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# Stanley Black & Decker, Inc. (SWK)

Q1 2024 Earnings Call

## CORPORATE PARTICIPANTS

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**Donald Allan, Jr.**

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

**Christopher J. Nelson**

*Chief Operating Officer, Executive Vice President, President-Tools & Outdoor, Stanley Black & Decker, Inc.*

**Patrick D. Hallinan**

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

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## OTHER PARTICIPANTS

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**Timothy Ronald Wojs**

*Analyst, Robert W. Baird & Co., Inc.*

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*Analyst, Vertical Research Partners LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the First Quarter 2024 Stanley Black & Decker Earnings Conference Call. My name is Shannon, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct the question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to the Vice President of Investor Relations, Dennis Lange. Mr. Lange, you may begin.

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### Dennis M. Lange

*Vice President-Investor Relations, Stanley Black & Decker, Inc.*

Thank you, Shannon. Good morning, everyone, and thanks for joining us for Stanley Black & Decker's 2024 first quarter webcast. Here today, in addition to myself is Don Allan, President and CEO; Chris Nelson, COO, EVP and President of Tools & Outdoor; and Pat Hallinan, EVP and CFO.

Our earnings release, which was issued earlier this morning and a supplemental presentation, which we will refer to, are available on the IR section of our website. A replay of this morning's webcast will also be available beginning at 11:00 AM today. This morning, Don, Chris and Pat will review our 2024 first quarter results and various other matters followed by a Q&A session. Consistent with prior webcast, we are going to be sticking with just one question per caller. And as we normally do, we will be making some forward-looking statements during the call based on our current views.

Such statements are based on assumptions of future events that may not prove to be accurate, and as such, they involve risk and uncertainty. It's therefore possible that the actual results may materially differ from any forward-looking statements that we might make today. We direct you to the cautionary statements in the 8-K that we filed with our press release and in our most recent 1934 Act filing.

I'll now turn the call over to our President and CEO, Don Allan.

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### Donald Allan, Jr.

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

Thank you, Dennis, and good morning, everyone. Our first quarter performance was the result of consistent solid execution, and we are making progress against key operational objectives. We continue to see significant value creation opportunities tied to our strategic business transformation and the entire company is focused on the disciplined execution of this strategy.

We are encouraged by the momentum that is building across the organization. Two of our primary areas of emphasis are free cash flow generation and gross margin expansion. We are focused on what is within our control and are pleased with the momentum behind our gross margin. This is particularly notable considering a significantly worse negative macro environment and corresponding revenue performance in 2023 and 2024 versus our initial expectations at the outset of our transformation in mid-2022.

Our global cost reduction program remains on track for expected run rate savings of \$1.5 billion by the end of 2024 and \$2 billion by the end of 2025. As we hit the halfway point of our journey, our decisive actions are delivering quantifiable results. Specifically, we have captured \$1.2 billion of run rate savings program to date.

We remain confident this will support 30% gross margins in 2024, consistent with our guidance. We are encouraged that approximately 80% of the company's revenue is expected to carry 2024 adjusted gross margins in excess of 30% and exit this year at or ahead of initial expectations. We believe these product lines will continue to improve upon their current adjusted gross margin profile over the next 18 to 24 months.

As it relates to the rest of the portfolio or that 20%, which is predominantly our cyclically depressed outdoor business and the rapidly recovering aerospace fastener business. We are actioning significant cost efficiencies to make necessary improvements to the profitability of outdoor in response to the current market demand and refining the aerospace fastener product line cost base to drive significant growth leverage as wide-body plane production continues to recover.

Our long-term success will be driven by improved profitability, coupled with consistent market share gains. We believe our share position in tools is now stable to increasing. For example, our 2023 point-of-sale data in tools performed better than the category average across the North American home centers, which was led by our iconic DEWALT Professional brand.

We are also serving our customers better by delivering improved fill rates, earning the right for more activity across our brands. Retailers are recognizing this performance. For 2023, ACE Hardware named Craftsman as Vendor of the Year and Grainger recognized Stanley Black & Decker with their Partners in Performance Award. Congratulations to our organization. This is a testament to the team's efforts and as we work to get closer to our partners. It's an early indication that we are on the right track.

As we report our first quarter performance, we are energized by how our transformation efforts are taking root. I am confident that by executing our strategy, we are positioning the company to deliver high levels of organic revenue growth, profitability, and cash flow to drive strong long-term shareholder return.

Turning to the first quarter results. Our top line showed signs of stabilization with organic revenues down a point. Excluding the now divested infrastructure business, organic revenue was flat as Engineered Fastening and DEWALT growth was offset by muted consumer and DIY demand. Adjusted gross margin was 29%, up 590 basis points versus the first quarter of last year and 30 basis points above the second half of 2023.

Adjusted diluted earnings per share was \$0.56. Adjusted gross margin expansion and EPS growth were both supported by lower inventory destocking costs, supply chain transformation benefits and reduced shipping costs. We are reiterating our 2024 full year adjusted diluted EPS guidance range of \$3.50, up to \$4.50 as well as our expected free cash flow of \$600 million to \$800 million. Pat will provide more color on this later in our presentation.

On April 1 we completed the sale of STANLEY Infrastructure to Epiroc. We have already deployed net proceeds from the transaction to reduce short-term debt, demonstrating our commitment to further strengthening our balance sheet.

