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Stanley Black & Decker, Inc. (SWK)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Third 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 on 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 Vice President of Investor Relations, Michael Wherley. Mr. Wherley, you may begin.

Michael Wherley

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

Thank you, Shannon. Good morning, everyone, and thanks for joining us for our third quarter call. With us today are Chris Nelson, President and CEO; 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 today's webcast will also be available beginning around 11:00 AM Eastern Time. This morning, Chris and Pat will review our third quarter results and various other matters, followed by a Q&A session.

During today's call, we'll be making some forward-looking statements 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 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 measure 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, Chris Nelson.

Christopher J. Nelson

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

Thank you, Michael, and good morning, everyone. I am honored and energized to be leading Stanley Black & Decker as we embark on our next chapter of growth. Since joining the team over two years ago, we have focused our businesses on where we want to compete, the end users we want to serve and the markets where we can be a leader. This work has been about being more selective so that we invest our resources in the places where we see the most significant opportunities and greatest ROI for our businesses. We show up every day for our customers and end users to deliver what they need, when they need it. Through everything we do, this will continue to be our North Star.

Over the last few years of transformation, Stanley Black & Decker has solidified our foundation and sharpened our focus. I am proud of the dedication and collective effort that our team of approximately 48,000 employees strong has contributed to get us here. Our ambition is to build a world class, branded industrial company by solving our end users most pressing and complex challenges.

We go to market with a portfolio of iconic brands, and innovation is in our DNA. We have strong connections with customers and end users, and our brands open doors and afford access to opportunities in geographies around the world. These foundational attributes, combined with the renewed focus achieved through our transformation, have positioned us to win across industries poised for long-term growth.

Stanley Black & Decker has made tremendous progress towards the objectives we established at the outset of our strategic transformation. We achieved these results despite a rapidly shifting operating environment, evolving consumer demand dynamics and trade policy fluctuations. With the operational proficiency and agility we have developed through our strategic transformation, we can now serve our customers and end users more effectively and efficiently.

With a strong foundation firmly in place and with a significantly simplified and focused business, we believe our future success will now be determined by how effectively we execute our strategy. This presents us with the compelling opportunity to deliver attractive returns for our investors while benefiting all stakeholders.

As we look forward, we are on track to successfully deliver the \$2 billion cost reduction targeted when we began our transformation over three years ago, by year end 2025. Our next priority is to achieve 35% adjusted gross margin while further strengthening our balance sheet.

We will build on our capabilities and strong financial foundation as we execute our three strategic imperatives: activating our brands with purpose, driving operational excellence and accelerating innovation. I want to spend a few minutes going into each of these focus areas to give you a better sense of what will drive our profitable organic growth going forward.

The first imperative is activating our brands with purpose. We have pivoted from a product-led marketing approach to a brand-led market back approach to reinvigorate our organic growth. This included creating a closer feedback loop between our brands and end users, and prioritizing innovations that will address end users most pressing needs.

Our core brands DEWALT, STANLEY and CRAFTSMAN each have a distinct identity, and we maintain this differentiation along with clearly defined target end users. This strategic segmentation informs how we prioritize resources and investment in key brands and focused trades. In addition, it enables broad coverage of the total addressable market with specific and productive solutions that uniquely address the needs of end users, ranging from commercial and industrial professionals to residential construction contractors and ambitious DIY enthusiasts.

Our organic growth strategy is anchored on accelerating to DEWALT's performance, while maintaining a strong focus on delivering consistent above market results in STANLEY and CRAFTSMAN. DEWALT's mission is to serve the world's most demanding professionals, supported by a more data-driven targeted approach. Our commercial teams are executing locally and focusing on the most attractive growth opportunities with trade specific initiatives.

To amplify our presence with professional end users on and off the job site, we have added nearly 600 trade specialists and field resources to our team over the last two years, and these investments typically show a payback within 12 months of each hire. Our trade specialists visit job sites with DEWALT solutions, demonstrating and promoting our newest innovations. They also gather valuable end user insights to drive future product development priorities.

In addition, as part of our Grow the Trades program, we are investing to support the training of new tradespeople and upskilling of established professionals. These initiatives are driving continued organic growth for DEWALT. Our results are informing and guiding future investments in real time and ensure our resources are deployed to the best prospects for accelerated growth.

In addition, these initiatives are building DEWALT brand ambassadorship along the way. We rigorously track metrics from commercial activation to operational execution, with all efforts ladder up to our strategic vision.

As a result of these efforts, positive momentum is also beginning to emerge from the international STANLEY brand vitalization effort. In parallel, the CRAFTSMAN brand campaign and portfolio expansion is progressing with an improved margin profile and strategy to drive success with the ambitious DIY enthusiasts.

