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Stanley Black & Decker, Inc. (SWK)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Second Quarter 2025 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 a 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.

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 2025 second quarter webcast. Here today, in addition to myself, is Don Allan, President and CEO; Chris Nelson, COO, EVP, and President-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 2025 second quarter results and various other matters, followed by a Q&A session. Consistent with prior webcasts, 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.

Additionally, we may also reference non-GAAP financial measures during the call. For applicable reconciliations to the related GAAP financial measures and additional information, please refer to the appendix of the supplemental presentation and the corresponding press release, which are available on our website under the IR section.

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

Donald Allan, Jr.

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

Thank you, Dennis, and good morning, everyone. As all of you are aware, this will be my last earnings call for Stanley Black & Decker, given our recent announcement that Chris Nelson will become CEO effective October 1. I want to begin by sincerely thanking our shareholders, employees and customers for your continued trust and support throughout my tenure. Your commitment has been foundational to our progress and success, especially over the last three years.

I believe now is the right moment to initiate this leadership transition, as I'm excited about how the team will build upon the significant companywide transformation progress we have made since the summer of 2022. So, in full alignment and with the support of our board of directors, I will move into the Executive Chair role, where I'll remain fully committed to supporting Chris and the company. I couldn't be more confident that Stanley Black & Decker is on a firm foundation for future growth and in excellent hands under Chris' leadership.

As we move through the final year of our multiyear supply chain transformation and I reflect on the progress over the past three years, we have significantly advanced the vision we set forth during the spring of 2022. We stabilized, simplified, and focused the organization. As a result, we have and are continuing to improve our cost position, capitalize on our core strengths, and prioritize investments designed to accelerate organic growth. We have assembled a strong management team with the right people in the right roles across the organization, blending experience in our business and the industry with an infusion of new perspectives from experienced, dynamic talent.

We streamlined our portfolio of iconic brands and the businesses by divesting \$2.6 billion of revenue. We have honed our focus on the core strengths of our portfolio of Tools & Outdoor and Engineered Fastening, which are both well-positioned in very attractive industries that are forecast to grow over the long term. Finally, we have significantly improved our cost structure and strengthened our balance sheet through solid execution against our operational priorities set in mid-2022.

Our simplified and more nimble supply chain is enabling us to deliver improved profitability, better service for our customers and end users, and sustainable market share gains with iconic brands such as DEWALT. And today, the capabilities we built through our supply chain transformation are supporting the company as we navigate tariffs with agility and speed.

As we continue to return our company to sustainable organic growth, we are deeply committed to fostering a growth-oriented culture within the organization. By enhancing our strong foundation of operational excellence and

building a sustainable productivity engine, we are enabling resource allocation to fund future growth. Our investments are designed to continue driving innovation within our categories, accelerate organic growth through targeted local market initiatives and deliver new value-added solutions to our customers.

Stanley Black & Decker has long been an innovator and a growth-oriented company. We have the team to take this company forward. I am thrilled to have the opportunity to continue to supporting the company and to see this next chapter of growth unfold in the quarters ahead, while we close out the final phase of the supply chain transformation in 2025, continue to drive towards our margin goal of 35-plus percent, and achieve our deleveraging goal in 2026, the additional modest streamlining of the existing businesses portfolio.

Now, turning to our second quarter 2025 performance, revenue was \$3.9 billion, down 2% versus the previous year and down 3% organically. The quarter was impacted by a slow outdoor buying season and non-typical shipment disruptions related to our customers' reactions to tariffs, which contributed to a dynamic operating environment.

Against that backdrop, we delivered solid second quarter revenue with continued growth of our DEWALT brand, supported by relatively resilient professional demand. Encouragingly, US tools' end user demand was resilient and stayed relatively consistent on a total dollar basis, following our price increases. First half organic revenue was down 1% and we believe it will remain relatively flat in the second half as well.

The second quarter adjusted gross margin rate was 27.5%, down versus last year due to a 3 point gross margin impact from tariffs and lower volume. This was partially offset by supply chain transformation efficiencies and the partial impact on our initial round of price actions, which became effective within the second quarter. Despite market volatility, adjusted gross margin for the first half was 28.9%, just 20 basis points behind the prior year.