Looking forward in 2024, we expect mixed demand trends to persist across our businesses. And we are driving supply chain cost improvements to expand margins, deliver earnings growth and generate strong cash flow. At the same time, we are funding investments designed to fuel targeted long-term growth and market share gains across our businesses.

I want to thank our team members around the world for their contributions to the progress that we have made on our transformation journey and for their energy and focus as we continue to charge forward.

I will now pass it to Chris Nelson to review the business segment performance.

## Christopher J. Nelson

*Chief Operating Officer, Executive Vice President, President-Tools & Outdoor, Stanley Black & Decker, Inc.*

Thank you, Don, and good morning, everyone. Beginning with Tools & Outdoor. First quarter revenue was approximately \$3.3 billion, down 1% organically versus prior year, as growth in DEWALT was more than offset by muted consumer and DIY demand, which pressured volume. Pricing was relatively flat, consistent with our expectations.

Adjusted segment margin was 8.5% in the first quarter, a 550 basis point improvement compared to the first quarter of 2023. This was achieved through lower inventory destocking costs, supply chain transformation savings and shipping cost reductions, which were partially offset with targeted investments designed to accelerate share gain and organic growth.

Now turning to the product lines. Power Tools was up 1 point organically led by pro-driven growth into DEWALT and international sales. We are also seeing benefits from a return to historic promotional levels on high-margin DEWALT cordless. Organic revenue for hand tools declined 7% pressured by lower DIY demand. Outdoor product line organic revenue grew 2% in the quarter, driven by strong demand for handheld cordless outdoor power equipment and incremental retail product listings.

We are encouraged by US retail point-of-sale data, which showed an early start to the season versus prior year. We are cautiously optimistic that demand can be better than the last two years. Our visibility will improve as we move through the second quarter and hit key US holidays.

The independent dealer channel continues to work through significant on-hand inventory, which pressured shipments in the quarter. We are monitoring POS trends in this channel and currently expect that they can clear their inventory during the 2024 season to set up a stronger 2025.

As Don alluded earlier, the outdoor market remained soft versus 2019 volume levels. We are not standing still and are moving with speed to improve profitability by continuing to optimize our cost structure. Consistent with our overall strategy, our intent is to focus resources towards capturing targeted share gain opportunities in the most profitable and attractive growth segments such as electric handheld outdoor power equipment.

Turning to Tools & Outdoor performance by region. North America was down 2% organically, driven by factors consistent with the overall segment. In Europe, organic revenue was down 3% as declines in France and Germany were partially offset by growth in the Nordics and the UK. We are making targeted investments in the region to expand professional product offerings and activate these innovations in the market to capture share.

In aggregate, all other regions were up 7% organically in the quarter, driven by mid-teens growth in Latin America. Brazil, Mexico, Central America and the Caribbean led this performance for the quarter.

In summary, for Tools & Outdoor, we are acutely focused on successfully winning with our customers and winning with the Pro, while making profitability improvements. We are navigating mixed market conditions with the goal to capitalize on the areas of strength. We are making deliberate investments in our brands, market activation, and innovation to capture the growth and margin opportunities that will contribute to long-term shareholder returns.

I will now discuss our Industrial segment performance. First quarter Industrial revenue declined 5% versus last year, price realization of 1% across the segment and Engineered Fastening volume growth was more than offset by infrastructure volume declines and a point of currency pressure.

Within the Industrial segment, Engineered Fastening organic revenue growth of 5% includes aerospace growth of 30% and auto growth of 4%. We believe we are outpacing customer production levels as a result of targeted share gains, particularly in EV automotive. This growth was partially offset by market softness in general industrial fastening.

Industrial's adjusted segment margin was 12.1%, an improvement of 110 basis points versus prior year, driven by price realization and cost actions taken to improve productivity. This was a strong performance considering the infrastructure volume decline that the team faced.

The quarter was a result of focused execution by our Industrial business associates. On behalf of the entire leadership team, I'd like to thank our colleagues around the world for delivering another solid quarter of results and a strong start to the year.

Now turning to the next slide. I would like to now highlight a few of our recent DEWALT product introductions, which are the results of our investments in innovation. The new DEWALT 20-volt MAX XR Cordless Framing Nailer is engineered for enhanced productivity and performs applications that are traditionally served by pneumatic tools. It is designed to allow the end user to sync framing nails consistently sub flush into LVL material and when used in rapid sequential mode, ramp-up time is eliminated between shots.

DEWALT is also introducing the world's first 20-volt MAX cordless 2.25 peak horsepower dedicated Plunge Router. It provides power like a corded midsized router with the convenience of a cordless tool a prime example of how we continue to help our Pro users transition to a cordless job site. Additionally, our TOUGHSYSTEM 2.0 DXL Workstation is the industry's first portable storage solution with a 30-inch platform that helps Pros maximize their productivity. This all-in-one workstation delivers customizable mobile storage and a functional work top that is unlike anything else currently available for commercial construction job sites.

These are just a few examples of how we continue driving our innovation engine in a manner that is centered on the professional with the intent of making our users more productive. We believe these innovations, coupled with our investments in brand and market activation will stimulate share gains. As we celebrate the DEWALT 100-year anniversary, we also reflect on our responsibility and commitment to serving the trades people around the world with brands like DEWALT, CRAFTSMAN and STANLEY.

Thank you, and I'll now pass the call over to Pat Hallinan.