Our next imperative is driving operational excellence. While it all starts with activating our brands with purpose, equally vital to our success is our commitment to operational excellence and continuous improvement. As we move beyond the transformation, we are executing with a lean-based operating system to deliver annual productivity gains, which we expect will contribute to both margin expansion and firepower for accelerated growth investments.

Operational excellence also extends to our distribution network. Business process improvements, along with our redesigned distribution network, have helped our team to deliver the best global customer service levels in our company's recent history. As we build strategic partnerships and multi-year growth plans with our channel partners, this will continue to be a top priority.

And finally is innovation, the lifeblood of Stanley Black & Decker's value proposition to our end users. We are accelerating innovation to advance and expand our end-to-end workflow solutions across DEWALT, STANLEY and CRAFTSMAN. By innovating faster, we will strengthen our position to provide preferred solutions for our end users and drive growth for our channel partners and for our brands.

We know that our end users, particularly the professional trades, are seeking holistic solutions that make them more productive and safer in every task that they perform on the job site. Providing this comprehensive set of solutions, tailored for the specific needs of each trade, all powered by our robust and well-established battery platforms, is our opportunity. To enable this, we've centralized our engineering organization under one leader to unify our global strategy with investments in core capabilities, design processes and systems.

Within this operating model, we are accelerating how we deploy the product platforming method, which is a comprehensive approach to modular design and governance. It empowers our engineers to dedicate more of their time and expertise towards addressing our end users' most pressing and complex challenges. It also enables us to deliver highly specialized solutions to the market at greater speed. Year-to-date, our team has achieved 20% faster product development and we believe there is runway for an additional 20% improvement by 2027.

In addition, this approach is streamlining product development and production processes. This allows us to take full advantage of our scale to achieve cost leadership and drive further working capital efficiencies. Our aim is to implement platforming across roughly two-thirds of our product portfolio by 2027, enabling our 35% plus margin objective.

Our entire organization is contributing to an organic growth oriented culture, underpinned by operational excellence. We believe that by executing this strategy, we can deliver a compelling value creation opportunity. A

year ago, we outlined long-term financial targets and those levels of market-beating growth, earnings power, profitability and cash generation remain the appropriate long-term financial targets for our business.

We expect our capital deployment priorities to focus on funding investment in the business, improving our balance sheet and supporting our long-standing dividend. Once these priorities have been satisfied and our leverage is sustained below 2.5 times, our preference for excess capital will be opportunistic share repurchases. We are executing with purpose, leveraging our core strengths and deploying capital with discipline.

While we continue to navigate a dynamic macro today, we believe we are taking the actions required to serve our end users and customers, protect the profitability of the business and make progress toward our long-term financial goals. By fully executing against the strategic imperatives that I outlined, we are confident in achieving strong long-term shareholder returns.

Now, turning to our third quarter 2025 performance. Our operational agility helped us deliver sales and adjusted EBITDA in line with our expectations. Furthermore, gross margin increased year-over-year, restoring progress towards our expansion trajectory and overcoming the tariff-driven interruption experienced during the second quarter.

We accomplished these results despite the persistently challenging macroeconomic environment. Total revenue was \$3.8 billion, flat with the prior year period and down 1 point organically, driven by pricing up 5% and volume down 6%.

We continued to generate growth in our DEWALT brand in the third quarter, supported by relatively resilient professional demand. Consistent with prior quarters, the overall consumer backdrop remains soft.

Our third quarter adjusted gross margin rate was 31.6%, up 110 basis points versus last year, predominantly driven by the benefits of our pricing strategies and the supply chain transformation efficiencies. This result is a testament to the dedication and collective focus of our teams around the company.

It is even more noteworthy, given it was achieved in a dynamic macroeconomic environment and with the ongoing production transitions. We expect to continue our trajectory of year-over-year adjusted gross margin improvement, with expansion projected on a full year basis for 2025 and 2026. Third quarter adjusted EBITDA margin was 12.3%, reflecting a 150 basis point improvement year-over-year, mainly attributed to the gross margin expansion.

Adjusted earnings per share was \$1.43, which includes a \$0.25 tax benefit that we had previously expected to land in the fourth quarter. Third quarter free cash flow was \$155 million, a solid result as we effectively manage working capital while shifting an increasing percentage of our US supply chain to North America.

Turning to our operating performance by segment, I'll start with Tools & Outdoor. Third quarter revenue was approximately \$3.3 billion, which was flat year-over-year. As with the total company revenue drivers, the drivers for Tools & Outdoor were in line with our expectations. Organic revenue declined by 2%, as a 5% benefit from targeted pricing actions was more than offset by a 7% decrease in volume. Currency tailwinds and a small product line transfer from Engineered Fastening, each contributed a 1% benefit in the quarter. The volume decrease was partially due to expected price elasticities and partially impacted by tariff-related promotional reductions within the retail channel, as we had indicated during our second quarter earnings call.

