then manifests itself as being an H1 problem for margins. So, 40% of it is just going to be having the adjustments we made coming into this year to reduce our fixed costs from our capacity. And then 20% of it is really continuing along the accelerated road to tariff mitigation.

So that puts us in the neighborhood of kind of, call it, the 34% at the end of the year. As I think about moving into next year and wanting to have a full year, that is, kind of getting into that kind of 35%-ish range, that's where we're going to need to make sure that we make the right calls coming out of the year on where we sit from an inflation perspective and what productivity and pricing we may need to put in.

Longer term, what I'd say is the 35% level, that's kind of all on us. Our ability to drive productivity, our ability to execute, that – with very little, if any, market help, we will get there. And then – it's – to get to that 37% type of mark in a couple of years, that's going to require a little bit of a market recovery. But we'll be able to kind of chip away and continue to be at or above that 35% range as we go forward.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

Sounds exciting. You've got a great fasteners business.

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

You've obviously divested part of it this year...

Christopher J. Nelson

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

A

Yeah.

Sam Reid

Analyst, Wells Fargo Securities LLC

Q

...but there's a lot of great stuff that's still there. So, talk through the outlook for the fastener business and kind of how you see that evolving over time.

Christopher J. Nelson

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

A

Yeah. So, it's interesting. Our fastener business and like you said, divesting CAM to me was a just a natural thing to do in our portfolio evolution. Aerospace is not a business you can really dabble in and we're kind of dabbling in it. So, I think strategically it made a lot of sense. Obviously we got a good number for it. The number helped us get our leverage ratio to where we want to be.

But we have a pretty sizable fastener business that is in our tools business as well, the anchors and fasteners, and it's essentially a tools and fasteners business in non-construction settings is what we do in our STANLEY Engineered Fastening, meaning that we are figuring out we have tools in fasteners to be able to take labor and drive productivity into the automotive assembly world. Right now that's very, very, very topical for what's going on in automotive in both Europe and the US. And we're seeing a lot of progress there. So, really our application expertise, our automation expertise in that automotive world and our market position puts us in a great position to continue to drive that efficiency for our end users and continue to see growth, really like that business.

And then in the industrial fastener business, really making sure that we continue to focus our business on the high – highly differentiated, higher margin portions of the business, whether it'd be – we work with solar – the solar field installers to figure out how – think about you need big tools that can do all kinds of fastening out in remote areas to put up these solar fields. That's what we do for those folks. And they are on strict timelines and they don't have ever have enough labor either. So, it's really the same or similar business in a different setting. And we want to make sure we're going after those high-growth verticals nuclear, solar, power generation, et cetera. So, we really like those businesses.

Sam Reid*Analyst, Wells Fargo Securities LLC*

Q

We have a few minutes left here, want to make sure we give the audience time to potentially ask a question. So, if anyone has something they want to lob our way, go ahead. Otherwise, I've got one or two left. All right. Well, if you guys do, you're always welcome to raise your hand. But I wanted to quickly touch on capital allocation here.

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

A

Yeah.

Sam Reid*Analyst, Wells Fargo Securities LLC*

Q

And that does tie back into the CAM divestiture...

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

A

Yeah.

Sam Reid*Analyst, Wells Fargo Securities LLC*

Q

...to a degree. So, you've articulated a target to get to, I believe, closer to 2.5 times.

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

A

Yeah.

Sam Reid*Analyst, Wells Fargo Securities LLC*

Q

Maybe just talk through kind of where you see your leverage targets over the longer term.

A

Christopher J. Nelson

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

Yeah. So, I think that 2.5 times is really the right level to be at for this business and especially where we are in the cycle right now. Moving forward, we've expressed that with where we are, we are going to continue to support our dividend and grow it moderately over the years as well. And then we believe our earnings will grow back into the proper yield ratio from there. Our first priority for capital deployment is going to be continue to invest in the core things that we need to drive organic growth. We believe we have great end markets, great brands, great technology. We need to continue to invest and drive that organic growth and execution. That will be number one.

Second, we're going to look at continuing to accelerate shareholder value creation through buybacks, through targeted buybacks. We were authorized for and talked about coming on the last board meeting, a buyback there. So, we're going to continue to look at that as a way to return value to our shareholders.

And then, really in the near term, M&A doesn't have a big place in what we are going to allocate capital to – towards in the near term, right? I look around our portfolio and we have everything we need to be successful. We have the brands, we have the technology, we have the resources. We have access to every geography, every market. We need to just make sure that we're executing well and driving value for our customers and our shareholders.

And then on down the road, if there are opportunities we see in a couple of years to think about bolt-ons, if there's a new technology that we need, if there's a new geography or access to geography or channel, we could talk about that. But really right now, it's going to be organic growth. And then being able to take a look at those targeted buyback opportunities.

Sam Reid

Analyst, Wells Fargo Securities LLC

Chris, I think we've made our way from top to bottom across the P&L.

Christopher J. Nelson

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

Okay.

Sam Reid

Analyst, Wells Fargo Securities LLC

Thank you so much for taking the time to talk with us today.

Christopher J. Nelson

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

Absolutely. Thank you.

Sam Reid

Analyst, Wells Fargo Securities LLC

Awesome. Thank you so much.

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