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Stanley Black & Decker, Inc. (SWK)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Stanley Black & Decker Second Quarter Earnings Call. My name is Shannon and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Following the company's prepared remarks, we will conduct a Q&A session. [Operator Instructions] Please note that this conference is being recorded.

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

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

Good morning, everyone, and thanks for joining us for our second quarter earnings call. With us today, are Chris Nelson, President and CEO; and Patrick 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 second quarter results along with our updated outlook for 2026, followed by a Q&A session. During today's call, we will 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 differ materially 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 filings.

Additionally, we will also discuss non-GAAP financial measures during the call. For applicable reconciliations to the related GAAP financial measures and additional information, please refer to the appendices in today's earnings release and supplemental presentation.

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 thank you all for joining us today. Stanley Black & Decker delivered a solid second quarter. Through disciplined execution of our strategy, we are delivering profitable organic growth and remain on track to achieve full year sales and margin targets.

We are confident in our strategy and in the team's ability to continue to execute and deliver results. Total revenue for the second quarter was in line with the prior year and up 3% organically. This was slightly ahead of our expectations, driven primarily by volume strength in the US across both retail and the commercial and industrial channels within Tools & Outdoor.

Our adjusted gross margin rate of 33.7% was up 620 basis points year-over-year, largely supported by gross productivity and product mix. We also received tariff refunds during the second quarter, which contributed to adjusted gross margins. We will use tariff refunds to accelerate growth investments, and we have incorporated the net impact within the revised EPS and cash flow guidance that we will outline today. Second quarter adjusted gross margins included a benefit of approximately 250 basis points from these net tariff refunds.

Adjusted EBITDA margin of 11.3% was up 320 basis points year-over-year, slightly ahead of our planning assumptions for the period. Adjusted earnings per share were $1.57, $0.37 above the midpoint of our guidance range. Below-the-line, items contributed about $0.20 and net tariff refunds contributed about $0.17. Pat will discuss this in more detail, as well as our underlying guidance assumptions for the balance of the year.

Following the sale of our aerospace fasteners' business early in the quarter, we were able to deploy those proceeds, plus additional operating cash flows to pay down debt by $1.7 billion and buy back 3.2 million SWK shares for $250 million. We are continuing to advance our strategy with a focused portfolio, balance sheet strength and a thoughtful approach to capital allocation. Our priorities remain to invest in growth, support the dividend, repurchase shares and pursue M&A if and when appropriate.

Turning to second quarter operating performance by segment. I'll start with Tools & Outdoor. Second quarter revenue was approximately $3.6 billion, up 3% year-over-year. Organic revenue was also up 3%, comprised of 3% volume growth from strong demand generation and flat pricing versus the prior year. Currency was a 1% benefit in the quarter, which was offset by the impact of the previously-announced strategic transition to a licensing model for the gas walk-behind outdoor products.

We were encouraged by the organic growth we saw across our three global priority brands, DEWALT, STANLEY and CRAFTSMAN in the quarter. Supported by well-executed demand generation, Tools & Outdoor's second quarter adjusted segment margin was 11.8%, which was up 380 basis points year-over-year. This was predominantly due to net productivity gains and favorable product mix. Net tariff refunds also contributed approximately 150 basis points.

Now, for additional context on the top line performance by product line in the second quarter, power tools organic revenue increased by 8% and hand tools, accessories and storage organic revenue increased by 2%, which were both driven by strong market activation and global priority brand performance. Outdoor organic revenue decreased 7%, pressured by fewer replenishment orders as a result of weather-related demand softness.

As for Tools & Outdoor performance by region, in North America, organic revenue increased 4%. US retail was up mid-single digit as a result of strong demand generation. This includes strength across DEWALT, STANLEY and CRAFTSMAN and improved penetration and presence with channel partners. Momentum across the US commercial and industrial channel accelerated and revenue in this channel grew low-double digits in the quarter, with the continuation of key investments complementing strong market demand, which I'll elaborate on in a moment.

North America point of sale in aggregate was broadly consistent with reported home improvement consumer credit card data with strength in power tools and softness in outdoor. In Europe, organic revenue was down 2%, although growth continued in our prioritized investment markets, including Eastern Europe and Iberia. This was more than offset by challenging market conditions in France and other parts of the region.

The rest of the world organic revenue was up 3%, led by double digit growth in Latin America with strength driven by innovation and investments in pro-channels. Across the rest of the region, there were broad-based contributions, partially offset by pockets of market softness and disruption from the Middle East.