Price realization in the third quarter was consistent with our expectations based on the April price increase. Consistent with prior disclosure, we are implementing a second price increase during the fourth quarter to maintain our innovation and brand investments, given the pressures resulting from tariff-related cost increases.

DEWALT, our powerhouse professional brand, maintained strong momentum and continued to demonstrate top line growth. The brand delivered revenue expansion across all product lines and regions. This result reflects the positive impact of our ongoing targeted investments in innovation and market activation.

Tools & Outdoor adjusted segment margin was 12%, up 90 basis points year-over-year. Margin expansion was driven by price realization and supply chain transformation efficiencies, partially offset by the impact of tariffs, lower volume and inflation.

Shifting to performance by product line. Power tools organic revenue declined 2%, largely resulting from tariffs-related promotional cancellations in North America and continued softness in consumer demand. Hand tools organic revenue was flat. Strength within the commercial and industrial channel was offset by softer retail channel performance.

Outdoor organic revenue decreased 3% as we ended a subdued outdoor season where the independent dealer channel partners focused on selling through their remaining inventory. We anticipate inventory will be rightsized heading into preseason ordering for 2026.

Now, Tools & Outdoor performance by region. In North America, organic revenue declined 2%, reflecting trends consistent with the overall segment performance. End user demand, as measured by US retail Tools & Outdoor POS, started the quarter strong, but moderated later in the quarter with aggregate third quarter performance at a level that was relatively flat on a dollar basis.

In Europe, organic revenue was flat. Growth in the UK and key investment markets, including Central and Eastern Europe, was offset by softer market conditions in France and Germany. The rest of world organic revenue declined 1%, primarily due to pockets of market softness in Asia.

Turning to Engineered Fastening. Third quarter revenue grew 3% on a reported basis and 5% organically as compared to the prior year. Revenue growth was comprised of a 4% volume increase, a 1% price benefit and a 1% contribution from currency. This was partially offset by a 3% headwind from the previously disclosed product line transfer to the Tools & Outdoor segment.

The aerospace business continued its strong trajectory, achieving over 25% organic growth, propelled by robust demand for fasteners and fittings. This business maintained its exceptional year-over-year and sequential top line growth, supported by a solid backlog. The automotive business delivered low single-digit organic growth, reflecting a stronger than anticipated automotive market during the quarter.

General industrial fasteners organic revenue declined by mid-single digits. Adjusted segment margin for Engineered Fastening was 12.8%, which reflects elevated production costs in relation to a tough prior year comparable. On a sequential basis, adjusted segment margin expanded by 200 basis points versus the second quarter, reflecting improvements in the automotive market.

Overall, our teams delivered results in line with expectations through disciplined execution, targeted pricing strategies and a continued optimization of our supply chain, a solid quarter in a [ph] challenging (00:19:15)

environment with significant credit to the global Stanley Black & Decker team. Together, we all continue to make meaningful progress on what is within our control.

Thank you to our team around the world for all your hard work and the dedication you display every day to our customers and end users.

I will now pass the call to Pat to discuss progress we achieved on key performance metrics and to outline our latest 2025 planning assumptions.

Patrick D. Hallinan

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

Thank you, Chris, and good morning to everyone joining us today. I'm going to start by diving deeper into our gross margin performance.

In the third quarter, the company achieved adjusted gross margin of 31.6%, representing 110 basis point increase over the same period last year. Our entire organization has prioritized margin expansion. And through the implementation of targeted initiatives, we have achieved tangible year-over-year margin improvement. The improvements have been primarily driven by our disciplined pricing strategies and enhanced supply chain efficiencies. Our targeted initiatives contributed meaningfully to our performance this quarter, though the benefits were partially offset by tariffs, reduced volume and inflation.

Our gross margin trajectory remains firmly positive, reflecting the organization's steadfast dedication to operational excellence. The team's commitment and capability to deliver is exemplified by the fact that even with the significant tariff expenses hitting our P&L starting in April, we only had a single quarter of gross margin setback. Despite broader market volatility, our teams have demonstrated remarkable agility and focus, ensuring we sustain profitable growth even in uncertain environments.

And looking forward to 2026, we foresee a strong opportunity for significant year-over-year adjusted gross margin expansion versus 2025, even if the macro conditions do not improve materially. We continue to target 35-plus percent adjusted gross margin. As a team, we continue to strive to achieve or be very close to this target by the fourth quarter of 2026.

Turning now to our global cost reduction transformation program. In the third quarter, we continued to make substantial progress, delivering approximately \$120 million in incremental pre-tax run rate cost savings. These actions are instrumental in supporting our ongoing margin improvement trajectory, which ultimately enables sustained investment in growth.

Since its inception in mid-2022, the program has generated about \$1.9 billion in pre-tax run rate cost savings, underscoring the scale and effectiveness of our transformation agenda. We are on track to meet our targets with consistent progress across all work stream. We expect the transformation program to yield cost savings of \$500 million in 2025 and \$2 billion overall by the end of this year, marking the successful achievement of this initiative's original cost reduction goals.