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### Patrick D. Hallinan

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

Thanks, Chris, and good morning. Turning to the next slide. I would like to highlight the progress we've made along our transformation journey in the first quarter. We achieved approximately \$145 million pre-tax run rate cost savings in the period, bringing our aggregate savings to approximately \$1.2 billion since program inception. As we focus our portfolio, streamline our business structure and transform our operations, our teams are actively identifying and prioritizing opportunities to further optimize our cost structure.

Given the dynamic macro environment, we continue to refine and mobilize plans to deliver targeted savings. We are confident in our ability to execute those plans. We continue to target \$1.5 billion of pre-tax run rate savings by

the end of 2024 and \$2 billion pre-tax run rate cost savings by the end of 2025. Strategic sourcing remains the largest contributor to our transformation savings to date. We are leveraging savings on the \$5 billion of addressable spend across areas such as materials and components, finished goods and indirect expenditures.

Our operations excellence program, which leverages lean manufacturing principles is driving productivity improvements. The scope of this work stream improves efficiency and effectiveness within our production and distribution facilities. Our pipeline of projects is robust with initiatives lined up to deliver efficiency gains in 2024 and beyond. Footprint-related projects and product platforming, which are more event-driven, will become increasingly important throughout the remainder of our transformation.

We are optimizing our distribution footprint as well as redesigning our manufacturing network to leverage centers of excellence and to optimize our operations. This multiyear endeavor is accelerating in 2024 as we plan to exit or transform a number of facilities across the globe during 2024 and 2025. The manufacturing sites we previously announced for closure have ceased production, and we expect to exit these sites in the near future. We continue to execute manufacturing footprint changes during the first quarter, which affected five sites with the goal to complete these site modifications this year. Regarding product platforming, this initiative will unlock value by reducing complexity across our value chain. This savings initiative identifies various parts and components that can be standardized across a product family, which eliminates complexity and improves procurement scale.

In aggregate, our supply chain transformation initiatives are expected to generate approximately \$0.5 billion of savings in 2024, improving margins and generating resources for additional growth investments in our core business. We remain confident that our transformation can support the sustainable cost structure and efficiency needed to return our adjusted gross margin to 35% or greater while enabling targeted growth investments.

Moving to the next slide. We continue prioritizing free cash flow generation and gross margin expansion to support long-term growth and value creation. First quarter free cash outflow was in line with typical historical trends due to seasonal account receivable increases. This quarter, our inventory control contained the working capital build to approximately \$360 million, where we've traditionally averaged a roughly \$700 million increase in the first quarter of the year.

Days of inventory is now approximately 150 days, an improvement of 10 days versus the prior year and moving toward our long-term target of approximately 120 to 130 days. We used the net proceeds from the infrastructure sale to reduce our commercial paper balance in the beginning of the second quarter. Because this occurred subsequent to the first quarter close, it is not reflected in the first quarter balance sheet. We remain focused on working capital optimization and profitability improvement to generate strong free cash flow in 2024.

For the full year 2024, we plan to reduce inventory by \$400 million to \$500 million as we continue prioritizing working capital efficiency. CapEx is expected to range between \$400 million to \$500 million, which includes support for the footprint-related transformation initiatives. These items, combined with organic cash generation, support our full year free cash flow range of \$600 million to \$800 million, which is unchanged from our guidance communicated earlier in the year. Our capital deployment priorities remain consistent, investing in organic growth and our transformation, funding our long-standing commitment to return value to shareholders through cash dividends and further strengthening our balance sheet.

Turning to profitability. Adjusted gross margin of 29% in the first quarter improved 590 basis points versus prior year, driven by lower inventory destocking costs, supply chain transformation benefits and lower shipping costs. We expect to increase adjusted gross margin sequentially in each half of 2024, and we are planning for total company adjusted gross margin to approximate 30% for the full year. We continue to expect to exit the year at an



adjusted gross margin rate in the low 30s. We are off to a solid start in 2024 and the hard work we've done to make adjusted gross margin progress allows us to fund incremental investments to accelerate long-term organic revenue growth.

Now turning to the 2024 guidance and the remaining key assumptions. In addition to the free cash flow guidance I just covered, we are reiterating GAAP earnings per share range of \$1.60 to \$2.85 and an adjusted earnings per share range of \$3.50 to \$4.50. We are maintaining the range of organic revenue assumptions to be plus or minus low single-digits. We believe the most likely outcome for organic revenue is to be flat to down 1%.

At this level, we expect to achieve the midpoint of our adjusted EPS range through cost controls. Our view incorporates modest headwinds in aggregate for our markets, and we remain focused on gaining share in this environment. We are maintaining a disciplined approach to cost management and remain committed to funding investments for long-term organic growth.

Turning to the segments. Tools & Outdoor organic revenue is expected to be plus or minus low single-digits, most likely below flat consistent with the total company. The Industrial segment organic revenue is expected to be relatively flat to slightly positive. Infrastructure's first quarter decline will impact the segment's full year organic growth. And now that the deal is closed, we will report the divestiture revenue impact quarterly.

Our planning assumption for growth investments is approximately an incremental \$100 million in 2024. These are designed to accelerate innovation, market activation and to support our powerful DEWALT, CRAFTSMAN and STANLEY brands. This should result in 2024 SG&A as a percentage of sales in the mid-21% zone for the full year. We will remain agile with the pace of investments should the demand outlook swing in or out of our favor.