Turning now to Engineered Fastening. Second quarter revenue was down 18%, as the aerospace fasteners' divestiture reduced revenue by 21%. On an organic basis, the segment grew 3%, with volume contributing 2% to growth and higher pricing contributing 1%. Currency was flat.

Organic revenue performance was driven by low-single-digit organic growth in automotive systems and fasteners, which outpaced the market, as well as broad-based strength across global industrial markets, resulting in high-single-digit organic growth for that portion of the business. Adjusted segment margin for Engineered Fastening was 13% in the quarter. Year-over-year expansion of 220 basis points was largely driven by net productivity gains and favorable volume and mix in automotive.

Net tariff refunds contributed approximately 50 basis points. Segment margin continues to be favorable on a year-over-year basis. In summary, through effective market activation and demand generation and consistent execution of operational cost improvements, we delivered second quarter top line and margin performance for both segments slightly ahead of our expectations and we are confident in achieving our full year targets.

Before I turn to our brand and strategic highlights for the quarter, I want to take a moment to remind everyone of our guiding ambition and that is to empower our end users to conquer their greatest challenges through groundbreaking solutions and becoming their partner of choice.

Accomplishing this requires a commitment to quality, agility and innovation. That ambition is shaping how we focus our portfolio, where we invest and how we execute. It is also at the core of the strategic imperatives guiding our company purposeful brand activation, operational excellence and accelerated innovation.

As we continue to build a world-class branded industrial company, the progress we are making across DEWALT, STANLEY and CRAFTSMAN is a reflection of our strategy in action. Across all three brands, innovation and platforming are helping us to move faster and serve end users more effectively. We are directing investments towards the markets with the best prospects for growth, working together with our channel partners to serve end user categories where we see the greatest opportunity to activate each of our brands, deepen market penetration and generate attractive returns. And underpinning all of this is our continued focus on operational excellence, which is enabling us to execute with discipline in what remains a geopolitically uncertain environment.

I'll start with DEWALT, which continues to lead as our growth engine focused on the pro. In a world with limited supply of skilled trade labor, our professional end users are looking for solutions that help them to work more productively and with greater confidence, while remaining safe. That need is increasingly relevant in non-residential construction, where the market context is strong, especially in areas like data centers, power generation, and prefabrication manufacturing. The majority of the professional needs in this space are served through the commercial and industrial distribution channel. Against that backdrop, we expect our US commercial and industrial channel annual sales to approach 10% of total Tools & Outdoor sales in 2026, assuming roughly double-digit organic growth this year.

Our ambition for DEWALT is to be the partner of choice for the professional end user. This means serving the full cycle of design, construction, and operations for large scale commercial projects. This is more than a statement or an aspiration. It is the direction that has been guiding our investments to drive demand with the professional, including strong penetration within the US commercial and industrial channel. Projects predominantly served by this channel represent trillions of dollars of committed capital spending over the next five years. The expectations are demanding, the timelines are tight, and the owners and project managers have no tolerance for downtime.

To succeed in this type of environment, holistic solutions are required to support our customers and end users every hour of every day. Over the past two years, I have spoken about the investments we are making to strengthen our go-to-market capabilities and expand our field presence.

Let me talk about how that comes to life in the US commercial construction market. We have hired professionals with deep experience in large job site processes and project management, and dedicated them full time to specific large construction sites. As project solution managers, their role is to serve as the primary point of contact for the general contractor, ensuring DEWALT shows up as a coordinated partner to support successful project execution.

Take a look at slide 6. The person pictured in the center is one of our DEWALT project solution managers. I spent a day with him recently at a major data center project. Our project solution managers are the central hub of all DEWALT activity happening on a project site. In addition, DEWALT assets and capabilities encompass the commercial construction ecosystem and our approach to full scale project lifecycle solutions. We always begin with safety and productivity. Our PERFORM & PROTECT product line of over 200 end user oriented solutions are designed to defend against one or more of the following, dust inhalation, loss of torque control, tool vibration, without sacrificing the performance that professional end users demand. These safety features are especially important when we are working with the owners and general contractors at the mega construction sites.

We support the end-to-end workflow through an integrated hardware and software portfolio. For example, our anchor and fastening solutions are valued by our end users as part of our comprehensive offerings, which span the design, construction, and operations of a job site. DEWALT construction technology, digital solutions also complement our hardware portfolio and all work together to support a safe, productive and profitable job site. We also partner with local distributors to offer onsite product availability, allowing us to serve the professional end users directly on the job site.