A key element of our tariff mitigation and gross margin improvement strategy centers on minimizing the amount of US supply that comes from China. We are making substantial advancements in this area and systematically progressing along a clearly defined path. We have been rapidly moving cordless production from China to Mexico, while also rapidly increasing the levels of USMCA compliant production in Mexico.

We expect to continue to meet targeted reductions in US goods from China. We plan to reduce from 2024 levels, when approximately 15% of our US supply was sourced from China, to less than 10% by the middle of 2026 and to less than 5% by the end of 2026.

These milestones are essential for achieving targeted gross margin objectives and for improving supply chain resiliency. By diversifying our supply chain, we are better positioning our business to navigate evolving trade dynamics, respond to regulatory changes and deliver operational excellence. Operational excellence via platforming, lean manufacturing and further fixed cost reductions will remain a top priority beyond 2025.

We remain confident in our ability to sustain positive momentum as we move into 2026 and that our focus on disciplined execution will deliver sustainable productivity gains and cost leadership. Annual productivity improvements will serve as the engine to fund investments that drive top line growth and further our competitive position. The actions we are taking today are foundational to supporting ongoing margin improvement and achieving our long-term adjusted gross margin target of 35-plus percent.

Now, let's take a look at our planning assumption for 2025. Adjusted earnings per share is expected to be approximately \$4.55, a reduction of \$0.10 compared to the estimate from last quarter. This revision reflects higher-than-anticipated production cost resulting from tariff-related volume softness and supply chain changes. We will correct for these items during the fourth quarter to facilitate achievement of targeted 2026 gross margin improvement, making these headwinds temporary elements of our tariff mitigation response plan.

Our earnings outlook for the year reflects an updated GAAP earnings per share range of \$2.55 to \$2.70. This revision from the previous planning assumption is primarily attributable to a \$169 million pre-tax, non-cash asset impairment charge recorded in the third quarter.

Let me provide clarity on these impairment charges. First, updates to our brand prioritization strategy to focus more company resources and investment on DEWALT, CRAFTSMAN and STANLEY, which we have discussed many times over the past year, impacted three trade names, specifically Lenox, Troy-Bilt and Irwin. This was the vast majority of the impairment charges. Going forward, we intend to focus our marketing of these specialty brands to specific product categories and regions where they hold their most meaningful market positions and value to end users.

Second, we've made a strategic decision to exit most of our non-core legacy corporate venture investments, which resulted in the write-down of certain minority investments in the quarter. Total pre-tax non-GAAP adjustments for the year are estimated to range between \$370 million to \$400 million, primarily related to the supply chain transformation, non-cash asset impairment charges and other cost actions that will benefit SG&A. We expect approximately 45% of these adjustments to be non-cash, as they pertain to the aforementioned trade name impairment charges and write down of certain minority investments associated with legacy corporate ventures.

Now, in regards to the revenue outlook, for the full year, we anticipate total company sales to be flat to down 1% as compared to 2024, most likely at the lower end of this range. Organic revenue is projected to decline in the same zone as a total company and price realization is expected to be offset by anticipated volume decline. Currency is expected to contribute a positive 1 percentage point, which will be offset by the first quarter comparable impact from the infrastructure divestiture.

We expect adjusted gross margins to remain resilient. And based on our current trajectory, we expect to be approaching 31% adjusted gross margin for the full year 2025. To deliver profit and cash in a dynamic

environment, we will continue to advance our tariff mitigation and gross margin expansion journeys, and we will manage SG&A thoughtfully relative to expected volumes while preserving growth investments.

Looking forward to the fourth quarter, we expect continued year-over-year expansion of adjusted gross margin to around 33%, plus or minus 50 basis points. This outlook is supported by our second round of price increases, ongoing benefits from our supply chain transformation and additional tariff mitigation measures, partially pressured by tariff-related production costs. SG&A as a percentage of sales for both the year and the fourth quarter is planned to be 21% and a fraction, characterized by judicious cost management while protecting strategic growth investments.

We remain committed to investing in high-growth, high-return opportunities, with over \$100 million being reinvested in 2025 to drive market activation, strengthen our brands and support commercial expansion while managing SG&A costs down elsewhere in the business. For the full year and fourth quarter, adjusted EBITDA margins are also expected to expand year-over-year, supported by gross margin improvements and the cost actions we are implementing.

Shifting to our segments. For the Tools & Outdoor segment, the full year organic revenue outlook is projected to decline approximately 1 percentage point. The Engineered Fastening segment is expected to achieve low single-digit organic revenue growth, led by aerospace.