Turning to profitability. We expect total company adjusted EBITDA margin to approximate 10% for the full year, supported by the benefits of the transformation program. Segment margin in Tools & Outdoor is planned to be up year-over-year, also driven by continued momentum from our ongoing strategic transformation. The Industrial segment margin is expected to be flat to slightly positive versus prior year as operating improvement in Engineered Fastening is offset by the dilution from the infrastructure business divestiture.

Our adjusted EPS range remains \$1, with variability in market demand being the largest contributor, we will work to optimize adjusted gross margin and manage SG&A thoughtfully throughout the year to balance the macro uncertainty while working hard to preserve investments to position the business for longer-term growth.

Turning to other elements of guidance. GAAP earnings include pre-tax non-GAAP adjustments ranging from \$290 million to \$340 million, largely relating to the supply chain transformation program, with approximately 25% of these expenses being non-cash footprint rationalization costs. Our adjusted tax rate is expected to be 10% for 2024, with the second and third quarters in the low 30s. Discrete tax planning items are expected to reduce the full year rate and primarily impact the fourth quarter. Other 2024 guidance assumptions at the midpoint are noted on the slide to assist with modeling. We expect the second quarter adjusted earnings per share to be approximately 21% to 22% of the full year at the midpoint. Adjusted EBITDA for the second quarter as a percentage of the full year is expected to exceed 25%, with EPS contribution lower due to the quarterly tax profile.

In summary, we continue to make progress on our transformation journey with an unwavering focus on gross margin expansion, cash generation, balance sheet strength and share gains in a soft market. We are confident that successful execution of our strategy can position the company for long-term growth and value creation.

With that, I will now pass the call back to Don.



**Donald Allan, Jr.***President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.*

Thank you, Pat. As we report another quarter of progress, our consistent execution against our plan is building momentum and energizing our team. As our profitability continues to improve, we are focusing organic growth investments behind our most powerful brands, particularly DEWALT, CRAFTSMAN and STANLEY. We believe these investments can enable organic growth to outpace the market by 2 to 3 times.

Stanley Black & Decker continues to become a more streamlined business, built on the strength of our people and culture with an intensified emphasis on our core market leadership positions in Tools & Outdoor and Engineered Fastening. We are focused on consistent execution, while positioning the company to deliver higher levels of sustainable organic revenue growth, profitability and cash flow to drive strong long-term shareholder returns.

With that, we are now ready for Q&A, Dennis.

**Dennis M. Lange***Vice President-Investor Relations, Stanley Black & Decker, Inc.*

Great. Thanks, Don. Shannon, we can now start the Q&A, please. Thank you.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question is from the line of Julian Mitchell of Barclays. Your line is now open.

**Julian Mitchell***Analyst, Barclays Capital, Inc.*

Hi. Good morning.

Q

**Donald Allan, Jr.***President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.*

Good morning.

A

**Julian Mitchell***Analyst, Barclays Capital, Inc.*

Maybe – good morning. Maybe just my question would be around the second quarter, just homing in on that a little bit. One respect, I guess, just to make sure, based on the seasonality comment and I think the low 30s tax rate, are we sort of thinking it's flattish sequential revenue in Q2 and then a kind of 9% operating margin? Just wanted to make sure that's the broad assumption and to check what you're assuming for Outdoor? And also for Q2, how we think about free cash. Is that sort of flattish year-on-year or still down year-on-year like in Q1? Thank you.

Q

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

A

Yeah. Julian, I'll try to unpack all of those, see if I can remember them. I think, starting with sales. I think, sales will be flat to slightly down fractionally down. I don't think there'll be – the first quarter was down about 1 point, it probably won't be that steep. And your OM margin of 9-ish percent, you're in the ZIP code. I think, the first half of the year seems to be playing out in a manner that's consistent broadly with the consensus from our original guide. And so I think that's all in the ZIP code.

In terms of cash, yeah, I think, cash will be up – flat to slightly up for the quarter. What I'd remind everybody about cash is this year, our cash output is going to be driven differently than last year. Last year, we took out \$1 billion plus of inventory, and that was a massive driver of 2023 cash flow. We'll still be using inventory to drive cash flow this year, but it will be more like \$400 million to \$500 million. And then income expansion through margin expansion will drive the balance. And so we'll have the producers of cash this year be roughly the same order of magnitude, but disproportionately driven by operating profits this year.

And so obviously, those operating profits are going to flow the way the quarterly revenue and the margin expansion flows. And so I think that's what's being observed here in the first quarter is we had a really nice organic cash flow in the first quarter, but we had, as expected, less inventory reduction, and that's the net delta year-over-year in the first quarter, but I think it will be more like flat to slightly up when we get to the second quarter versus last year.

And in terms of Outdoor, as Chris mentioned in his comments, we've seen a more traditional timing and order of magnitude start to the outdoor season, which is certainly welcome, and we hope carries throughout, but it's early in the season, and we'll see where that plays out through the balance of the season, but coming off of two pretty tough seasons, we would welcome that. And so obviously, if that continued, that would put Outdoor on a growth trajectory.

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**Operator:** Thank you. Our next question comes from the line of Tim Wojs with Baird. Your line is now open.

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**Timothy Ronald Wojs**

*Analyst, Robert W. Baird & Co., Inc.*

Hey, everybody. Good morning.

.....  
**Donald Allan, Jr.**

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

Good morning.