As you will hear from the team today, the organization is remaining focused on executing our robust plan designed to mitigate tariffs. We plan to leverage supply chain moves and targeted pricing actions to improve our gross margin in the coming quarters. We believe Q2 to be the low point for gross margins, barring any new large changes to government policies. We view these initiatives in conjunction with capturing the remaining supply chain transformation savings as the primary drivers to return our adjusted gross margin trajectory toward our goal of 35-plus percent.

Second quarter adjusted EBITDA margin was 8.1%, down 260 basis points versus the prior year, reflecting the gross margin change and our growth investments, which were partially offset by targeted cost control measures. Adjusted earnings per share was \$1.08, inclusive of a discrete tax benefit. Second quarter free cash flow was \$135 million, a strong result considering the operational impact of new trade policies.

Overall, a very solid quarter in a turbulent environment with significant credit to the global Stanley Black & Decker team, as together, we all continue to make meaningful progress on what is within our control. Thank you for your support.

I will now pass it to Chris, who will review the business segment performance and provide more contact on how we successfully execute our strategy in a volatile trade environment.

Christopher J. Nelson

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

Thank you, Don, and good morning, everyone. On behalf of the entire Stanley Black & Decker team, I would like to begin by expressing our appreciation to Don for his leadership and dedication to the company over the past 26

years. His deep connection with our customers and brands, coupled with his unwavering commitment to our global team, has been instrumental in positioning the company for lasting success. I'd also like to personally thank him for his partnership over the past two years and his help preparing me for this moment.

Looking ahead to October 1, I am honored and excited to become CEO of Stanley Black & Decker, an iconic American company with a proud heritage and a bright future. The opportunity to work with our teams around the world to unlock the tremendous potential of our brands and drive share gain in the marketplace is energizing, and I look forward to doing so in collaboration with our valued channel partners.

Now, turning to our second quarter operating performance. Our top priority continues to be serving our customers and accelerating initiatives to mitigate tariff-related headwinds, all while keeping our long-term financial objectives in sight.

Beginning with Tools & Outdoor, revenue for the quarter was approximately \$3.5 billion, representing a 2% decline as compared to the second quarter of 2024. Organic revenue decreased by 3%. Price realization of 2% represents a partial quarter benefit from our late-April US price actions. Volume was down 5% due to a slow outdoor buying season and tariff-related shipment disruptions.

We were encouraged to see continued top line expansion of DEWALT professional products as pro demand remained relatively resilient. This marks over two years of consistent growth from our powerhouse DEWALT brand, which year-to-date has grown in every product line and region. We clearly see the benefits from our prioritized innovation, marketing, and activation investments. Our growth and share gain strategy is underpinned by accelerating DEWALT's success while we work to restore consistent share gain in Stanley and CRAFTSMAN.

Adjusted segment margin was 8%, a 240 basis point decline as compared to the second quarter of last year. The change was attributable to the impact from tariffs, lower volume and investments in growth initiatives, partially offset by the supply chain transformation efficiencies, price, and cost control.

Shifting to performance by product line, power tools organic revenue growth of 1% was driven by price, resilient pro demand, and solid performance in our key investment markets. Hand tools organic revenue decline of 5% was primarily attributable to tariff-related shipment disruptions in North America. Outdoor organic revenue declined 7% related to a slow buying season. Demand has picked up in July, but our expectation is that 2025 will carry a modest decline near our -1% year-to-date performance.

Now, evaluating the Tools & Outdoor regions. In North America, organic revenue declined by 4%, driven by factors consistent with the segment's overall performance. Channel inventory remained in line with historical levels. POS dollar trends in tools remained stable, while outdoor POS was slow to start and improved throughout the quarter. Notably, following the recent price increases, we did not observe a shift in buying trends, which signals relatively healthy end demand.

In Europe, organic revenue declined by 1%. Growth in the UK and key investment markets, such as Central and Eastern Europe, helped offset softer market demand in Germany and Italy. The rest of world delivered 1% organic growth, driven by Latin America, Australia, New Zealand, and the Middle East, led by strong performance from our professional brands.