Now, turning to cash generation. We generated \$155 million in free cash flow during the third quarter, making progress toward our full year 2025 free cash flow objective of \$600 million, which remains unchanged from a quarter ago. As we advance through the last quarter of 2025 and into 2026, we remain committed to diligent inventory management, ensuring customer order fulfillment remains a top priority, even as we proactively navigate evolving supply chain dynamics and potential shifts in the external market environment. Our capital expenditure outlook for 2025 remains approximately \$300 million, in line with previous planning assumptions.

On capital allocation, we intend to allocate free cash flow in excess of our dividend toward debt reduction in the near term. Maintaining a strong and resilient balance sheet is a top priority and we are committed to achieving a net debt-to-adjusted EBITDA ratio of less than or equal to 2.5 times. Our strategy to reach this leverage objective is to be supported by the proceeds from an asset sale we are targeting within the next 12 months. We continue to anticipate our adjusted tax rate will be approximately 15% for the year.

Other modeling assumptions for 2025, as shown here, are generally consistent with the assumptions shared with you in July. For the fourth quarter, we anticipate organic revenue to be flat as price increases are offset by volume pressures, stemming from a subdued consumer DIY market. In the fourth quarter, we expect continued pre-tax earnings growth and working capital efficiencies, driven by the seasonal drawdown of receivables and a modest decrease in inventory to deliver our free cash flow target. Adjusted earnings per share for the fourth quarter is expected to be approximately \$1.29.

We remain optimistic about the long-term growth prospects for our industry and our business. The targets we laid out for you a year ago at our Capital Markets Day remain appropriate for the business and our focus, albeit delayed by roughly a year due to the impact of increased tariffs.

Near term, we expect market conditions to remain dynamic and challenging. We will continue to respond decisively through targeted supply chain and SG&A adjustments, underscoring our commitment to meet the needs of our end users and customers while delivering financial result improvement. We continue to focus on enhancing the company's long-term earnings power and strengthening the balance sheet.

Thank you, and I will now turn the call back to Chris.

Christopher J. Nelson

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

Thank you, Pat. We are strengthening our operational resilience on a daily basis. Our disciplined data-driven approach empowers us to navigate evolving market conditions, seize emerging opportunities and consistently deliver value to our stakeholders.

As Pat outlined, we are continuing to proactively manage factors within our control to facilitate the achievement and advancement of our goals. We believe our outlook for 2025 is balanced, given the elevated levels of global uncertainty.

We recognize the operating environment is challenging and we are focused on creating significant value from our powerful brands and businesses to generate long-term revenue growth, margin expansion, cash generation and shareholder return. We remain committed to driving towards the goals outlined during our November 2024 Capital Markets Day.

I am confident that with the collective dedication of our talented team and an unwavering commitment to supporting our customers and end users, Stanley Black & Decker will continue to set new standards for excellence in the years to come.

We are now ready for Q&A, Michael.

Michael Wherley

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

Thank you, Chris. Shannon, you can begin the Q&A now.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Tim Wojs with Baird. Your line is now open.

Timothy Wojs

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

Q

Hey, guys. Good morning. Thanks for all the details. Just maybe on the volumes, I'm just curious how those performed relative to your expectations. And I guess, if you could break down the volume between kind of what was impacted by tariffs and kind of what the, I guess, elasticity you saw in the quarter? And as you think about the next few quarters with price and volume, do you expect that kind of one-for-one tradeoff to kind of continue with price and volume, or do you think there could be some underlying improvement in that dynamic? Thanks.

Christopher J. Nelson

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

A

Hey, Tim, this is Chris. Morning. Thanks for joining us. Yeah, I would say that our volumes were relatively in line with expectations. We started the quarter fairly strong and there was a little bit of tapering towards the end of 3Q. But that really was more due, we believe, to, as we had referenced in earlier conversations, a non-standard promotional window.

And we're in – as we go into Q4, we actually will get back on a more normal promotional calendar. And we're actually very excited about the promotions we have for the holiday season, which, as you know, is important to our business. I'd say that we expect the environment to remain similar into Q4, and then we will continue to monitor and adjust as we go into the new year in 2026. But I'd say that while we see the environment, as Pat certainly mentioned, as challenging, it is relatively stable. And we're excited about the promotional calendar we have to close out the year, and it's going to be important for us to monitor.

Operator: Thank you. Our next 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. Maybe just my question would be around dialing into some of the profit levers in a bit more detail. So I think for the fourth quarter, you're assuming operating profit up a few tens of millions of dollars sequentially with flattish sales. And is that all really coming from this extra price increase?

And then as you're thinking about 2026, as it's only eight weeks away now, seems like you won't get much help from volumes based off the exit rate from this year. So maybe help us understand what are some of the main gross margin drivers you're most enthused about for 2026?

Patrick D. Hallinan

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

A

Thanks, Julian. Yeah. So operating profit for the fourth quarter is going to expand really two levers. We certainly expect to continue making progress on the gross margin front. We expect a fourth quarter gross margin around

33%, could bounce around plus or minus 50 basis points, but that's certainly what we're targeting and tracking towards.