Next is training. We provide on-job site training resources in partnership with the general contractor. We align with the project schedule to provide tailored application-based training for the specific tools and work being done each day. We take a 360 degree approach to training and recently launched DEWALT On Demand, which allows users to scan a QR code on a tool and access multilingual manuals and resources online whenever they need them.

To surround and engage with the end user, we have invested in hiring hundreds of trade specialists that work with contractors in the market to ensure that they are familiar with, and have access to all DEWALT solutions designed for their particular trade. We bring the newest innovations to them and help them operate from their fabrication shop to the job site. We have also hired salespeople to call on the distribution channel to ensure that our products and solutions are always available to end users, contractors, and job sites.

Further complementing the global DEWALT brand strategy, including the efforts of our trade specialists in the field and our sales and distribution resources, our global DEWALT No Quit marketing campaign is ramping up across digital channels, and our global influencer network continues. We are seeing indicators that this campaign is having a measurable impact on demand generation.

We also invest in trade schools to help build a well-trained workforce. Over the last three years, we have invested $27 million through our DEWALT Grow the Trades program, and we're committed to investing $60 million by 2030. These efforts support the critical need for skilled tradespeople and are also synergistic with our business strategy.

At the same time, we work with the owners and developers of mega construction sites to understand where and how they will need skilled tradespeople for future projects. We then bring these learnings back to trade schools to help build, educate, and upskill workers for the future. Through our full ecosystem approach, DEWALT makes sure the right products are in the hands of well-trained end users at the right time.

Taken together, these capabilities and initiatives continue to deepen DEWALT's relevance to help improve safety, productivity, and profitability for end users, while strengthening our position as a trusted partner. It also further reinforces DEWALT's role as a key driver of profitable organic growth.

In addition, and just as encouraging, is the performance across the STANLEY and CRAFTSMAN brands. While there is work ahead, we believe positive organic growth in the second quarter for both brands is an important indicator that the actions we are taking are translating into results.

In the case of STANLEY, a brand revitalization, product refresh, and commercial actions are building STANLEY's position in the market and creating a more durable platform for consistent growth over time.

Our international field resources are focused on working closer with channel partners to refresh in-store walls and optimize shelves in ways that help improve sell through, broaden assortment uptake, and strengthen conversion into our brand.

Similarly, CRAFTSMAN brand positioning and portfolio expansion is resonating with consumers, and the new V20* ADVANCED Batteries have been well-received and supported strong V20* platform performance in the quarter. CRAFTSMAN continues to strengthen its role within our business portfolio with an improving margin profile and a robust product roadmap, including the wave of new products hitting shelves now and through the balance of the year, there is an exciting runway for continued growth ahead. None of this would be achievable without the commitment of our teams around the world.

I want to thank them for maintaining a customer-centric approach, and for continuing to advance our vision of building a world-class branded industrial company. Their focus, resilience and execution are what make our progress possible.

I will now pass the call to Pat to discuss more detail on the performance in the quarter, to outline our 2026 guidance, and to share progress on a few key performance metrics.

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. I will start by providing a bit more detail on our adjusted EPS outperformance in the second quarter and then turn to guidance.

As Chris noted, second quarter adjusted EPS was $1.57, exceeding the midpoint of our April guidance range by $0.37. Above the line operating performance was largely in line with our expectations, with the outperformance primarily driven by below-the-line items and the net tariff refund benefit. The below-the-line items made up approximately $0.20 of the outperformance, with roughly half of that from discrete tax items, along with lower interest expense and other factors.

The tax benefit was purely timing, and we still expect the adjusted tax rate to be at 19% for the full year. Relative to our expectations for 2Q, interest costs came in lower due to strong operational cash flows, which meant less short term debt on the balance sheet. On a year-over-year basis, interest expense was lower due to the debt reduction following the CAM sale in the quarter. The remainder of the outperformance came from a net tariff refund benefit in the quarter. This net benefit reflects the phase one tariff refunds we received during the second quarter, partially offset by variable incentive compensation, growth investments, and taxes associated with those refunds.

While a portion of the costs offsetting the refund landed in 2Q, the remaining portion will flow through in the second half of the year, primarily in the form of incremental growth investments. This is why we are not adding the full $0.17 benefit realized during 2Q to our full year EPS guidance, as the incremental investments will be reflected in 3Q and 4Q EPS. But the bottom line is this, tariff refunds provide us with the flexibility to accelerate investment in our strategic growth priorities, and we have already started making such investments in the second quarter.