Now, let's transition to Engineered Fastening. On a reported basis, second quarter revenue was down 2% versus prior year and 1% on an organic basis. 1% of price realization and 2% of currency favorability was more than offset by 2% of volume declines and a 3% impact related to the previously disclosed product line transfer to the

Tools & Outdoor segment. The automotive business experienced a mid-single-digit organic decline, primarily due to reduced production schedules and restrained capital expenditures by OEMs.

General industrial fasteners organic revenue declined high-single digits. The aerospace business had another strong quarter with over 20% organic growth, driven by strong performance in fasteners and fittings products. This business has achieved a new high of \$400 million annualized run rate revenue, with a solid multiyear backlog and growth outlook. The Engineered Fastening adjusted segment margin rate was 10.8% for the quarter. This is a decline from the previous year, largely due to softness in the higher margin automotive fasteners.

In summary, with focused execution, our teams accelerated cost control measures and adjustments to our supply chain to neutralize the impacts from tariffs as quickly as possible within the period. Implementation of our robust and flexible plans to mitigate tariffs is ongoing as we navigate this dynamic operating environment.

We have entered the final innings of our multiyear supply chain transformation. Successfully completing the transformation this year remains a top priority and is fundamental to optimizing our cost structure, advancing customer-focused innovation, and driving our growth initiatives. These efforts are all aimed towards delivering profitable, organic growth and sustainable market share gains.

With respect to cost management, we are continuing to execute a comprehensive series of initiatives expected to deliver approximately \$2 billion in pre-tax run rate cost savings, with \$1.5 billion attributable to improvements within our supply chain.

We have clearly identified the principal sources of incremental savings and are making steady progress towards our full year 2025 target of \$500 million in cost reductions. In the second quarter, we achieved approximately \$150 million in pre-tax run rate cost savings, bringing our total savings to approximately \$1.8 billion since the program's inception.

We remain committed to strengthening our culture of operational excellence and building our sustainable productivity engine. These efforts are essential to further improving customer fill rates, funding growth investments, and achieving our long-term goal of maintaining an adjusted gross margin of 35% or higher.

I will now take a moment to highlight a pro-focused innovation we recently introduced. As a leader in total jobsite solutions, DEWALT is advancing its construction technology offerings of productivity solutions for trade contractors with MSUITE. MSUITE is a cloud-based management software which improves coordination between building information modeling, fabrication, and field construction teams. MSUITE helps users track, manage, and share data throughout the entire lifecycle of a construction project.

We introduced the MSUITE Hangers automation tool in May as one of three product offerings on the platform. This software solution redefines how our targeted mechanical, electrical, plumbing, and industrial contractors approach hanger layout and modeling. It delivers significant efficiency improvements as they route building systems like pipes, ducts, conduits, and cable trays. Early adopters of MSUITE Hangers software are already reporting remarkable gains in productivity.

For instance, what traditionally took 10 manual steps and a disproportionate amount of time within the Building Information Modeling project is now a single automated step. This system simultaneously adjusts to building system model changes by adding or removing hangers, and rapidly creates simple or complex configurations. Additionally, it can generate bills of material for fabrication, streamlining hanger installation. These functionalities enhance accuracy, save important coordination time in the field, and reduce the costly risks of errors.

This innovative tool enables the user to design their job using DEWALT hardware solutions, including DEWALT anchors and tough wire. These kinds of comprehensive workflow solutions help DEWALT to win with the professional on commercial and industrial jobsites. We are building a future where technology empowers end users on every jobsite to drive productivity with greater accuracy and confidence, while also expanding the breadth and depth of our solutions.

As we continue executing with an end user and customer-first mindset, we are focused on balancing the near-term needs of the business with preserving and delivering long-term growth, share gain, and shareholder value. As we navigate this environment, we're taking the necessary measures to stay on our margin trajectory. Ultimately, a key milestone of success is achieving 35% or greater adjusted gross margins. Consistent with the same, we are prioritizing our efforts to successfully navigate tariffs.

As we have previously shared, our tariff mitigation strategy is guided by four key principles. First, our primary commitment is to serve our customers and end users as we navigate this evolving environment. We are collaborating with our customers to develop the optimal product assortment for our end users, given the new landscape. Additionally, we are prioritizing high service levels and supply continuity.