And then, one of the things we've been talking about all year is judiciously managing SG&A expense relative to the volume environment while still protecting growth investments. So while we're still targeting around \$100 million of growth investments and elsewhere in the business, we're really reducing SG&A expense quite considerably, almost to an equal amount this year in our 2025 full year income statement. And we'll probably, on a year-over-year basis, be down in SG&A \$40-or-so million versus the same quarter last year.

So the profit expansion in the fourth quarter is a mix of gross margin expansion and SG&A reduction. Those are the primary drivers in a quarter where, overall, our net sales line is roughly flat. So that's where you're getting this year.

I'd say as we work into next year on gross margin, we're still, as an organization, very focused on our long-term objective of 35-plus percent. And every day, we get up trying to solve the riddle of how to get there by the fourth quarter of next year. And that's still our objective. We'll be there thereabouts working on that, assuming the macro environment is kind of in line with where we are or better. Obviously, if there was a big recession, we might need to revisit that.

And the levers we're going to be pulling for next year, we're still going to be working, strategic sourcing, in plant continuous improvement, platforming is going to be starting to play a bigger role, and we still have some facility decisions ahead of us. So all of those levers are still in play for 2026 and beyond. And they'll all be playing very significant roles.

And as we mentioned, as we adjusted the outlook for the fourth quarter of this year, we went into the back half of this year with a bias to having some excess capacity in our plants to deal with the circumstances, elasticity ended up being more favorable and to accommodate some of the global transitions of supply and we'll be having to kind of adjust for those types of costs, too, as we go into the early parts of 2026.

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

Oh, thanks. Good morning. And Chris, congratulations on actually sitting in on the throne right now, I guess, but congratulations. Maybe, I think you mentioned going out with another price increase in the quarter. So, can you just maybe mark-to-market somewhere you expect price to maybe come into the fourth quarter? And maybe just give us a quick mark-to-market on – I know it changes a lot, but on the tariff inflation, how you see it right now? And are you down in this 10% [ph] sentinel term (00:40:53) production and does that have an impact on 4Q?

Christopher J. Nelson

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

Thanks a lot, Nigel. Nice hearing from you. I'll start and I'll let Pat wrap up. But I would say that the price increase – the second price increase, as I mentioned in my remarks, we're in process right now and it's going to be in that low single-digit realm that we talked about in previous conversations, and we're on track to that. And we're working with all our channel partners constructively to get that in place because our goal, collectively, is to make sure that we do everything and anything we can to minimize what the stress would be on our end users. And

therefore, where our real emphasis is, is driving our production moves and mitigation to reduce our reliance on China imports for US consumption. We've been making significant progress there. We remain on pace to be below 10% by the end of the year and below – or at or below 5% by the end of 2026. We're making great progress there. And that's really the emphasis.

So as it relates to the second part of your question, which would be the tariff exposure based on latest information, it really has no material impact. It's still right about the same area based on the changes that have come in Section 232s, combined with the reduction in China, it's kind of netted out. So we're right in that same ballpark. And as it relates to what that means for our mitigation efforts, we were – basically, as I mentioned earlier, we were planning in the not-too-distant future to be largely absent from China as a source of supply for the US. So it really has minimal impact on our medium to long-term strategies there. So I don't know, Pat, if you had anything else to add there?

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

A

Yeah. No, I think you covered most of it, Chris. I'd say – just to reiterate a few things Chris said is, our end game plan, kind of end of 2026 forward, is to be below 5% US COGS from China. That's what drove our total mitigation strategy, both supply chain changes and pricing. And so given that, this reduction in 10% of – 10 percentage points to the China tariffs doesn't meaningfully change that outcome.

You asked a little bit of, is there a fourth quarter benefit? It's probably in the ballpark of very low single-digit millions, given that it affects one quarter and then you pretty much only get the LIFO portion of that. So, for the fourth quarter, it's a very small amount. It's a slight help, probably in the \$5 million to \$10 million range of each of the first two quarters of next year or thereabouts, but it's not a game changer long term. Certainly, any relief is welcome, but it's not a big magnitude item.

Operator: Thank you. Our next question comes from the line of Christopher Snyder with Morgan Stanley. Your line is now open. Christopher Snyder, your line is now open. Please check your mute button.

Chris Snyder*Analyst, Morgan Stanley & Co. LLC*

Q

Sorry about that. I wanted to ask about Tools & Outdoor top line. So price this quarter, I think you guys said 5%, but I thought the conversation on the Q2 conference call was for high single-digit price. Maybe that was more of a back half comment than a Q3 comment. So any color there would be appreciated.

