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Stanley Black & Decker, Inc. (SWK)

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Fourth Quarter and Full-Year 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 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 fourth quarter and full – thank you, Shannon. Good morning, everyone, and thanks for joining us for our fourth quarter and full-year earnings call. With us today are Chris Nelson, President and CEO; and Pat Hallinan, Executive Vice President, CFO and Chief Administrative Officer.

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 fourth quarter and full-year results along with our outlook for 2026, followed by a Q&A session. During today's call, we will be making some forward-looking statements based on 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 will be 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.

I will 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 proud of the results our team delivered in 2025, a testament to our resilience, innovation and relentless pursuit of excellence. DEWALT and aerospace fasteners were areas of notable revenue growth this year, up low-single digits and 25% respectively, which contributed to full-year revenues of $15.1 billion. Total revenues were down about 1 point organically in 2025.

Stanley Black & Decker has remained steadfast in our commitment to disciplined execution. This is especially important considering the constantly shifting macroeconomic and operating environment. We continue to proactively execute targeted growth investments and to pursue aggressive tariff mitigation actions. Part of our tariff mitigation strategy has been pricing actions, and we are closely monitoring the market response to ensure a balanced approach to top-line growth and margin expansion.

We are confident that over the long term, these thoughtful actions will continue to drive strong performance and deliver meaningful value for our end users, channel partners and our shareholders. Our tariff mitigation actions, along with supply chain transformation efficiencies, led to our adjusted gross margin expanding 70 basis points to 30.7% for full year 2025. We also marked the completion of our global cost reduction program, successfully capturing $2.1 billion of run rate pre-tax cost savings since the program's inception in mid-2022.

As we have stated before, we will continue to tenaciously pursue annual productivity savings in the neighborhood of 3% net spend on an ongoing basis. The global cost reduction program helped to set a foundation, from which we are institutionalizing the achievement of annual productivity savings to drive sustainable growth and support our adjusted gross margin expansion goals.

Full-year adjusted EBITDA grew by 5%, as the adjusted gross margin improvement drove a 70-basis-point improvement in adjusted EBITDA margin. We rigorously controlled costs throughout the organization while prioritizing targeted strategic growth investments to support our brand activation and innovation agendas. Adjusted earnings per share grew 7% in 2025 to $4.67. We view this as a solid outcome considering the dynamic operating and macroeconomic environment this year, including the substantial tariff headwinds incurred by our industry.

Earnings growth and working capital efficiencies each contributed to strong free cash flow of almost $700 million in 2025. These funds not only supported our dividend and continued debt reduction, but they also provided capital for impactful initiatives that amplify the power of our brands and accelerate innovation.

Additionally, on December 22, we announced the definitive agreement to sell our aerospace fasteners business. This portfolio change is consistent with our dedication to focusing on growing our biggest brands and businesses, and enhancing shareholder value. We expect to use the net proceeds of over $1.5 billion to significantly reduce our debt, affording us flexibility to pursue a much more dynamic capital allocation strategy.

Now, shifting to performance in the fourth quarter, we delivered strong results across many of our key metrics in the period, with continued gross margin expansion, robust free cash flow, and a strengthened balance sheet. Revenue was down 1% overall and 3% organically, which was below our expectations. We posted a 4% price increase and benefited from a 2% currency tailwind, which were offset by the 7% volume decline. We will unpack these drivers shortly.

The adjusted gross margin rate of 33.3% was strong and towards the high end of our planning range, as we continue to deliver supply chain cost reductions, implement tailored pricing plans, and execute tariff mitigation actions. Adjusted EBITDA margin of 13.5% was up by a robust 330 basis points year-over-year. Adjusted earnings per share were $1.41. Fourth quarter free cash flow was over $880 million, a very strong result as we effectively manage working capital while continuing to optimize our operations and supply chain.

Turning to our fourth quarter operating performance by segment, I'll start with Tools & Outdoor. Fourth quarter revenue was approximately $3.2 billion, down 2% year-over-year. Organic revenue was down 4%, as a 5% benefit from targeted pricing actions was more than offset by 9% of volume pressure. Currency contributed a 2% benefit in the quarter. We successfully implemented our second price increase of the year in our US tools business, a low-single-digit increase this time with full implementation in the back half of Q4. The volume decrease was largely due to power tool demand dynamics in retail channels in North America and a soft market backdrop in North America and other developed markets.

Much of the US tools retail volume headwind was experienced with opening price point products and in select promotional areas, as consumers have gravitated towards promotions during these uncertain economic times. As we've mentioned previously, we have expected consumer, competitor and channel response to the meaningful tariff pricing would take a while to shake out and that our top line could be volatile during this period. We see the fourth quarter result as an indication of this. We expect top line volatility through at least the first quarter, as competitors continue to take price and as we tune our approach to promotions.