.....  
**Timothy Ronald Wojs**

*Analyst, Robert W. Baird & Co., Inc.*

I was just hoping maybe you could expand a little bit on the DEWALT growth. Just maybe some color on the underlying drivers of growth there, just whether it's kind of organic user kind of growth and expansion or just inventory availability or outdoor – just some color there and maybe the sustainability of the growth trajectory. And then maybe just as you think about SG&A reinvestment this year, just how much are you specifically looking at kind of reinvesting that into DEWALT specifically versus some of the other brands?

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**Christopher J. Nelson**

*Chief Operating Officer, Executive Vice President, President-Tools & Outdoor, Stanley Black & Decker, Inc.*

Well, thanks a lot, Tim. This is Chris. So, first of all, I'd say that we're – we are encouraged by what we're seeing from DEWALT on the growth side. And it was something that has been a continued bright spot in the portfolio,

and we expect it to continue to gather momentum. If I would think about where the sources of growth are coming from, I would say that, first and foremost, the progress that we've made as a part of our supply chain transformation and allowing higher fill levels and service rates for our customers is certainly driving more momentum there.

Secondarily, I think, if we think about the ongoing sustainability and trajectory of that growth, as we have been pivoting our dollars and investments into more of the pro-driven end user not only product development, but also engagement in the marketplace and really highlighting the DEWALT brand, I think that, that is something that we see as a long-term sustainable trend and actually something that we're going to continue to put a lot of those investments into.

And while I'll turn it over to Pat for the specifics, what I'd say as far as the investments and where they're going, really, if you think about it, we're – the majority of it is going into development – product development and activation, where we're saying we want to be making sure that we're developing the innovative products for our professional end users, specifically driving a lot of innovation in DEWALT.

And then also, having a significant amount of that investment going into activation resources that can work with our end users and our partners in the field to make sure that they are able to understand, launch and drive the success of those products as well. So we feel very good about the sustainability and we're encouraged by the progress we're making with this – with the way that we're prioritizing here. I don't know, Pat, if you wanted to add anything there?

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**Patrick D. Hallinan**

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

A

Yeah. I mean I think in terms of SG&A for the year, Tim, I think, if 21% in kind of the middle fractions, 21.5-ish plus or minus 20 basis points is kind of where SG&A is for the year. And as our opening comments mentioned, that's about \$100 million of incremental investment. I'd say \$60 million to \$70 million of that in the Tools and Outdoor business. And as Chris mentioned, a lot of that is on innovation. And therefore, a healthy portion of that goes to DEWALT. And a lot of it is on field activation and so again, because DEWALT is the biggest brand out in the field, a lot of that ends up going to DEWALT.

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**Operator:** Thank you. Our next question comes from the line of Jeffrey Sprague with Vertical Research Partners. Your line is now open.

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**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

Hey. Thank you. good morning, everyone. Hey.

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**Donald Allan, Jr.**

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

A

Good morning.

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**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

Big picture question for Don and then maybe just some loose ends for Pat. But first, just – sorry if I missed it at the beginning, but the after-tax proceeds on infrastructure, and then Pat also, can you just address what that other was in cash outflow of 250 million-ish in the quarter. And Don, I'm just wondering if you could speak maybe

to the portfolio now more broadly with infrastructure done, is kind of the portfolio simplification in your view behind the company now, and we're focused on these operational elements that remain central to the margin improvement plan or are there other things that maybe could happen here as you chart the path forward?

**Donald Allan, Jr.**

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

A

Sure, Jeff. Pat, maybe you take those questions and I'll answer Jeff's second question.

**Patrick D. Hallinan**

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

A

Jeff, the after-tax proceeds on the infrastructure deal, I'd say, the pre-tax are in the 730-ish range. 730, sorry, as big as 729 and a fraction. And the tax impact to that will be de minimis, probably in the 10 or less range, when it's all said and done. And that all went down to pay the commercial paper balance down. And that all happened in the front of the second quarter. Therefore, it's in the second quarter financials that you'll see 90 days down the road. In terms of other cash outflows, that is driven by, let's say, two things predominantly. There's many things in that bucket.

One is a return to normal MICP or annual compensation, variable compensation payments, which go out in the first quarter. You can imagine 2022 was very, very low by traditional standards. And so the payout for 2022 that happened in 2023 was very low by traditional standards. And the payout that happened in the first quarter of this year for 2023 was kind of back to normal standards and then cash taxes. Those are the two big drivers of that outflow in the other bucket.

**Donald Allan, Jr.**

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

A

Thanks, Pat. And so on the portfolio question, as we all know, we've done a fair amount of work of pruning the portfolio of businesses here at Stanley Black & Decker, in particular, the Security segment, which had 2 businesses. And then in Industrial, we've done some things related to not only infrastructure, but oil and gas a little while back as well. We will continue to evaluate other things to prune going forward based on value creation opportunities. I think, we've gotten ourselves down to a place where we have some very high-quality assets in our portfolio. And there's not an urgent need to do anything at this stage.

As we look at the portfolio going forward, there will be more opportunities likely in the next 18 to 24 months to do a little bit more pruning. Some of it could actually be in Tools & Outdoor as we put more and more emphasis on the three big brands that Chris has talked about in a couple of different settings over the last six months. And we'll look at some of the smaller assets we have and decide whether those make sense for it to be part of the portfolio over the long term. And so we will continue to be active. I think, we've demonstrated over the years that pruning the portfolio is something that is important to do. but you need to do it in a way that creates value for your shareholders.