And then also, Tools & Outdoor is calling for a better Q4 mark. It seems like maybe flat organic. Q3 was negative 2%. And now we have a more difficult comp into Q4. So, can you just maybe talk about why that two-year stack will get better? I know price comes through, but we would think with the one-for-one offset that that would be accounted for on lower volumes. Thank you.

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

A

Yeah. So, Chris, pricing can get confusing because, obviously, it's a portion of all the work we're doing to mitigate tariffs. Obviously, there's a lot of supply changes in addition to that. But it's largely a United States, Tools & Outdoor phenomena. So you're talking about taking considerable price on 60% of our business, not on 100% of our business.

So you're accurate in understanding that our pricing, ultimately, when we get through the second round of price increases, but even the pricing we've already taken, is in the high single-digit range. It's probably going to, across our US product lines, be in that high single to maybe even into low double-digit, depending on the SKU you're looking at. But again, when you take basically 60% of that, you're getting into a mid-single-digit global viewpoint on pricing, both global for T&O and global for total Stanley Black & Decker.

So we – if you look at our outlook and planning assumption information, we've been referencing, on an enterprise-wide basis, expecting mid-single digits, US T&O high single digits or above. And that's exactly what we're seeing.

So it's a lot of hard work by our team and a lot of hard work with our channel partners to do it thoughtfully, but we're getting the price we expected. And you saw in the pricing reconciliation for the third quarter, it was 5 percentage points. And that's right in the ZIP code we expected.

Obviously, we're taking a second round of pricing in the fourth quarter, but we're also going to be running back to kind of a more normal promotional cadence. So I would expect the reconciliation for the fourth quarter to be in a similar ZIP code. It can kind of move up or down from that 5 percentage points based on a promotional mix to relative sales.

In terms of the growth cadence for the quarter and the year, for the full year, enterprise-wide, we're expecting net sales for the full year, enterprise-wide, on an organic basis to be flat to down 1%, probably more likely towards the lower end of that range. And for T&O for the quarter, we're also kind of expecting flat to down at 1-ish percent, and again, probably towards the lower end of that range. So that's going to have an enterprise where T&O for the quarter and the year is down somewhere between zero – flat to down 1%, closer to that down 1%, and you're going to have SEF up about 2 percentage points on the year. And that's what's going to drive the overall enterprise to the enterprise expectation.

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 question. Wanted to focus on – without really getting into guidance for next year, focus on some of the actions you've taken this past year and how they might impact 2026. And in particular, just thinking of, number one, the carryover impact, kind of like from an annualized perspective, on what the cost reduction that you're on track to do the \$2 billion by the end of this year. What impact, on a fully annualized basis, would that have to benefit 2026 as well as the movement of supply chain with the China footprint reduction that would ostensibly, as that comes down throughout the year, I would figure have some type of – also some type of benefit to cost? Thank you. Yeah.

Patrick D. Hallinan

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

A

Yeah. Mike, it's a fair question. We certainly are going to be looking at how this quarter plays out from consumer confidence, consumer engagement and volume perspective before we're going to feel like talking about 2026 guidance is appropriate. But anchor stones to 2026, kind of no matter the macro, are going to be making gross margin progression and managing SG&A thoughtfully.

So we're working game plans for 2026 that have us around 35-ish percent in the fourth quarter. We're going to be finishing this full year on like a 31-ish percent basis. So the full year 2026, we're going to obviously be targeting something very much in between those two points of 31% and 35%.

And as I mentioned to the questions Julian was asking, all the levers are still in play. We're going to need to be generating, in terms of gross productivity next year, somewhere in the \$350 million, \$400 million range. That's going to be our rough focus point, again, irrespective of the macro, to continue marching on that gross margin path. And then, we're going to be working on mitigation path of getting \$200 million to \$300 million of tariff expense out of the system via whether that's shifting product out of China and/or increasing USMCA compliance.

So those are our focus areas. Those are levers that we're pulling, and we'll continue to kind of manage SG&A in that 21-ish and a fraction range, again, working to generate growth investments while tightening up the cost structure elsewhere.

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

Adam Baumgarten

Analyst, Vertical Research Partners

Q

Hey, good morning, everyone. Just curious how you think your North America power and hand tools volumes compared to the market in the third quarter?

Christopher J. Nelson

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

A

Hey, Adam. So I think we're relatively in line with market. I'd say a couple of things. We know DEWALT continues to grow year-over-year in the absolute terms, and I think that that would be pacing the market. We've been seeing more signs of progress staying in line with market levels, with our other two core brands.

And I think the important thing to understand is that in the short term, with the amount of change that has happened with various responses to tariff policy, pricing as well as promotional calendars, there's just – there's been a lot of volatility in the market. We're going to keep on monitoring and see how things progress, not only as we wrap this year but going to the next year into 2026. But I'd say we have been relatively in line with what we think the market would be, and I'd say, exceeding what we think the market is with our DEWALT brand.