Tools & Outdoor fourth quarter adjusted segment margin was 13.6%, up 340 basis points year-over-year. Margin expansion was primarily driven by higher pricing, tariff mitigation, and supply chain cost reductions.

Now, for additional context on the top line performance by product line in 4Q. Power tools' organic revenue declined 8%, largely resulting from factors consistent with my previous comments and partially offset by professional strength in the commercial and industrial channel. Hand tools, accessories and storage organic revenue was flat, as strong professional-grade power tool accessory performance was offset by hand tools due to conditions observed across the broader segment.

Outdoor revenue increased 2% organically, driven by strong pre-season ordering for 2026. The independent retail channel also exited the year with normalized inventory levels. These factors are both indications of a solid setup for growth in 2026.

Now, Tools & Outdoor performance by region. In North America, organic revenue declined 5%, reflecting trends consistent with the overall segment performance. In Europe, organic revenue declined 3%. Growth in key investment markets, including Central Europe and Iberia, was offset by softer market conditions in other parts of the region. The Rest of World organic revenue declined 4%, primarily due to market softness in Asia and South America.

On a full-year basis, Tools & Outdoor organic revenue declined 2% due to the aforementioned factors impacting the fourth quarter, combined with the mid-year tariff-related promotional reductions. Full-year POS demand was in the same zone as the organic change. DEWALT successfully overcame broader headwinds and posted low-single-digit organic growth for the full year, including organic growth across all product lines and regions. Our success was underpinned by prioritized marketing activation and accelerated innovation initiatives, both of which I've highlighted as strategic imperatives at Stanley Black & Decker.

A prime example of these imperatives in action is the launch of our ATOMIC 20V MAX cordless grinder suite, designed for high performance and mobility in tight spaces. This new product lineup allows users executing demanding applications to transition from pneumatic to cordless. The fabrication trades, particularly fitters and welders, perform some of the most demanding applications in the field. Our dedicated team of trade specialists are actively in the market now, offering hands-on experiences to end users to convert this high power sector of tools to enjoy the benefits of a cordless compact tool without sacrificing performance.

There are also several differentiating features, such as the DEWALT Perform & Protect anti-rotation to maximize user control and the option to pair with TOOL CONNECT for job site asset management, to name a few. Our platforming method enables a swift launch of these tailored solutions, adding to our more than 300 product 20V MAX system for the toughest job sites. We intend to continue setting the industry benchmark and redefining the threshold of productivity for our end users.

Turning now to Engineered Fastening. Fourth quarter revenue grew 6% on a reported basis and 8% organically. Revenue growth was comprised of 7% volume increase, 1% higher pricing, and a 1% currency tailwind. This was partially offset by a 3% headwind from the previously disclosed product line transfer to the Tools & Outdoor segment. This is the final quarter where this impact will be a factor.

The aerospace business continued its strong trajectory, achieving 35% organic growth in the quarter. The automotive business delivered mid-single-digit organic growth, reflecting strong sales of our systems for auto OEMs. General industrial fasteners' organic revenue declined low-single digits. Adjusted segment margin for Engineered Fastening was 12.1% in the quarter. Year-over-year expansion was primarily driven by higher volumes, modest price increases, and strong cost controls.

On a full-year basis, the Engineered Fastening segment delivered 3% organic revenue growth. This included high-single-digit organic revenue growth in the second half, which more than offset the end market pressure experienced during the first half of the year. Overall, both the Tools & Outdoor and Engineered Fastening segments delivered margin rates in line or better than expectations this quarter through disciplined execution, targeted pricing strategies, and continuous improvements across our operations.

I would like to thank our team for their resilience and commitment to serving our customers and achieving these results.

I will now pass the call to Pat to discuss progress we achieved on key performance metrics and to outline our 2026 planning assumptions.

Patrick D. Hallinan

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

Thank you, Chris, and good morning to everyone joining us today. During the fourth quarter, we delivered significant progress on two of our top strategic priorities – expanding gross margins and improving the health of our balance sheet.

I'll begin by taking a closer look at our gross margin performance. In the fourth quarter, we delivered an adjusted gross margin of 33.3%, a 210-basis-point increase over the same period last year. This is a meaningful accomplishment achieved through pricing, tariff mitigation, and supply chain cost reductions. These factors were also the drivers of the company's full-year performance of 30.7% adjusted gross margin. This represents a solid 70-basis-point improvement compared to the prior year, an achievement made even more impressive given the broader market volatility we faced.