Secondly, we are accelerating supply chain adjustments to leverage our North American footprint and attain USMCA compliance rates that are in line with other manufacturing-based industries. Our current plan is expected to reduce our Chinese production for the US to less than 5% by the end of 2026.

Third, we are taking a judicious approach to price actions, maintaining a long-term perspective as we make the adjustments necessary to protect our cash flow, EBITDA and margin structure, while supporting investments for growth. Our April price increase was implemented on plan and began contributing during the second quarter. We are in the initial stages of customer discussions and intend to implement a second, more modest increase early in the fourth quarter.

Finally, we continue to proactively engage with the US administration to ensure our interests and those of our stakeholders are expressed and considered as they work to achieve their trade-related goals. In summary, our disciplined approach positions us to address immediate challenges while building a strong foundation for future growth and returning to our targeted margin trajectory.

I will now pass the call to Pat Hallinan to lay out our financial assumptions for tariffs in our current planning scenario.

Patrick D. Hallinan

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

Thank you, Chris, and good morning, everyone. I would like to emphasize the importance of the strategic countermeasures that we are actively implementing. These coordinated efforts across our global teams are essential to protect our business as we advance towards our long-term financial objectives, inclusive of growth and margin accretion.

We currently estimate the annualized gross tariff cost from policy actions is approximately \$800 million, excluding mitigation actions. The factors that underpin our cost estimate incorporate the most recent policy changes announced in July and those expected to be enacted within the next few days. These assumptions include 30% incremental tariffs on goods from China, 30% on non-USMCA-compliant goods from Mexico, over 20% in aggregate on goods from the rest of the world, and 50% Section 232 metal tariffs. However, the impact on our

2025 P&L is expected to be partially mitigated through a combination of ongoing targeted initiatives in addition to strategic pricing measures.

Taken together, we currently estimate the net P&L impact for our 2025 to be approximately \$0.65, reflecting the timing and cost required to implement mitigation strategies. In this estimate, we have included costs to accelerate the planning and execution of our supply chain initiatives as well as the anticipated increase in expenses required to manage current rare earth supply constraints. In the appendix, we have included an illustration that is consistent with prior disclosure of our US cost of goods sold by country of origin to assist in modeling sensitivities relative to these assumptions.

Now, to unpack our remaining planning assumptions. Our earnings outlook for the year includes GAAP earnings per share of \$3.45, plus or minus \$0.10. Adjusted earnings per share is expected to be approximately \$4.65. Pre-tax non-GAAP adjustments are estimated to range between \$205 million and \$250 million, primarily related to the supply chain transformation and other cost actions that will benefit SG&A.

Looking ahead, our planning is based on the generally stable demand trends experienced throughout much of this year. These include relatively strong professional demand, continued relative softness in the DIY and outdoor product lines, and a certain degree of retailer disruptions associated with efforts to optimize sourcing and product assortments in response to tariffs. These are underpinned by our readiness to respond with agility and speed to changes in the operating and market backdrop.

We anticipate 2025 total company sales to retract slightly as compared to 2024. Year-over-year, organic revenue is expected to be in line with the total company as price increases are offset by the aforementioned volume pressures. Back-half organic revenue is planned to be relatively flat, largely consistent with the performance we delivered in the first half. Our top line elasticity assumptions suggest an approximate one-for-one relationship between price and volume, meaning that each incremental point of price is expected to be offset by a corresponding point of volume decline.

Currency is now projected to contribute a positive 1 percentage point, which will be offset by the first quarter comparable impact from the infrastructure divestiture. Organic revenue for the global Tools & Outdoor segment is projected to decline approximately 1 point. The Engineered Fastening segment is anticipated to achieve 1% organic growth, driven by sustained momentum in aerospace. Our supply chain transformation initiative maintains an incremental 2025 cost savings target of \$500 million.

Back-half adjusted gross margin is assumed to deliver year-over-year expansion in both quarters, with the fourth quarter to show slightly stronger performance, taking into account our transformation and tariff mitigation actions. Assuming that future tariff announcements lead to only modest adjustments and the US government makes meaningful progress on rare earth initiatives, we believe we can sustain this positive momentum in adjusted gross margin into 2026. We remain dedicated to investing in high growth, high return opportunities, and will reinvest over \$100 million in 2025 to drive market activation, strengthen our brands, and support commercial expansion.