**Operator:** Thank you. Our next question comes from the line of Michael Rehaut with JPMorgan. Your line is now open.

**Michael Rehaut**

*Analyst, JPMorgan Securities LLC*

Q

Thanks. Good morning, everyone. Thanks for taking my questions. I wanted to just kind of dial in a little bit more on how you're thinking about the demand trends playing out for the rest of the year in Tools & Storage. You have

1Q organic revenue growth down 1%. You're talking about the full year flat to maybe down a little bit as the most likely scenario. So are we to assume kind of the current trend more or less persisting through 2Q and the back half?

And I'm also curious about how in the first quarter, you had the 7% drop in hand tools and storage, if there was any inventory destocking or anything going on that drove that adjustment? Separately, if I can sneak in another one on the mid-21% SG&A, if that's something where just given the backdrop and your goals around share gains over the next couple years, if we should think about that as a sustainable rate over the next 12, 18, 24 months?

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**Patrick D. Hallinan**

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

A

Hey, Mike, this is Pat. I'll take your kind of balance of the year revenue flows and SG&A, and then I'll let Chris expand on a few things. I think, as you think of year-over-year revenue for the balance of the year, I think, any given quarter is going to be in that down 50 basis points to down 200 basis points across the quarter, probably averaging down 1-ish for the year, if I had to kind of point you in a direction for the balance of the year. And any 1 of those quarters, the difference probably more to do with year-over-year comps in promotional activity or currency than some really noteworthy demand dynamic that we're expecting to change from one quarter to the next.

I'd say in terms of the SG&A at kind of 21.5-ish percent, I think that's likely where we are in a year like this where we're being thoughtful to manage expenses across our enterprise, while preserving growth investments to still deliver profit and cash on our transformation journey. And I certainly think, as you look longer term, that could be a sustainable percentage as well.

We have talked about in a number of forums over the last year or two that once we start seeing the market growth and we're a bit farther down the AGM journey, we may choose for a period of time to take that percentage to 22% or potentially even a little above 22% for a while as we invest for growth on the backs of a little more gross margin and macro demand. We're not quite there yet. So I think kind of managing in that 21 and a fraction range for this year and for the long term is probably a decent modeling assumption. But like we've said, we may choose at periods of time to go to 22% plus when we feel that there's good returns for those growth investments.

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**Christopher J. Nelson**

*Chief Operating Officer, Executive Vice President, President-Tools & Outdoor, Stanley Black & Decker, Inc.*

A

Yeah. And so if I take a step back and talk a little bit about where we see the markets from a macro perspective for the year. I think that what we're talking about is within – it's a very tight range, up a point, down a point, that we're kind of thinking that we're trending towards. And there are specific areas that remain tepid, specifically, if we think about we've talked about the challenges in the outdoor market. We're encouraged by what we're seeing early. But we haven't hit the season yet for really any of our businesses. And specifically in outdoor. And then as is widely understood, the DIY and in some areas, general construction remains a little bit muted as well.

That being said, we do see some bright spots as we look at the professional markets and as the earlier conversation, as we hone in on where we're going to really look for driving share and investments, a lot of our opportunities are there. So we remain optimistic there. I would just say, although there are certainly scenarios that you could see some level of back half acceleration, we think it's prudent to be looking at the outlook that we discussed earlier.

Because really, if you think about it, a lot of our businesses are fairly interest rate sensitive and with the current environment and how we're thinking about what we see for residential construction as well as renovation there

certainly will be an unlock coming. I think, it's just a matter of timing. And we think it's prudent to be looking at more of that flattish revenue environment for those reasons.

**Operator:** Thank you. Our next question comes from the line of Nigel Coe with Wolfe Research. Your line is now open.

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Thanks guys. Good morning. Thanks for taking the questions. So I just want to come back to the – to Jeff's question on the portfolio. I'd think that perhaps the industrial businesses with – the remaining Industrial businesses, the fastening businesses were trending as more non-core. It doesn't sound like that's necessarily the case. So that's my primary question. But if I could just add on to that. Just want to confirm that the infrastructure businesses are in the guide for 1Q. And then the stranded costs from that – from the infrastructure businesses is that impacting the margin progression with balance of the year? Is that material? Do you need to consider that?

**Patrick D. Hallinan**

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

A

Hey, Nigel, this is Pat. I'll take the infrastructure and then pass it back to Don on portfolio. The infrastructure sale in April was always in our guide. And so our original guide and our current guide account for a very early April sale of infrastructure, which we always assumed was going to be in our Q1 results as a continuing operation and then out of our results effectively from April 2 or thereabouts on. And so there's nothing to adjust in the guide. The guide is the guide.

And we planned our cost structure this year to deal with the fact that there'd be fixed cost in the industrial business that had previously been supporting that business. And the industrial team has been doing a great job both gaining share in the remaining businesses they have, especially in auto and aero, and managing their cost structure proactively to deliver roughly flat margins on the year, maybe slight improvement even though they had a sizable business depart this year.

**Donald Allan, Jr.**

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

A

Yeah. And the question on the portfolio, Nigel, and specifically around industrial. So what we're left with after the sale of infrastructure is the Engineered Fastening business that we acquired with Black & Decker, a few other fastening businesses we acquired since then. And then, of course, CAM, the aerospace fastener business is in there as well. When we look at the different portions of that, one, there's pieces that certainly could be evaluated for the word I use pruning in the future in the next 18 to 24 months. and we will continue to look at that.