I'd like to commend our team's outstanding execution, as we encountered unprecedented tariff rate increases that began during the first quarter and peaked in April. The team's swift adaptability limited the gross margin decline to just one quarter before we resumed our positive year-over-year margin expansion trajectory in the second half of the year. As Chris mentioned, our global cost reduction program achieved its targeted objectives having delivered $2.1 billion of pre-tax run rate cost savings in total, including approximately $120 million of incremental savings in the fourth quarter.

Operational excellence is one of the company's three strategic imperatives. Going forward, we expect operational excellence to remain a strategic imperative and to target gross improvement of 3% of net spend annually. Looking ahead, we remain fully committed to achieving adjusted gross margins that are above 35%, a long-standing objective that continues to guide our efforts and priorities. We continue to aim for reaching this milestone by the fourth quarter of 2026.

Now, turning to our cash flow and year-end leverage results, we generated $883 million of free cash flow in the fourth quarter, bringing the 2025 total to $688 million. This performance surpassed our planning assumption of $600 million, driven by disciplined management of working capital, particularly in receivables and inventory. Our capital deployment in 2025 was consistent with the progress of recent years, as we reduced debt by $240 million, returned $500 million of cash to shareholders via our dividend, and also invested greater than $100 million in growth initiatives to fuel brand building and innovation.

This approach underscores our ongoing commitment to deliver value to our shareholders while strengthening our financial position. In just the past two years, we have taken significant strides in reducing our net debt to adjusted EBITDA leverage ratio, bringing it down by 2.5 turns. We have reduced debt by $1.3 billion, supported by working capital efficiencies and organic cash generation, and increased adjusted EBITDA by $500 million, or 44%, over this two-year period.

In December, we announced a definitive agreement to sell our CAM business for $1.8 billion in cash. We expect net proceeds after taxes and fees ranging between $1.525 billion to $1.6 billion. We will apply these proceeds to pay down debt supporting incremental leverage reduction of 1 turns to 1.25 turns in 2026 and positioning the company to meet our target leverage ratio of at or below 2.5 times.

Achieving this critical financial milestone will provide us with greater flexibility. We will be well positioned to respond to market dynamics, invest in growth, and enhance shareholder value creation. We are committed to maintaining a solid investment-grade credit rating to support our brands and our businesses, and we will continue to allocate capital thoughtfully with organic value creation the priority.

Overall, our capital allocation priorities remain consistent with those communicated at our 2024 Capital Markets Day. Funding organic growth investments that drive long-term value continues to be our top priority. The company also remains committed over time to maintaining a strong and growing dividend and has a preference towards opportunistic share repurchases which reflect our confidence in the company's future.

In recent periods, our excess capital has been deployed to reduce debt, but following the CAM transaction, we anticipate having additional options for capital deployment, always guided by our disciplined approach and focus on organic shareholder value creation.

Now let me walk you through our planning assumptions for 2026. We anticipate that 2026 will be another year of progress towards our key financial objectives, though we do not expect progress to be linear, as peak 2025 tariff expense and second half 2025 volume deleverage rolls off our balance sheet into first quarter and first half expenses, and as macroeconomic and geopolitical uncertainties continue. Despite this backdrop, we expect to make meaningful progress towards our objectives as we did during 2025.

For 2026, we expect adjusted earnings per share to be in the range of $4.90 to $5.70, representing growth of 13% at the midpoint. This planning assumption includes a half year of CAM results. We are working to close the CAM transaction during the first half, though the actual closing date is subject to customary regulatory approval. We expect CAM to contribute quarterly sales of approximately $110 million to $120 million and quarterly segment profit of approximately $10 million to $20 million in each of the first two quarters, which includes expected corporate and segment allocation.

We are targeting free cash flow generation of $700 million to $900 million for the year, reflecting our expected continuation of strong cash flow conversion. This will be accomplished through a disciplined and efficient approach to working capital management, progressing inventory towards pre-pandemic norms, while remaining attentive to our ongoing tariff mitigation and footprint optimization initiatives. We are planning total company revenue to grow in the low-single digits year-over-year, with organic revenue also expected to grow at a similar rate.

This outlook reflects our focus on pivoting to growth and our confidence in seizing share opportunities across our key markets. This revenue outlook includes an expectation of 50 basis points to 100 basis points of benefit from foreign exchange, which would predominantly benefit the first half. There are two important revenue dynamics to appreciate for 2026. First, there is a second half year-over-year impact of the CAM divestiture. Second, we will be transitioning our gas-powered walk-behind outdoor product lines to a licensed model during 2026, which will enhance margin and returns, but will result in a reduction of in-year revenue.