Full year adjusted EBITDA margins are expected to expand year-over-year on the strength of gross margin, supported by the cost actions that we are implementing. Other 2025 modeling assumptions, which are relatively similar to prior assumptions, are noted on the slide. In the near term, we anticipate that third quarter organic revenue will present a 1 percentage point decline as we manage the impact of global tariff disruptions, in conjunction with a subdued consumer DIY market environment.

For the third quarter, we expect adjusted earnings per share to represent approximately 25% of the full year adjusted EPS contribution, factoring in a decline in organic revenue, balanced with a solid step forward in gross margins. With respect to cash flow and capital management, we remain committed to disciplined oversight of working capital and capital expenditures, targeting approximately \$600 million in free cash flow in 2025. This objective is supported by disciplined inventory management with an emphasis on customer order fulfillment alongside prudent expenditure controls.

Cash generation will be utilized to fund our dividend with the remainder intended to be used for debt repayment. Deleveraging continues to be a top priority as we are committed to maintaining a strong and resilient balance sheet and working towards achieving less than or equal to 2.5 times net debt to adjusted EBITDA. Our plan to achieve this outcome includes using excess free cash flow and an assumed \$500 million to \$1 billion in proceeds from portfolio pruning for further debt repayment.

To conclude, we are pleased with the performance we have delivered in the first half of the year, responding decisively to external challenges through targeted operational and supply chain adjustments, underscoring our unwavering commitment to meeting the needs of our end users and customers.

The organization has demonstrated exceptional agility in this environment. The organization's efforts have put us in a position to quickly restore profitability, while taking the measures to position Stanley Black & Decker for sustained growth, margin expansion, and long-term value creation.

Thank you. And I will now return the call to Don.

Donald Allan, Jr.

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

Thank you, Pat. I am grateful to have had the opportunity to serve as CEO of Stanley Black & Decker and work alongside an extraordinarily talented and resilient team. As I have said many times, Stanley Black & Decker is built on the strength of our people, iconic brands, and a powerful innovation engine. These foundational attributes transcend external market conditions, and I am confident that these traits are what position Stanley Black & Decker to thrive well into the future and generate sustainable long-term growth and value creation.

We are now ready for Q&A, Dennis.

Dennis M. Lange

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

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

QUESTION AND ANSWER SECTION

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

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. I just wanted to say congratulations, Chris, and thanks, Don, for all the hard work, and wish you well in the board transition role.

Donald Allan, Jr.

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

A

Thank you.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Maybe just my question would be around the gross margin outlook. Just trying to understand, I heard Pat say gross margins are up year-on-year, both third and fourth quarter. Looks like you're embedding organic sales growth year-on-year in Q4 and there should be some good volume leverage perhaps there. So, just trying to understand what's the kind of Q4 or exit gross margin that you're embedding for this year.

And as you think into next year, realize that the cost productivity program, the \$2 billion number, is largely in the run rate going into next year. So, maybe any early thoughts on further gross margin expansion drivers, as I think you'd mentioned, gross margin should rise again next year.

Patrick D. Hallinan

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

A

Yeah. Hey Julian, it's Pat. Yeah, we're expecting each third quarter and the fourth quarter year-over-year gross margin expansion. I'd say, in the third quarter in the 1.5 percentage point to 2 percentage point range, and in the fourth quarter similarly maybe even getting above the 200 percentage point range. We would expect this fourth quarter of 2025 probably in that 33% to 34% range.

And I think it speaks to the hard work that the teams are pursuing, both on the mitigation and pricing fronts. We're very committed to our 35% gross margin journey. And while tariffs have definitely given us something to manage, I think the team has been very, very active in attacking it. And the back half gross margin result is a result of the mitigation and the pricing work.

As we look to next year, I don't know that I want to pin myself down on quarter-by-quarter guidance for 2026 yet, but we very much expect to maintain that 35-plus percent gross margin journey. And we would expect in the back half of next year to be kind of on that journey. I'd say that tariffs probably from a timing perspective created a 9- to 12-month delay in getting to 35%, but I think you should expect the back half of next year to be in the mid-30s and at – or approaching that 35% range by the end of the year.