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

Jonathan Matuszewski

Analyst, Jefferies LLC

Q

Oh, great. Good morning and thanks for taking my question. There's a lot of moving pieces with housing policy for the current administration. I was hoping you could talk to how you see Stanley Black & Decker as a potential beneficiary of some of these proposals to catalyze and unlock dormant housing supply in the future? Thank you.

Christopher J. Nelson

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

A

Thanks a lot, Jonathan. Nice hearing from you. Let me start by just saying that we understand that and we would say that we don't see any real near-term catalyst right now for that market. So we're focused on making sure we control what we control. We're excited about what we're doing. We're excited the progress we're making in our margin expansion and our product line expansions. And we'll continue driving towards that. And for lack of a better term, we're going to continue to improve, based on the actions that we take, on the things that we control. And that's what we're concentrating on. And I think that I'm excited about the progress we've been making and we expect to continue to make along those lines as we go into 2026.

As it relates to any release of momentum in the housing market, whether it be new construction or repair and remodel, we certainly believe that we are very well positioned to be a beneficiary of that. We certainly serve those markets and serve those trades with very high share positions. And we have been using this time of, what I would say is a little bit more of a retrenchment of that market, to invest heavily to make sure that we are there with those end users, with those contractors and with that industry to be building the relationships and building the innovation so that as that does unlock that we will be there to certainly be a beneficiary of it and probably more than our fair share.

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 questions. You gave some helpful color on China and US supply exposure there and what you expect on that trajectory. Any perspective on USMCA compliance and the path that you're on there?

And then along with that, just on the 4Q pricing that you talked about being kind of in process, for how much of the quarter would you expect that price to be flowing through the P&L, the incremental price that you're in process on now?

Christopher J. Nelson

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

A

All right. I'll start with USMCA and then I'll turn it over to Pat for the pricing question. So USMCA, and I think I stated this on our last call that we are making significant progress. It's a big part of our mitigation efforts. And as we talked about our strategy from the very outset on managing the tariffs, we're going to support our customers, we are going to mitigate our operations, we're going to price where necessary, and we're going to maintain our communications with the administration.

We certainly priced for what we believed our end state mitigation was going to look like as we went out of 2026. So it's all hands on deck to get us towards that end because that's a big part of what our mitigation and margin journey is all a part of. As it relates specifically to USMCA, we're making progress and we see no structural roadblocks to us being at or around, what I would say, is the average for industrials that look like us, and we'll be there over the medium term. So we're making great progress and we see a good opportunity there to make sure that we can continue to have the products that our end users need at the prices that they can afford.

Patrick D. Hallinan

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

A

Yeah. And Joe, relative to fourth quarter pricing, a fair number of those discussions with channel partners have been completed and those pricing actions are starting to go underway. We would expect the balance of them to be completed here in the early part of November. And so I kind of think of it as, for the most part, two of the three months of the quarter, and we feel like we're tracking on that. And with all the variables we're managing in this quarter within our planning assumption, we're comfortable with where we are on that front.

Operator: Thank you. Our last question comes from the line of Joe Ritchie with Goldman Sachs. Your line is now open.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thanks for fitting me in. Just my – the only question I have right now is really around inventory levels. It looks like you've reduced your inventories over the past year and also sequentially. How far above do you still think you are from an inventory perspective and what's your expectation for reduction in 2026??

Patrick D. Hallinan

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

A

Yeah. Good questions, Joe. I mean, I think I'd raise it to the topic of cash and then come back to inventory because we still are in a delevering mode and very focused on generating cash and obviously, we have work to do this quarter. And so we expect the gross margin improvement and the SG&A management I referenced earlier in the Q&A to drive profit expansion in the fourth quarter and then we'll be pushing for over \$500 million of working capital reduction in the quarter. That's both receivables and inventory.

I'd say this whole year, at least to this point in the year, we're a little bit heavier on inventory than we'd like to be, but that is understandable relative to all the supply chain moves we're doing. I mean, obviously, we're taking 15 percentage points of our US COGS and moving them out of China, that ends up requiring some inventory slack in the system. And that's part of our challenge.

I'd say, for next year, we're probably targeting at least \$200 million. We'd like to be better than that because I think our longer-term opportunity in a level at this revenue stage probably approaches \$1 billion of working capital reduction. That's not just kind of on the margin thing, that's leveraging, platforming and improving the way we do planning, and a whole host of other things that drive inventory. But I still think that that's the opportunity that's out in front of us. But with some of the tariff mitigation that's going to consume the first half to two-thirds of next year, I think a target in the \$200 million to \$300 million range, closer to \$200 million for next year is probably more appropriate.

Operator: Thank you. I would now like to turn the call back over to Michael Wherley for closing remarks.

Michael Wherley

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

Thank you, Shannon. We'd like to thank everyone again for their time and participation on today's call. If you have any further questions, please reach out to me directly. Have a good day.

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

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