Let me provide more detail on this gas-powered product transition. Starting around the middle of the year, we will move away from manufacturing gas-powered walk-behind outdoor products ourselves and instead adopt a licensing model for these products. The impact of this change will not be reported in organic revenue performance and will be a separate factor. This product area represents a lower margin portion of our outdoor portfolio and a shrinking part of the outdoor market.

Importantly, this strategic shift does not alter our long-term view for outdoor, particularly as we advance the electrification of our product lineup. We expect this change to result in a revenue reduction of approximately $120 million to $140 million in 2026 and another $150 million to $170 million reduction in 2027, with most of the impact to be realized in the second half of 2026 and the first half of 2027. We expect this business model transition to enhance margins and returns. This business model change is already contemplated in our sales, margin, and EPS guidance.

Moving to gross margin expectations, we anticipate adjusted gross margin will expand by approximately 150 basis points year-over-year, supported by top line expansion, price, ongoing tariff mitigation efforts, and continuous operational improvement. We expect year-over-year gross margin improvement in both halves of the year, though, as indicated in my earlier comments, first-half margins will reflect headwinds from tariff expense and under-absorption from 2025.

Our planning assumes that tariff levels remain at current levels, and we will continue to progress our tariff mitigation initiatives. Our planning reflects margin recovery from tariff mitigation efforts. We plan to continue growth investments in 2026 to further advance our robust innovation pipeline and fuel market activation, with the goal of enhancing brand health and accelerating organic growth. We expect SG&A as a percentage of sales to remain around 22%. We will continue to manage SG&A thoughtfully, preserving strategic investments that position the business for long-term growth.

Looking at our segments, we are planning for organic revenue growth and segment margin expansion across both segments. Tools & Outdoor is expected to deliver low-single-digit organic growth in 2026, with an emphasis on market share gains and what we anticipate will be a roughly flat market characterized by continued uncertainty. Organic revenue in the first quarter is projected to be down in a low-single-digit range, reflecting North American retail dynamics like those in the fourth quarter, ahead of full implementation of promotional adjustments and changes to opening price points in non-strategic brands and product categories.

We are confident in our plans to drive organic revenue growth beyond the first quarter, as we start lapping the price increases and promotional disruptions that started in 2Q 2025 and as we refine some of our promotional strategies. We expect to see sales trends improve from our new product launches and commercial initiatives, with a focus on outperforming the market. Adjusted segment margin is expected to improve year-over-year, driven primarily by price actions, tariff mitigation, operational excellence, and thoughtful SG&A investment.

Engineered Fastening is planned to grow mid-single digits organically, with comparatively strong performance in the first half, reflecting an anticipated half-year contribution from CAM. Our other two businesses, excluding CAM, are expected to deliver low- to mid-single-digit growth for the year. Adjusted segment margin is expected to improve year-over-year, primarily due to continuous operating cost improvement and volume leverage.

Turning to other 2026 assumptions, our GAAP earnings guidance of $3.15 to $4.35 includes pre-tax non-GAAP adjustments ranging from $270 million to $345 million, primarily from footprint optimization actions, with approximately 20% of the total representing non-cash charges.

Now for additional planning assumptions on the first quarter. We are planning for net sales to be around $3.7 billion, down roughly 1% year-over-year due to a solid 2025 comparable. Adjusted earnings per share are expected to be approximately $0.55 to $0.60. In the first quarter, our earnings contribution will be impacted primarily by the timing of tariff cost realization, as peak 2025 tariff expense rolls off our balance sheet into the first quarter income statement. We anticipate the first quarter will reflect the highest level of tariff expense on the P&L, which combined with the second half 2025 volume deleverage offsets pricing and productivity initiatives. As a result, we expect adjusted gross margin rate to be roughly flat year-over-year. Additionally, our adjusted EPS for the quarter assumes a planned tax rate of approximately 30%.

In summary, 2026 is set to be another important year for our company. With a strong foundation set, sharpened portfolio, disciplined cost and capital allocation, and a relentless focus on customers, we are well positioned to deliver growth and create long-term value for our shareholders.

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. With a strong foundation 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, which is firmly anchored by our three strategic imperatives – activating our brands with purpose, driving operational excellence, and accelerating innovation. As Pat outlined, we are continuing to proactively manage factors within our control to effectively navigate evolving market conditions and make progress towards achieving our goals.

We believe our planning assumptions for 2026 are balanced given the elevated levels of global uncertainty, and we remain committed to driving towards the long-term goals outlined during our November 2024 Capital Markets Day. We expect to achieve the following level of performance in 2028: mid-single-digit sales growth, 35% to 37% adjusted gross margins on a full-year basis accompanied by adjusted EBITDA margins of mid to high-teens, cash flow conversion of net income approximating 100%, cash flow return on investment margins in the low to mid-teens.