I think the front part of the year, we'll have to wait until we get farther along this year and into next year, because the front part of next year will be the unpacking of some of the FIFO/LIFO dynamics associated with tariffs. So, I'm

not going to pin myself in on the very front part of next year yet, because we're still waiting to see how tariffs play out the back part of this year.

I would say from volume, I mean, yeah, we're up – well, from sales, we're up 1 point, the fourth quarter of this year or thereabouts. Volume will be down, price will be up. There's nothing going on in the gross margin that is really a volume leverage dynamic. It is all about mitigation and pricing and the continuation of our transformation program. We do still expect to deliver the \$500 million of gross savings in our transformation program. So...

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

Hi. Thanks. Good morning and thanks for taking my questions. And congrats, Chris; and Don, wishing you the best. Great working with you.

Donald Allan, Jr.

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

A

Thank you, Michael.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Wanted to kind of unpack a couple of elements of the updated guidance, and with some of the moving parts here. First, if you could kind of hit on the 2Q upside that we saw, what are the offsets that didn't allow that upside on 2Q to fully translate to the full year guide? And secondly, how should we think about the \$0.65 headwind as it relates to 2026? In other words, do you expect to recover all of that through various actions or part of it? If you could kind of walk through those two elements.

Patrick D. Hallinan

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

A

Hey, Mike. It's Pat again. I would say, for the quarter, in the simplest of terms, the beat versus our adjusted outlook and consensus was really about \$0.15 operational, and the rest was just tax timing. We had always expected in our 15% full year tax rate to have some discrete items, predominantly an IRS settlement. And about half of that was solidified in the second quarter much earlier than we had ever anticipated in our outlook. So, \$0.15 operational, the rest tax timing.

In that operational, some of it was the timing of tariff expense throughout the year. I would say, about \$0.10 of it was we had less tariff expense in the quarter just caught up in the FIFO/LIFO calculations. It doesn't change our outlook of tariff expense for the year. So, really, in the quarter, you had some FX favorability. And I'd say, all else being equal, you might expect that FX favorability momentum to carry through the back half.

And certainly, with the US dollar strengthening a little bit, some of that might dissipate, but really that's offset by some mitigation expense that we have in our SG&A. And so, I'd say, the operating dynamic is we had some upside in the quarter. Most of it was just tariff expense timing. That balances out the back part of the year. And then some incremental mitigation expense kind of consumes a small amount of FX upside for the year.

I'd say, most of what has changed in our forecast is we're trying to be proactive and anticipate a bit as best we can where tariffs are going. And so, when we look at tariffs relative to where we were in the middle of the second quarter, we're expecting the countries that currently have received letters to be exposed to the tariffs in those letters, the rest of the world to go roughly from 10 points to 20 points.

Some of the timing around rare earths will have us paying a marginal – a bit more of China tariffs for a while. That's about – in the year reported about \$65 million of tariff expense, and we'll have a modest amount of incremental pricing that helps offset that. And that is what drives basically the \$0.65 versus our original full year outlook, is just an update to tariff expenditure and mitigation in pricing.

I think as we look towards next year, Mike, we expect between mitigation and pricing to largely offset what we see as \$800 million of run rate tariff expense. And so, what's going to flow through next year, obviously in the front part of the year, is some of the roll off of the tariff expense that will be on our balance sheet, so the front half might be a bit noisy.

But by the time we get to the back half of the year, we should be accreting margins, as I answered with Julian, in the mid-30s, and are shooting for that 35% in the third or the fourth quarter. We'll see how quickly we get there. And we should be largely mitigated out of China. We should be down to 5% or less China by the end of next year.

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

Timothy Wojs

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

Q

Hey, everybody. Good morning. And I'll echo the same comments on Chris and Don, thanks for everything; and Chris, good luck. I guess maybe just on pricing, just kind of curious if you could elaborate a little bit how the pricing increases are tracking versus your expectations. I think that the 2% in the tools segment might be a little bit below what some were looking for and I think that should accelerate into the second half. So, just maybe a little color on how the price is being accepted, if there's any kind of elasticity that you point out, and how to think about pricing in the second half?