The overall platform of Engineered Fastening is still a very substantial portion of Stanley Black & Decker. It contributes a significant amount to the EBITDA, to the cash flow of the company. And as the Tools & Outdoor portion of the business or the company continues to improve and EBITDA continues to grow as we improve our gross margins back up to 35% or more. As we get back to gaining market share and organic growth in a much more substantial way, it will provide us more flexibility further down the road to decide ultimately what do we do with the entirety of the Engineered Fastening business.

But I think if you think about it in chunks of time in the next 18 to 24 months, there's probably opportunity to do a little pruning in industrial. And then beyond 24 months, it's a question of do you do something more substantial from a capital allocation point of view? Time will tell.



**Operator:** Thank you. Our next question comes from the line of Adam Baumgarten with Zelman & Associates. Your line is now open.

**Adam Baumgarten**

*Analyst, Zelman & Associates*

Q

Hey, good morning, everyone. Just a question on the POS, what you saw throughout the quarter and into April at this point.

**Patrick D. Hallinan**

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

A

So, POS was, I'd say, in Q1, it was negative, but in line with our plan or largely in line with our plan. And we remain fairly confident in supporting the outlook that we have for the balance of the year. As noted, we have seen some progress and pick up with a little bit earlier start to the season. From the outdoor perspective that as of late has given a little bit more strength with POS and what we're trying to see now is how much of that carries through and how that continues to ramp up as we get further into the season. But the highlight would be that we're fairly in line with projections from what we're seeing with POS, and we're encouraged with the areas of progress we're seeing from some nice movement on growth with some of our key brands.

**Operator:** Thank you. Our next question comes from the line of Joe O'Dea with Wells Fargo. Your line is now open.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. Thanks for taking my question. Just wanted to ask on outdoor and as you see a more traditional start to the season, just any context on how you're thinking about 2024 demand in outdoor relative to 2019. And trying to understand whether this is a return to a more normal demand environment? And then also thinking about what a normal environment means for outdoor margins relative to where we are today to appreciate how much margin upside there could be there on just volume coming back.

**Donald Allan, Jr.**

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

A

Yeah. So there's a lot of good questions in there related to the outdoor business. And as a commentary on the margin, the – I would say that in my presentation, we talked about 80% of the company being above kind of line average right now, at or above. And the other 20%, which is really made up of outdoor and CAM or aerospace fasteners. The outdoor portion of the business, yes, it is below line average, but there's an opportunity to do a couple things.

One, right now, we're really adjusting the cost base for the new demand environment of what we've experienced over the last 12 to 15 months and dramatically lower demand in outdoor, that's taking place over the next quarter or two. The second phase of this will really be looking at some of the pruning activities that I've described, what portions of the business do we want to be in, which portions do we not want to be in. We think that's the path to continue to improve the profitability of outdoor. And that's something we'll continue to focus on over the coming quarters and into next year. As far as the more detailed questions, I don't know, if Pat or Chris, if you want to grab that?



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

A

Yeah. I'd say on the volume, this year is certainly still going to be down substantially versus 2019 even if the shape of the trend line starts and starts to look more like a normal trend line. The absolute volume in dollars will be down substantially from 2019. And I would still say that most likely next year would be below 2019 as well, but starting to recover. And to Don's comment the big headwind in this business has been the volume retrenching more than we would have anticipated a year or two ago. And so a lot of our actions are both around the fixed cost base and then what we can do with product cost structure to drive profit improvement in that business.

**Operator:** Thank you. Our next question comes from the line of Nicole DeBlase with Deutsche Bank. Your line is now open.

**Nicole DeBlase***Analyst, Deutsche Bank Securities, Inc.*

Q

Yeah. Thanks. Good morning, guys.

**Donald Allan, Jr.***President, Chief Executive Officer & Director, Stanley Black & Decker, Inc.*

A

Good morning.

**Nicole DeBlase***Analyst, Deutsche Bank Securities, Inc.*

Q

Maybe just focusing on pricing a little bit. I think the original expectation was for price to be kind of slightly negative in Tools & Outdoor in the first half, and it looks like maybe it came in a bit better than that in the quarter. So can you just talk about the expectation for price for the rest of the year as well as what you guys are seeing from a competitive perspective? Thank you.

**Christopher J. Nelson***Chief Operating Officer, Executive Vice President, President-Tools & Outdoor, Stanley Black & Decker, Inc.*

A

Yeah. This is Chris. So, I – Nicole, I'd say overall, what we're looking at for the year is price cost neutral. And if we look at all the – we try to sum up all the basket of goods and input costs we have. I'd say that we're looking at what would be a mildly inflationary environment, but we're going to be price cost neutral in that environment. And as I take a little bit of a broader lens on that from a price cost perspective. I think it's important to remember that we had a pretty unique set of circumstances in 2022, where we were really hitting the peak of some historically high inflationary environments as – and those input costs were going up significantly as our volume was peaking and starting to retrench.

So if I take a broader look and a longer duration, we've still kind of only recouped 85-ish percent of that overall cost that we've absorbed. So, we're certainly working on making sure that we can improve our pricing processes to be more quickly reactive to inflationary environments as well as more importantly, driving innovation so that we can be putting products in there that earn because of their differentiation accretive margin rates.

So – and then as I think about the competitive environment that we're seeing, thus far, we're seeing a stable environment. We're continuing to look at getting back to and are more back to historical promotional levels, but that's healthy. And we're looking at those promotions in some important categories to us. And specifically, we've

talked about the importance of being able to be promoting our cordless DEWALT products. So we feel comfortable where we are, and we think that the environment remains stable.