This will all be complemented by disciplined capital allocation and asset efficiency. As Pat and I discussed, we are focused on significantly deleveraging our balance sheet this year, which goes hand in hand with continuing to have a solid investment-grade credit rating. For clarity, the assumptions that underlie these 2026 to 2028 targets are that our markets are growing by low-single digits and that the inflationary/deflationary environment is reasonable, avoiding the extremes of either.

Finally, these goals assume the current tariff landscape. As we look ahead, I am energized by the opportunities that lie before us and am confident in our strategy. With a clear vision for 2026, we are building on our hard-earned momentum to serve our end users and create lasting value for our stakeholders.

We are now ready for Q&A, Michael.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Julian Mitchell of Barclays. Your line is open.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi, good morning. I just wanted to dial in a little bit more into the cadence of the gross and operating margin performance for the year. I think you said gross margin is flat year-on-year in the first quarter, up 150 points for the year. So just trying to understand, does that imply in, say, the fourth quarter, you're up 300 points or something and maybe flesh out a little bit how quickly that gross margin improvement happens? Do we see it in the second quarter, for example, growing year-on-year? Thank you.

Patrick D. Hallinan

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

A

Hey, Julian, good question. Certainly a lot of moving pieces in gross margin as we head into 2026. I'd say the cadence throughout the year is we expect the first quarter to be around 30.5%, the second quarter to be between that and maybe 31%, and then the back half to be for each of the third and the fourth quarter in the 34% to 35% range. And the reason for that a bit maybe unanticipated gross margin cadence coming off of the 33.3% in the fourth quarter as we do have, affecting both the first and the second quarter, peak tariff expense across the two years.

Our quarterly reported tariff expense in the first quarter and second quarter of 2026 will be at their peak. And we have the volume deleverage, which was effectively under-absorption in the back half of 2025, rolling off the balance sheet, affecting both quarters. And that under-absorption came from the volume declines associated with tariff pricing. As we said before, as we went into tariff pricing, we were emphasizing margin preservation with our pricing and mitigation actions and service level by keeping that capacity in place. But it does have a deleverage effect as an expense in the first half of the year.

And roughly, you can kind of think of those as tariffs are about 100 basis points a quarter or maybe slightly less than that and deleverage is 100 basis points or more than that in those two quarters. So you're kind of of – between the two of those factors, you're losing about 200 basis points a quarter in each of the first and the second quarter, whether you're looking kind of sequentially coming off Q4 or whether you're looking for what would typically be the 200 basis points of margin improvement year-over-year, it's kind of the same way you look at it. You're both getting affected by tariff expenditure rolling off the balance sheet and volume deleverage rolling off the balance sheet.

The good news is we've already got actions underway in the form of tariff mitigation and in the form of production cost reduction as we kind of recalibrate our plans for the volume realities. So we started those actions, as you can imagine, in the back part of last year. We accelerated them in the fourth quarter. We'll continue with tariff mitigation throughout the year, but that's pacing well and we'll do a bit more capacity resizing in the early part of this first quarter.

So by the time we get through with the first half, we'll kind of have neutralized those headwinds. And therefore, that expansion in the back half becomes much more manageable because we've kind of of rightsized plant capacity, we've accelerated tariff mitigation, and the launching off point for the back half means that those back half year-over-year margin improvements are much like our annual continuous improvement, and we have the plans in place to deliver those.

Operator: Thank you. And our next question comes from Nigel Coe of Wolfe Research. Your line is open.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Thanks. Good morning, everyone. Thanks for the question. I just wanted to pick up maybe on the tariff mitigation measures, Chris. It doesn't sound like price is part of that, and I'd just like you to touch on the fact that you mentioned consumers are a bit more promotional sensitive. So maybe just address the price elasticity as part of this question. But I'm more interested really in the tariff mitigation and the measures you're taking around supply chain and other factors to – USMCA to mitigate those tariffs.

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

A

Sure, Nigel. Good morning. Nice hearing from you, as always. So I'll start with the tariff mitigation. And just to make sure I re-baseline everybody is that we started with the premise, as Pat said, that we were going to continue to emphasize the service levels for our customers, which we've done very well. We're actually at all-time highs right now from recent history, as well as making sure that through mitigation and pricing actions, we would be covering margin and cash going forward.

If we start with the specific operational mitigation plans, I think, you're referencing, remember – recall that rough order of magnitude, we were importing about 20% of – a little bit less than 20% of our volume for North America sale from China and we had talked about by the end of this year, 2026, largely being out of China for US consumption less than 5%. Those actions are a multiple of actions, whether that was transferring from China to North America, whether it was taking dual qualified SKUs and starting the production in North America versus exclusively in China, and we are pacing ahead of those mitigation transfers vis-a-vis what our plan was. So we are comfortably on a glide path and actually a little bit ahead of the glide path in order to be at that level of essentially being out by the end of the year. So that's that.