Christopher J. Nelson

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

A

Yeah, Pat – or Tim, this is Chris. So from a pricing perspective, as we talked about last time, our price increase went in on schedule and has moved through and been realized in line with our expectations and in the timing that we expected. So, we feel good about where we are. And importantly, we feel good about what we've seen from competitive dynamics and how it's playing out, not only on the shelf. But then as we look at our demand patterns after that price increase, we haven't really seen a significant change or really any change in the demand patterns or any new buying behaviors.

As it relates to what you asked about elasticity, as Pat referenced in his comments, we are seeing about a one-for-one offset, price for volume tradeoff, which is kind of what we thought and is in line with our expectations. So, the timing is on, we feel like the impact is on, the competitive dynamics seem solid. And then as we think about moving forward, the combination of changes in tariff policy with us being able to firm up more of what we see as our well-planned-out mitigation actions, our next round of price increase, which will go in – and we're in discussions right now to get it moving along with our customers, will go in at the beginning of Q4, is going to be much more modest.

So it's kind of you think about it as roughly half of what the first price increase was. And we're going to be able to do so in a way that we believe will continue along those same dynamics. And we have seen, if we think about just what we've seen since the increase has gone through, we've seen roughly the same POS, and it's been fairly stable as what we've reported before. And in the quarter it was down – flat to down slight low-single digits, with a little bit of acceleration coming out of the quarter, in the beginning of Q3 as well. So, the pricing plan is solid and we're seeing it executed in the field as we would have expected and as we articulated last time we talked at the end of last quarter.

Patrick D. Hallinan

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

A

And Tim, the only thing I'd add to that is you'll see the full run rate, obviously, over the back part of the year, and you're probably going to be seeing in the T&O business the high-single-digits range of a price increase; and as Chris was saying, a like offset in the volume, netting to flattish total organic revenue performance for the back half.

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

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning, everyone. And Don, quite a run there, so congratulations, hope you enjoy some retirement. And Chris, congrats on getting the big seat.

Donald Allan, Jr.

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

A

Thanks, Nigel.

Nigel Coe

Analyst, Wolfe Research LLC

Q

On the pricing, just want to make sure, are those actions being – at this point being [ph] actioned (00:43:30) and announced to the channel, or is that still to come through the quarter? And maybe just a bit more detail on the \$800 million of tariffs. I mean, obviously, it changes by the day, more or less, but would the copper tariffs be part of that, or is it – because it hasn't been confirmed? If not, I mean, just talk about that. And I think the other big moving piece right now in that math is the USMCA compliance in Mexico. So just maybe just bring us up to speed in terms of how that's trending.

Christopher J. Nelson

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

A

I'll start and tackle the price and the USMCA, Nigel. So, the price – the first round of price is fully in. It is in. It's on the shelves. It's been passed through. And we've been tracking the impact for a number of weeks now as that has gone in. And what I was referring to is that we are – for the round two, we are currently – we have notified our channel partners, and we're in discussion about what we would see as an implementation of that second round of pricing, which, once again, would be more modest. And about half of what we saw for the first round is going in at the beginning of Q4.

As it relates to USMCA, we've been doing a lot of work there, as you might imagine. And we do believe that we have plans and programs in place that will allow us, over time, to get more towards what you'd say is the average type of USMCA qualified for a like industrial manufacturing company. And those programs, obviously, range in time from things that are easy to do with changes in bills of material to longer lead time with changes of component suppliers and localization of a supply chain. But we see nothing structurally that would prevent us from, over time, being at what we'd see as that kind of more industry average level.

Patrick D. Hallinan

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

A

Yeah. And Nigel, on the tariffs, yes, it does change with frequency, but we've kind of been anchored to around three numbers now, \$800 million being the third in the current run rate. It was as high as \$1.7 billion annualized run rate back in early April when China was at 145-plus. Then in the middle of the quarter, when there was relief, the 90-day relief period, it went down to \$600 million.

Our best estimate of where things are likely to go, inclusive of us paying a bit more in China tariffs as some of the rare earth timing works itself out, is around \$800 million annualized. The change from \$600 million to \$800 million is mostly our best estimate of us paying marginally a bit more in China tariffs as both of our governments work through rare earth licensing.