Now, let me talk you through some of the key underlying assumptions embedded in our updated guidance. First, consistent with the prior guidance assumptions, we maintain our view that the new Section 301 tariffs, including those implemented just last week, are likely to be introduced during the next few months at the same level as the old IEEPA tariffs, which means our underlying run rate tariffs costs are expected to return back to the prior IEEPA levels within a few months. This is our current expectation, but as policies are finalized, we may update our assumptions as appropriate.

Second, a temporary period of lower tariff rates continues to persist as the Section 122 tariffs were lower than the former IEEPA tariffs, and the subsequent 301s are not yet fully implemented. This temporary tariff tailwind, however, is still being offset by persistent inflationary pressures from battery metals, tungsten, oil, and oil derivatives. For 2026 guidance purposes, we expect these to neutralize each other.

Given inflationary pressures remain persistent, it appears more likely than not a price increase will be necessary by 2027. Third, as we think about the full year, we are only including the tariff refunds we have received during the second quarter, along with the partially offsetting costs and taxes. We have not included any possible second half tariff refunds in guidance because the timing and amounts remain too uncertain to include.

Moving on to our guidance metrics. For 2026, we are raising and tightening adjusted earnings per share to be in the range of $5.20 to $5.80, representing year-over-year growth of 18% at the midpoint and $0.20 higher than the midpoint of our prior guidance range. Approximately $0.15 of the increase is below-the-line, reflecting lower interest expense due to better cash performance, the share repurchases we did in the second quarter, which will reduce our weighted shares to around $151 million for the year, and lower expenses on the other net line from the first half. The remaining $0.05 reflects the expected net tariff refund benefit.

We continue to expect our revenue outlook to be consistent with our prior guidance framework. Total company revenue will be about flat compared to last year and organic revenue is still expected to grow by a low-single-digit percentage year-over-year, split about evenly between volume and price. This outlook reflects our continued focus on pivoting to growth and our confidence in seizing the share opportunities across our key markets.

Moving to gross margin expectations. In line with prior guidance, we anticipate full year adjusted gross margins will expand by approximately 150 basis points year-over-year, exclusive of the net tariff refund benefit. This is primarily driven by net productivity with additional contributions from pricing and product mix.

We estimate that the net tariff refund will add an incremental 60 basis points to 70 basis points to our full year adjusted gross margin forecast. We continue to have conviction in achieving 34% to 35% adjusted gross margin in the second half and I will talk more about that on the next slide.

We now expect SG&A as a percentage of sales to be around 23%, which includes about 60 basis points of incremental costs from compensation accruals and growth investments related to the tariff refunds received. We will continue to manage SG&A thoughtfully, allocating capital to strategic investments that position the business for long-term share gains.

Keep in mind, this allocation of refund dollars to growth investments is incremental to the $75 million to $100 million of growth investments we plan for 2026 at the start of the year. They will further advance our robust innovation pipeline and fuel market activation, with the goal of enhancing brand health and accelerating organic growth.

Free cash flow ranges have been raised to incorporate tariff refunds received in the second quarter. With that, we expect to deliver within the range of $600 million to $800 million, including projected taxes and fees associated with the CAM divestiture. Excluding such payments, free cash flow is expected to be in the range of $800 million to $1 billion.

Our free cash flow performance is supported by a disciplined approach to working capital management, progressing inventory towards pre-pandemic norms, while remaining attentive to our ongoing tariff mitigation and footprint optimization initiatives. We were pleased to make progress on inventory reduction in the first half.

Looking at our segments, we reiterate our plan for organic revenue growth and segment margin expansion in both segments. Tools & Outdoor is still expected to deliver low-single-digit organic growth in 2026, led by market share gains and what we anticipate will be a roughly flat to down market.

Through the remainder of 2026, we expect our demand generation initiatives, new product launches and strategic investments in the brands will position us to grow the top line, with a focus on outperforming the market.

Adjusted segment margin is expected to improve year-over-year, driven primarily by productivity gains, tariff mitigation and thoughtful SG&A management. Engineered Fastening continues to be on track to grow low-single to mid-single digits organically and we expect both our auto and industrial pieces will outperform the market. Adjusted segment margin is expected to improve year-over-year, primarily due to volume leverage and continuous operating improvement.