And I would just be remiss to say that in all of this, the amount of work that the team has done to get us ahead of the game is really admirable. And as we talked about when Pat said, a little bit of the capacity rolling off, a part of that is intentional because as you can imagine, as we're moving production around the world, we want to make sure that we have the appropriate amount of capacity to receive that in locations. And we'll start to be able to study that as we go.

Secondarily, on USMCA, I had previously said that we started at less than a third of our products that were USMCA-qualified. And we said that in the medium term, we saw no reason that we would not be able to be at or around industry averages for what that USMCA-qualified percentage of imports would look like for a company – an industrial company such as ourselves. We actually are making great progress in that area and we see absolutely no barrier to be at or maybe slightly above what that industry average would be. And we're pacing once again, ahead of making that – I think we had talked about that being an 18-month to two-year timeframe. We're pacing nicely ahead of that right now. So the operational mitigation is going very strong. And we actually feel that that is a big part of what we'll be able to continue to do to deliver – continue to deliver the margin expansion that Pat referenced.

I think you asked a little bit about the volume in 4Q as well as what that means from a pricing perspective. So I would just say, if I think about 4Q and what we saw, I think there's a couple of things in there, Nigel. One would be that there was certainly in the market and I think specifically in North American and retail, and this is, I think, a common thread that we've seen in a lot of different people's releases. It was just a softer market backdrop. Secondarily, that in that environment in our industry in particular, as you think about the pricing actions that have been taken, we saw a particularly noted sensitivity in what – pricing sensitivity in the opening price point products and brands. And an example of that, Nigel, would be our cleaning and vacuum business and our Black & Decker branded portfolio, which are both reported in our power tool results. Those are on that line where people are looking at should I be trading down and what is the right value that I should be taking a look at?

So that is where we have a look at making sure that we understand are we appropriately making the price/volume margin trade-offs in those OPP type of products and we're working through those plans as we speak there. And then secondarily, yes, it was, we saw more consumers and buyers looking for promotions. And I think that that would be expected in an environment like this. And we will continue to kind of tweak and modify our promotional assortment and promotional plans as we go forward to adjust it. These are minor types of issues that we understand what's going on and we have the actions in place to address them. And they're around the edges to be sure. Because if I just bring back once again and reiterate, where we started in saying, we wanted to make sure that we were pricing and mitigating for preserving our margin to make sure that we had the right margin structure for long-term investment and growth of our core brands. That's where we are and we've accomplished that very nicely.

And we also said that we expected a level of volatility as all of this plays out and we're seeing that now. And I would expect that volatility to continue to play out because candidly there has been a large shock put into our industry and people are adjusting their promotional approaches as we go in a post-tariff pricing world. And even right now, as we continue, as we speak, more pricing is going into the market from different members of the competitive set.

So I think that this will continue to monitor and adjust around the edges where necessary, but we're very happy with where we are and we're very confident that we understand the issues from a pricing perspective and that we're right on where we wanted to be from executing the strategy that we laid out from the very beginning of this episode.

Operator: Thank you. And our next question comes from Tim Wojs of Baird. Your line is open.

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.
Q

Hey, guys. Good morning. Chris, I had a follow-up on that question and then just my question. So the follow-up is, the tweaks that you're making to some of the promotional cadences and price points and things, is that really more of a reaction to what the consumer and how they're reacting to price or is it more competitive? So that's my follow-up question.

And then the question I have is just on volume. You do kind of expect – it does seem like you kind of expect volume to start to improve at some point in 2026. How much visibility, I guess, do you have to that and any sort of kind of specific share gains that you could kind of talk about it outside of just having some easier volume comps as you kind of work through the year?

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

Yeah, Tim, thank you. It's great hearing from you. I would just start by saying that everything that we do is going to be in response to what we see our end users and our buyers and our customers not doing. And I think it's – obviously there's a byproduct of what the competitive set is doing, but we are looking at our core end users and customers by segment. And these are tweaks around the edges that you would expect to modify as we go forward. And I think that – I can't completely tease the two apart because as I said, right now there are still pricing actions being taken in the market by the competitive set. And obviously we'll keep that as a part of what we monitor as we make the modifications.

Now, as it relates to the promotional question you asked, these are things that are – they're normal, they're normal course of business as you think about how you set up your promotional plans and they're normal modifications that we go through on an annual basis. I think what is different is that because we have gone through a step function change in pricing, getting those levels dialed in to understand exactly where our models say that we're getting the absolute optimal trade-off between the volume and the margin, we're just working through those in certain highly sensitive SKUs, but they're minor adjustments for us to make going forward.