The rest of the world, which is 23% of our US COGS base, going from 10% to 20%, and a few above that, like Thailand and Cambodia, which are at 36%, and Malaysia's at 25%, and then Mexico going from 25% to 30%, that's the estimate. And in the simplest rule of thumb, what we would expect in our income statement this year is about 60% to 65% of that annualized run rate, in that zip code.

Operator: Thank you. Our next question comes from the line of Chris Snyder with Morgan Stanley. Your line is now open.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I wanted to ask on customer buying patterns. It sounded like maybe that signaled there was some inventory that came out in Q2 from the channel. I guess, was that the correct takeaway? And then any expectation on potential destock into the back half of the year? Do you have visibility into that when you speak with the customers, particularly on the home center side? Thank you.

Christopher J. Nelson

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

A

Yeah. This is Chris. I'll tackle the second question first and say that we see our inventory levels as being healthy. They're in line with historicals. And as we've been in discussions with our channel partners, we anticipate that remaining the same. So, there's no big story on destock.

What you were referencing from maybe some of the volatility that we saw in the quarter as it related to buying patterns, that's more in line with the fact that as everyone was trying to be able to put together the best plan that they could for the change in trade policy, there were changes in promotional plans, as simple as I can put it, where people were deciding what they were going to put on promotion, what they were going to bring in to have promoted in not only Q2 and Q3, and how they were going to adjust their promotional inventories to support that change of plans.

So, that's a temporary disruption that I think is what you would expect as people tried to – us included, we went through a fairly extensive process with all of our channel partners in making sure that we could put forth with them the most attractive assortment of products with advantage position for our – in a tariff world that our end users would want. And so, we've been going through that planning, and that is just a temporary kind of Q2, Q3 dynamic that we saw in the changing of promotional inventory and timing of those shipments.

Operator: Thank you. 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

Yeah. Hi. Thanks. Good morning and congrats. I wanted to start with the commentary around outdoor, and just curious if you have any amplification around that. Is it any share or is it just category? And does it spill over into other, outdoors, maybe a little bit more seasonal, into more consumer-grade or DIY-grade other tools? Thank you.

Christopher J. Nelson

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

A

No, this is Chris. It's nothing broader than what I'd say is we had a later start to the season, as it was pretty wet. And then what we've been seeing as of late is a much more robust POS activity. So as Pat referenced in his comments at the beginning, we see that market as being, all in for the year, kind of down 1 point – flat to slightly down overall, but with no real significant change in buying patterns or competitive dynamics. And we actually believe that based on what we see for more of the industry data, we're actually in a good position from a share perspective as well, as we've really been seeing some nice traction with DEWALT as well as Cub Cadet in those areas.

Operator: Thank you. Our last question comes from the line of Jonathan Matuszewski with Jefferies. Your line is now open.

Jonathan Matuszewski

Analyst, Jefferies LLC

Q

Good morning, and thanks for taking my question. Nice to see the ongoing momentum at DEWALT. Can you spend some time discussing the trend at CRAFTSMAN? What are you seeing in the competitive landscape there? And how do you think about factors beyond potential interest rate cuts stimulating demand on the DIY side? Thanks so much.

Christopher J. Nelson

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

A

Yeah, thank you very much. As we've pointed out, we've been very pleased with our continued momentum and really across-the-board success we've been having with DEWALT for a number of quarters now. And as you think about the CRAFTSMAN brand and playing more in that DIY segment, obviously, that segment has been more [ph] affected (00:52:03) than the professional as of late. We have seen – as we've been looking at our POS versus what we see for credit card data in that area, we've been performing roughly at what we think the market has been doing. So, it's been more of a market issue.

Obviously, as you point out, there is an interest rate sensitivity to that. But more importantly, from our perspective, we do believe that we have opportunities with the CRAFTSMAN brand to continue to expand our assortment of

products, and specifically in the power tools space to continue to be able to build out that brand and control what we control and drive organic growth in any market condition. And that's really where we're putting our focus.

We have great channel partners there, and it's an emphasis for everybody moving forward. And I think what we'd say is that we're going to be making significant progress over the next 12 to 24 months. And when the market turns, which inevitably it will as well with change in repair and remodel work, we're going to be in a position to certainly take advantage of that overall in the company. So, it's a great brand.

Operator: Thank you. I would now like to turn the call 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 further questions. Thank you.

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

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