Turning to our other 2026 assumptions. Our GAAP earnings guidance of $4.60 to $5.45 includes pre-tax non-GAAP adjustments ranging from zero to $40 million, inclusive of the second quarter CAM gain. Our full year interest expense is now expected to be about $255 million, which is slightly lower from prior guidance, resulting from a lower debt profile and strong free cash flow performance year-to-date. We now expect other net to be about $230 million, owing to lower costs in the first half.

Now, for the third quarter guidance, we anticipate net sales to be around $3.7 billion, which would be flat overall due to the portfolio moves, including the CAM divestiture and transition of gas walk-behind mowers to a licensing model.

On an organic basis, we expect sales to be up 3% to 4% for the total company as well as for the Tools & Outdoor segment. Adjusted earnings per share are expected to be approximately $1.50 to $1.60, including the incremental investments directly related to the second quarter tariff refunds. Our adjusted EPS for the quarter assumes a planned tax rate of approximately 22% and a share count of about 150 million.

Turning now to slide 8. Our path forward on margin expansion and capital deployment remains consistent with what we outlined previously. In the first half, we over-delivered on the year-over-year improvements we anticipated, whether you include the net tariff refund or factor that out, we are encouraged by this and see it as further evidence of our ability to navigate a difficult macro environment and still meet our targets.

As we look to the second half, we continue to have conviction in adjusted gross margin reaching the 34% to 35% range for the half year, a longstanding objective that continues to guide our efforts and priorities. This target assumes no meaningful impact from the tariff refunds received to-date, since that benefit landed in the second quarter AGM and most of the related second-half investments are landing in SG&A.

This second half improvement is expected to be driven by productivity and tariff mitigation initiatives, the latter of which should make a meaningful contribution as we continue to make progress on USMCA compliance and shifting production for our US tools business from China to North America. We continue to target 35% to 37% adjusted gross margin by the end of 2028, as we stated on our last earnings call.

On capital deployment, we closed the CAM transaction on April 6. We have used the vast majority of the net proceeds towards debt reduction of approximately $1.7 billion in the second quarter. We also executed $250 million of share repurchases during the quarter, as Chris mentioned. We will pursue share repurchases opportunistically. Such repurchases will remain a capital allocation priority for the near term. We are firmly on track for net debt to adjusted EBITDA to be at or around 2.5 times by yearend, inclusive of buybacks.

Free cash flow outperformed in the first half, landing at approximately $250 million, which included positive contributions from both operational cash flows as well as tariff refunds. We remain committed to disciplined capital allocation and accelerating value creation for our shareholders, including funding organic growth, returning excess capital to shareholders efficiently, and if and when appropriate, considering bolt on M&A.

All the while, we strive to maintain an investment grade credit rating. With our sharpened portfolio, disciplined cost and capital allocation, and a relentless focus on our customers, we have the foundation in place to respond to market dynamics, deliver growth, and create long term value for our shareholders.

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

Christopher J. Nelson

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

Thank you. Pat. As you heard this morning, we are focused on what we can control, executing our strategy. We are confident in our path forward and our ability to activate our brands to generate demand, drive operational excellence for efficiency and productivity gains, and accelerate innovation to serve our end users.

We remain committed to driving towards our near-term targets and long term goals. Through disciplined execution of our strategic priorities, we are strengthening Stanley Black & Decker's ability to deliver sustainable, profitable growth, and create long term value for our shareholders. We are now ready for Q&A, Michael.

Michael Wherley

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

Thanks, Chris. Operator, we can now start the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will now compile the Q&A roster. Our first question comes from the line of Tim Wojs of Baird. Your line is now open.

Timothy Wojs

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

Q

Hey, everybody. Good morning. Nice job. Maybe just first question, Chris, just could you add some color on the rebound that you saw in the power tools business this quarter? I know it's been weaker the past few quarters, so maybe there's some catch-up there. But I think 8% growth in that line of business might be the strongest growth rate we've seen in several years. So just can you talk about kind of what changed and how sustainable that type of growth is?

Christopher J. Nelson

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

A

Yeah. So first of all, nice hearing from you, Tim. I think it would be obvious to say that we're excited about that trend in the business. And when we think about all the things that we've been talking about doing, not only in the professional segments, but also as we've been working with our retail and channel partners, we really believe that, that is all starting now come to fruition.

We did see increased placement with a lot of our key channel partners as they have seen the benefits of our pipeline for product development coming through not only in DEWALT, but also STANLEY and CRAFTSMAN, as we referenced earlier. And I think that it should be noted that as we noted in, I think it was our previous earnings call, we talked about wanting to really sharpen our focus on how and where we were promoting. And those promotions have been very strong for the company and accretive, as you saw, as it came through in the margin line.