**Operator:** Our next question comes from the line of Rob Wertheimer with Melius Research. Your line is now open.

**Rob Wertheimer**

*Analyst, Melius Research LLC*

Q

Hi. I have another question on the Outdoor side. I think you made positive comment on market share for DEWALT, I suppose more on the tool side. I wanted to hear how you think you're positioned on breadth of portfolio and status of innovation, et cetera, on Outdoor, do you need more investment to kind of achieve the same share gain? What do you think [ph] the season (00:52:13) and then it may be very early for the second part of the question, but any split on big ticket versus small ticket in Outdoor? Just budget sensitivity among your customers? Thanks.

**Donald Allan, Jr.**

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

A

So I think that we feel well positioned with our Outdoor portfolio. And I think, as I've stated previously is what we're really wanting to do is make sure that we're driving the prioritization of our innovation dollars into the categories that we think that we have the biggest opportunity for share gain as well as that are margin accretive. And specifically, we've been really looking at growing our presence in the outdoor handheld electric market. And that's showing great lines of progress. And I would say that we're – year-to-date, we're feeling good about where we are from a market perspective. And with some of the listings that we've picked up, we feel good about where we are trending from a share perspective as well.

As far as bigger ticket versus small ticket, certainly, in today's environment, we've seen that there are some levels of hesitation from the consumer and from any end user in the bigger ticket items. And we'll continue to monitor that. But like I said earlier, we're cautiously optimistic with how the season is starting, and we're going to continue to make sure that we're driving innovation into those areas that we believe are going to be important and accretive for us in the future.

**Operator:** Thank you. Our next question comes from the line of David MacGregor with Longbow Research. Your line is now open.

**David S. MacGregor**

*Analyst, Longbow Research LLC*

Q

Good morning, everyone. Thanks for taking the question. I guess I just wanted to ask a question relating to the progress on supply chain transformation and specifically tariffs. And can you just talk about what's changed in your sourcing and procurement operations since the late turnaround on tariffs? And if hypothetically, I guess if all of the import tariffs that were imposed back in, I don't know, 2017, 2018 when all that was going on. they were all reimposed tomorrow, how much different would your total tariff expense be versus what you reported last time around?

**Patrick D. Hallinan**

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

A

Sure. So I'll probably have a little PTSD thinking about tariffs back in 2016. But the -- if we go -- maybe do a little bit of history here. So we experienced about \$300 million of tariffs back in that timeframe and made substantial production moves in response to that, which mitigated it down probably to about \$100 million, maybe a little less than \$100 million. And that \$100 million or so was offset by price increases in the marketplace.

Those tariffs are still in place today and have not changed even in the new administration or Biden administration. As we think about potential changes in the future, that could occur if there's a change in the administration in early 2025. The landscape for us has changed. So back in that timeframe, things that came -- that were sold in the US that were made in China was about 40% of the US revenue. Today, it's closer to 20%, 25%. So it's substantially lower.

And as we continue to drive our supply chain transformation, I mentioned on the call last quarter, that we continue to build out what we call centers of excellence for manufacturing that are in different geographies around the world. Some of them will be in Asia, not necessarily in China, but in other parts of Asia. Some are being built or have been built in the Americas and some in Eastern Europe. And we will continue to build upon that. to try to -- if something changes with tariffs in 2025 or beyond, we will be able to mitigate that through supply chain moves or actions. At the same time, we likely -- if that occurs, we'd likely have to do some surgical price actions as well as another lever to address.

So we continue to build on the plans of what we could do or would do as we head into 2025. We've started that planning about three months ago, and we will continue to work on that. The good news is it's really embedded more into the supply chain transformation program than it is some separate activity that we're looking at.

**Operator:** Thank you. Our next question comes from the line of Eric Bosshard with Cleveland Research. Your line is now open.

**Eric Bosshard**

*Analyst, Cleveland Research Co. LLC*

Q

Thanks. A follow-up, if I could. Hand tools down 7%. I'm just curious, a little bit more color there. And then also as you think about where retail inventories are now and the path forward, what retailer's mindset is about inventories and what they're ordering relative to what they're selling?

**Patrick D. Hallinan**

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

A

So I'll start with the second question first. And as far as our inventories in the retail channel, we're at essentially at historical levels, if not in some areas, a little bit below. So we're seeing a pretty good direct read on the correlation between what we see in POS and what we see going in from sales. And I think that's a good position to be in. And we're -- like we said, we're on relatively on plan for what we're seeing from POS.

As far as hand tools, I would say that there's nothing that's a tremendous outlier there. I would say that there are some parts that are in the Hand Tools and Storage business. that are to the earlier comments, some larger ticket buys. And those have been more sensitive in the short term to some of the kind of the consumer environment. But overall, we feel good about where that business is tracking, good about the POS as well, and as well the inventory levels are similar to what we've seen across the business.

**Operator:** Thank you. I would now like to hand the conference back over to Dennis Lange for closing remarks.

## Dennis M. Lange

*Vice President-Investor Relations, Stanley Black & Decker, Inc.*

Thanks, Shannon. We'd like to thank everyone again for their time and participation on the call. Obviously, just please contact me if you have any further questions. Thank you.

**Operator:** This concludes today's conference call. Thank you for your participation. You may now disconnect.

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