And we're – once again, just reiterate, we're confident that we're on the path to being, do so. And it'll be kind of those things will be able to be in place going into Q2 and we'll probably see them in Q2 and Q3.

From a volume perspective, I'd say that the most encouraging thing that we see is that through all of this, we have continued to see a very strong professional market. And our professional channels and the construction and industrial channel was a nice growth generator in Q4, and we see that continuing. And as we get the different kind of opening price point branded type of work done in the retail segment as well as our promotional line, that underlying momentum that we're seeing there, I think, is going to be a nice – it's a nice indication that the overall strategy that we've laid out is actually paying dividends and will continue to grow. So, yes, there would be nice indications underlying that we see the volume opportunity for 2026.

Operator: Thank you. And our next question comes from Chris Snyder of Morgan Stanley. Your line is open.

Chris Snyder
Analyst, Morgan Stanley & Co. LLC
Q

Thank you. I appreciate the question. If we – you guys talked a couple quarters ago about an expectation that the tariff-related price increases on the industry would maybe have like a one-for-one elasticity on volume. If we look over the last three quarters, it seems like the elasticity has been more significant than that. The volume declines have been steeper than the price increases. So, I guess is that just a function of some of the soft consumer backdrop that we've talked about? Could it be a function of maybe something Stanley-specific? And maybe that could change as competitors push more price in 2026 per some of the earlier conversation. But just any color on that and what could maybe cause that to get better over the next 12 months? Thank you.

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

Yeah, Chris. That's certainly our expectation as we went into this pricing dynamic, which started in the second quarter. And for the first two quarters, our overall results were very much in line with that expectation. I mean, you could tell by the results we reported in the fourth quarter, we did see an elasticity that was greater than that one-for-one level. And consistent with some of the points Chris made in the last couple questions, I said we see that heightened sensitivity was really concentrated in opening price points and a few promotional areas.

And as we expected all along on this journey because we and other players in the industry, both manufacturers and retailers, took prices at very different time points in very different manners, that we'd all be adjusting along the way and there'd be some choppiness along the way. And we think the fourth quarter was an indication of that choppiness. We probably have another at least first quarter to go of some of that choppiness. But we think with very manageable and modest adjustments to promotional rhythms and levels and a few targeted opening price points and some non-strategic brands that we get back into that one-to-one zone is our expectation. We think that's very much within the manageable boundaries of all the things we're navigating during the tariff jolt that's impacted the industry.

Operator: Thank you. And our next question comes from David MacGregor of Longbow Research. Your line is open.

Joseph Nolan
Analyst, Longbow Research LLC

Q

Hi. Good morning. This is Joe Nolan on for David. You guys talk about being focused on paying down debt after selling the aerospace fastener business, but can you just talk about plans to invest in growth in the CRAFTSMAN and STANLEY brands and just how you expect to see share gains there and margin improvement in these brands in 2026? And just along with that, if we see the DIY space remain a little bit softer, just how much progress you can make in those spaces? Thanks.

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

A

Yeah, Joe, I'll start and give you kind of some of the financials, and then I'll let Chris talk about some of the things going on with the STANLEY and the CRAFTSMAN brand, which we're very excited about, and we do expect to see sales inflections in both of those brands this year, 2026. From a pure kind of financial framework, as we stated on the call, we'll get the proceeds from this transaction and pay down debt and get very much at or below the 2-point times net debt to EBITDA threshold. We certainly plan to persist a growing dividend, but that should still result in additional capital flexibility that we've probably more likely been biased to pursue share repurchases as the next port of call.

As it pertains to investments in the brands, we certainly, in 2026, expect to be making an incremental $75 million to $100 million greater investments in the brands versus 2025. And you see our SG&A for the year will be up somewhere in that $90 million to $100 million range, and what's happening inside of SG&A is the brand investment is going in, but we continue with SG&A efficiencies elsewhere. So elsewhere, the efficiencies are offsetting the things like merit and benefit inflation and offsetting some of the overhead that gets stranded with CAM, and that just leaves our year-over-year SG&A cadence really reflecting the incremental investment in the business.

But we don't see the investment in the business going beyond that kind of incremental $75 million to $100 million in 2026, but Chris can talk a little bit about what's going on with CRAFTSMAN and STANLEY. We've been making investments in those brands over a 24-month-plus horizon, and we expect those investments to result in inflection this year.