So really excited about the momentum we have. And the nice thing is to see that we're seeing the growth across all three of our core brands as well.

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

Q

Okay. Okay. Great. And then maybe just as a follow-up, Pat, it sounds like in the guidance, the IEEPA kind of tariff assumptions are kind of offsetting raw materials. But then, it also sounds like at some point you're going to have to kind of take price. So is there any way to kind of bucket or size what the raw material kind of annualized inflation impact might be at this point?

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

A

Yeah, there's a lot of moving parts, Tim. So I think, IEEPA, I wouldn't conflate with inflation, at least not the IEEPA refunds. The IEEPA favorability that we've had this year, meaning that those particular tariffs stopped after the February court ruling, and then were replaced by lower level 122 tariffs, they provided favorability this year. And as we've said on the last earnings call, inflation in battery metals, tungsten, oil and oil derivatives have created inflationary headwinds.

I'd say, the order of magnitude in this year's P&L, roughly kind of $100 million each, right? $100 million of tailwinds, $100 million of headwinds, and those are offsetting. On the actual IEEPA refunds, those are netting out at about $0.05 on the full year. They were $0.17 in the quarter. And the difference between those two things are just the timing of the growth investments. The preponderance of the growth investments will take place in the third and fourth quarter.

So I know a lot of moving parts, but I would say, in the year, this year, the headwinds and tailwinds offsetting and IEEPA refunds allowing investment, I'd say as we look into next year, you're probably looking at a run rate inflation that's probably roughly equivalent to that headwind, somewhere around $100 million or something like that.

But obviously, as we go through the back part of this year, we'll be looking at all the factors that affect 2027. And we are very committed to our margin targets and our pivot to growth. So everything will be formulated, for the 2027 game plan we'll address inflation as necessary with an eye towards achieving our margins and still driving growth.

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

Nigel Coe
Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Thanks for the question here. Chris, I just wanted to maybe just expand on page 6 where you laid out some of the investment priorities. I guess, the spirit of my question is in the second quarter, the big pick of an SG&A, it's not easy to efficiently invest so quickly. So I'm just curious, are we seeing here, kind of more investment in new product vitality engineering? Are you hiring more people? Just curious, how you're deploying the kind of the investment spend, so efficiently. That would be my first question. Thanks.

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

A

Yeah. Nice hearing from you, Nigel. It's a great question. I think that our confidence in investing and where the investments have gone have been into the core areas that we've been talking about for a while now, specifically in, the go-to-market activation with feet on the street. We talked a little bit about what we're doing with enhanced investment in social media for our brand activation, as well as the new product pipeline that we've been pushing.

I would say that over the past few years, we have been, I'd say, judicious and moderated in how we have been investing those dollars to be able to build the infrastructure and muscles to be able to absorb and take advantage of and then, be able to drive accretive growth with those investments. And we have seen not only the growth and the ability to do so, but also the results. And what we did and what we have been doing is we've accelerated that investment specifically with some of the refund dollars is really doubling down in those areas where we know the market is ready for the investment. Our company has the structure and the leadership to be able to take advantage of those investments. And we've already seen positive progress and payoff to those investments as we've been tracking the ROI as we've gone along.

So it's really just taking a look at how we could accelerate and think about pulling forward some of what we already knew we were going to do, and with an eye on really focusing on those areas that we have seen the success already. So, we feel very confident about where we're investing those dollars.

Nigel Coe
Analyst, Wolfe Research LLC

Q

That's a great point, Chris. So, you mentioned pulling forward some investments. Does that imply that we're seeing some 2027 investment here being pulled into 2026?

And then just kind of related to that is, I mean, I'm guessing your sort of total tariff refunds could be considerably more than $100 million or thereabouts. So I mean, it doesn't feel like, maybe do you further accelerate investment spend if you do get more tariff refunds in the second half of the year? Or are there other things that you can kind of invest in to kind of absorb the benefit?

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

A

So, to answer the first of the follow-up questions would be, yeah, there is some acceleration. And as we get into kind of planning out our 2027, I think that will come through. But clearly, we have been building a multiyear roadmap on where we wanted to grow and where we wanted to invest. So there was no kind of dearth of opportunities for us to take a look at where we would be willing to accelerate.

And then as far as the future tariff refunds, I think at this point, as Pat stated, that none of that is in our guidance. And candidly, at this point, the amount, the timing, and whether or not anything or what will come through is a little bit too fuzzy to see right now. So we're not really banking on or including that in any of the guidance. Should there be a follow-on, like I said, we've built a roadmap, we would know what we would do and when and how we would do it. So I feel confident that that would not be a bottleneck in the process.

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

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thanks. Good morning. I wanted to kind of follow up on your answer, and you touched on a prior one. On the growth reinvestments, as you've gotten the tariffs and you're reinvesting in some of the stuff, is it just that your marketing is more effective than it was? I don't know how much of these are kind of price discounts? And maybe the market is more price sensitive and you're seeing a bigger return there. It just seems like what you've put together, the power tools 8%, and the comments you just made that you're seeing pretty good return. I'm curious, what's changed, whether it's more price sensitivity, whether it's more innovation, whether it's more targeted marketing, and I'll stop there.

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

A

Yeah, Rob. Thanks for the question. Yeah, I would say that really where we're seeing is that we've been building a lot of momentum in the background as we've been very consistent over a number of years of investing in the people, the go-to-market, the products, and the innovation that we need in order to be successful. And as we have now had those in place and as we continue to build upon them, I think what we're seeing is what the opportunity that lies ahead, especially when, as I mentioned and spent some time in the US commercial and industrial channel where the market context is so strong, I think that we have our strategy and preparation meeting a very nice market.

I do think that, it is clear that the consumer is generally more motivated by promotion right now. And thankfully for us, in how we've laid it out, the products that we want to promote and the products that the consumer is motivated to buy from promotion are also in line with, strategically, the products we want to sell and the products that drive the best return and margins for the company.

So, there's really no one answer and it is not a moment in time. I think what you're seeing is a number of quarters of hard work and consistency starting to pay off. Now, there's a lot of hard work ahead and there's going to be a lot. The macro, I'm sure, will remain volatile, but I am confident in our team's ability to not only continue our consistent approach to the marketplace, but be able to make the decisions that are required in order to continue not only our growth, but our margin journey.

And Pat referenced, what we have as we look at the back half of the year and inflation that is impending and we'll make those decisions on how we continue the margin journey accordingly with growth as we go through the back half of the year.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thank you.

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

Adam Baumgarten
Analyst, Vertical Research Partners LLC

Q

Hey, guys. I just had a question on the year-over-year promotion benefit. Do you have a sense for how much that impacted the volume growth in Tools & Outdoor in the second quarter?

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

A

No, Adam, I wouldn't say we do. I mean, I would say, as Chris said, I think the growth we're seeing is part of a multiyear game plan. And obviously, as an enterprise, we continue to work to build momentum across each of the brands with a mix of innovation and marketing levers.

I would say, we did start talking about, as far back as the third or fourth quarter of last year and certainly the first quarter of this year, of the fact that we had competitors taking price the first-third of this year. And then, we were certainly tailoring our promotions a little bit differently this year, but we haven't changed list prices. We don't have kind of an intention to do that on the downside. And all we've been doing is kind of dialing in promotional activity as we've learned more about elasticity kind of in this post-tariff, high-inflation environment.

But I wouldn't say there's anything more going on in that regard than just learning the lessons of consumer level elasticity at the SKU level and deploying that. And as Chris mentioned, we're going to keep on a longer-term investment journey in the form of innovation and brand building to drive continued growth going forward.

Adam Baumgarten
Analyst, Vertical Research Partners LLC

Q

Okay. Great. Good to hear. And then, just switching to Engineered Fastening, just on the industrial side, maybe the pockets of strength you saw in terms of end markets there would be helpful.

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

A

Yeah. I think in the Engineered Fastening business, first of all, I'd like to give credit to Thomas and the team and really the hard work that they've put in. And it has been less of the headline, but the same type of work has been going on in Engineered Fastening as has been going on in Tools & Outdoor, where we made a conscious pivot in the past 24 months to really focus on the industries where we believe that we had a differentiated advantage that we're going to be growing and that valued our products such that they would drive high margins.

And we've been able to invest and succeed in growing above-markets, particularly, we noted the success that we have been seeing in automotive. In the industrial segment, we have really been seeing some nice level of success in the solar world as well as there are a lot of the products that are used in data centers as we are working on that in the tools business. The Engineered Fastening comes along with it as well.