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

A

Yeah, so thanks a lot, Pat. And Joe, great question. What I'm saying is that I just take us to the beginning, and if you remember the beginning of the – when I started talking about this, it was we made the conscious decision to start having our investment towards DEWALT out of the gate. It was in the professional segment greatest scale as well as had the most, what we thought, clear, quick payback on those. Quickly following that, we started, as Pat said, in the last – 24 months ago, to then layer in incremental investments in both STANLEY as well as CRAFTSMAN as our other core brands. And specifically, we're going to start to see the fruits of that, what we've been putting in for the past 24 months and specifically a lot of the last 12 months, as we come into this year and we'll continue to invest.

Let me give a little bit of color to that. I would say that from a product perspective, CRAFTSMAN and STANLEY are going to see some of their largest new product launches from a kind of quantity perspective in certainly recent history, as we're launching a large suite of CRAFTSMAN V20 products in 2026, as well as, as we've talked about before, we've put in a lot of work into redefining and refreshing the STANLEY lineup. And that is now coming in as we speak right now into the lineup and being launched into our channel with our channel partners. And we're very excited about the opportunities and what we see there. And I think that's going to be a nice inflection point that we can see coming.

Secondarily, with those brands, and I'll talk about STANLEY specifically, for example, which the majority of STANLEY sales are outside the US. And we have been putting in dedicated sales and feet on the street for that STANLEY brand, specifically in the European hand tools market that we are seeing pay dividends and as we continue to build demand and shelf space in what is a very professional market in Europe for those products. And we see that being something that'll continue to pay off. And we've started to see certainly the inflection already.

And then from an activation standpoint, I would say that we are going to be this year really amping up our efforts in social spend. We're going to be spending at or above what I think is the highest level we've done in the history of this company and those brands. So we're very excited about the progress, obviously, that we've been talking about and we've seen the results on in DEWALT. And I would anticipate seeing that this year. Probably STANLEY will be a little sooner than CRAFTSMAN. We'll see CRAFTSMAN inflect in the back half of the year as well. But we're really excited about what we have. And there are tangible things that have been in progress for a couple of years that are now being launched in the marketplace.

Operator: Thank you. And our next question comes from Rob Wertheimer of Melius Research. Your line is open.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Hi, thanks. Question is a little bit about margin trajectory and just drivers beyond 2026. I wonder if you can comment on what your kind of rate of inflation – your natural rate of inflation is running. Does productivity fully offset that? And so kind of margin gains from here are price-led? Is the idea that the 3% productivity will give you tailwinds versus your cost structure? I'll stop there. Thanks.

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

A

Yeah, Rob, good question. I'd say beyond 2026, as I think both Chris and I mentioned in the opening comments, we're pursuing gross annual savings roughly in the ballpark of 3% of our cost structure, which is call it $300-ish million in that zip code. Those are gross savings. And every year, you get a manner of wage and benefit inflation inside of our COGS cost structure, plus you get materials inflation and deflation that tends to be kind of net inflationary, predominantly driven by metals. I'd say that that leaves you with usually a net savings after inflation in the $100-ish million range, which allows you to make choices on incremental margin expansion and/or investment in the brands. And I'd say that's kind of our structure going forward.

And we'll manage SG&A relative to overall volumes. So we'll manage SG&A up and down with the volumes in the business. And I'd say our pricing in the business will be driven by innovation and brand-building that can be in place, should material inflation get outside of any kind of normal band. But I'd say that's our margin algorithm going forward that you should expect pricing to be something when you get high-side margin or material inflation, rather, or things like tariffs that itself help inside of COGS elsewhere and that we kind of manage SG&A to deal with volume versus SG&A inflation.

Operator: Thank you. And our next question comes from Eric Bosshard of Cleveland Research Company. Your line is open.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Thank you. I think I understand strategically what you're talking about in terms of managing pricing and promotion through the first half in order to get better volume. You also talked about some price increases in 4Q and competitors raising price in 1Q. And so I guess what I'm trying to really understand is how pricing behaves 1Q, 2Q, and into the back half. Do you sustain the current level of price? Do you get more price? Do the tweaks mean you end up getting less price? Just trying to figure out how that behaves in 1Q, 2Q, and two half.

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

A

Yeah, Eric, I don't know that I know it intimately by quarter. I would say for the full year, enterprise-wide, we would expect pricing in the range of plus 2%. It's for the most part the carry-in with the absorption of kind of modest changes to promotions and OPP that are baked within that 2% pricing. Obviously, most of that's going to come in the first half of the year. I don't know it precisely by first quarter versus second quarter, but mostly that's going to come in the form of positive pricing in the first and second quarter, I would assume dominated by the first quarter since we started our pricing in the second quarter of last year, and then be relatively flattish the third and the fourth quarter.

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

Thank you, everybody, for those questions. We would like to thank you for your 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, and you may now disconnect.