So, I think that the team has not only done a great job at identifying and targeting those high-growth verticals where we would be able to drive above-market growth and at nice margins, but have really shifted our resources, our innovation and our application engineering and our processes to be more reactive to customer needs to be able to be successful in building a better pipeline in those areas as well.

So, it's really – I think we're in the early innings of that, but it's good to see some of the progress that that team has made.

Operator: [Operator Instructions] Our next question comes from the line of Jonathan Matuszewski of Jefferies. Your line is now open.

Andres Padilla
Analyst, Jefferies LLC

Q

Good morning. This is Andres. I'm on for Jonathan. Thanks for taking our question. In the past, you've spoken about STANLEY and CRAFTSMAN turning positive by midyear and in the second half of 2026. With both brands turning positive organically in 2Q, is it fair to say that those brands are exceeding the timeline that you had set?

And then looking ahead, specifically for CRAFTSMAN, can you talk about how the new product in V20 is setting that brand up to capture share, when the DIY demand market recovers? Thank you.

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

A

Yeah. So I'll start and say that, I think that we're still on pace for the STANLEY and CRAFTSMAN progress that I've laid out. It is encouraging to see that all of the three core brands grew nicely in the quarter and we want to highlight that, but there's a lot of hard work ahead in all of the brands that we're going to keep on putting in.

I think that the timelines that I laid out about kind of back half of the year for STANLEY and going into 2027 for CRAFTSMAN for consistent performance, I think are still the relevant benchmarks and what we're planning on and what we're holding ourselves and our teams accountable to.

As far as it pertains to V20, really the V20, as we've been improving and launching more advanced batteries and then the products that DIYer needs alongside those batteries, I think that it has set us up for success as we – it's kind of one of those things that you, as you build out a very desirable ecosystem of products, it kind of builds on itself where we get the right products at – the right performance point at the right price point going forward in CRAFTSMAN, I think you're going to see continued momentum. And with the amount of emphasis we've put in the product development in that area, we're going to continue to see the momentum of those new product launches continuing to expand our addressable market with that DIYer as well.

And I would be remiss to say, the amount of work that our channel partners have put in with us to help position that brand and the excitement that they see in the new innovation and as well as the expanded product V20* platform there, is exciting and it's a big part of the equation as well.

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

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah, good morning, everyone. Thanks for taking my question. I guess, I just wanted to ask about working capital. You've guided to $600 million to $800 million. Just how much of that is working capital contribution? I think you'd indicated $200 million last quarter, so I guess I'm just looking for an update.

And then I guess related to that, to the extent that you're starting to invest in a lot of these other programs, and presumably that continues into 2027, to the extent they're productive, why wouldn't they? But will they require working capital support and how will that influence that cash flow?

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

A

Yes, David. Yeah, for this year, on a full year basis, we're still targeting $200 million of working capital reduction contributing to the overall cash flow for the year. Nothing material has changed in that regard.

And as we look forward, I would still say, we're still working to get to the 135 days on kind of a run rate days sales and inventory level, which is kind of towards our pre-COVID threshold. And so obviously, we still have some footprint things ahead of us, and those transitions can cause some ebbs and flows, but I don't see anything on the horizon that kind of knocks us off that trajectory. And in fact, I think we'll be a good portion of the way there by the time we get to the end of this year.

Operator: Our next question comes from the line of Brett Linzey from Mizuho. Your line is now open.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Hey, good morning, all. Lots of moving pieces here. I guess as it relates to the 2Q performance, well ahead, including the gross refunds, but below on an underlying basis, at least versus my forecast. Were there cost or productivity actions that you had planned to take in 2Q that you might have shifted to future quarters as your visibility on refunds began to form? And I guess, just how did Q2 underlying performance come in relative to your internal forecast? Thanks.

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

A

Yeah, Brett, I would say, our 2Q was very much in line with our expectations. You can pick, kind of nits and gnats, but there's nothing in Q2 that wasn't material. And in fact, as the key metrics of adjusted gross margin without the tariffs, and operating income dollars, we're kind of right there or thereabouts to all of them, and in fact, kind of slightly ahead on the growth at AGM.

We got benefits in the quarter from a mix of the tariff benefits that came in ahead of the investments we'll make in the third and fourth quarter. And then we had some below-the-line items, interest expense, some pension expense, and a few other items, and then a discrete tax item that was about $0.10. So I kind of look at it as operationally on the mark with some positives around sales and gross margin, and then below-the-line favorability and tariff refund favorability.

The back half of the year, we'll invest a portion of that tariff refund favorability, so what was a $0.17 net in the quarter goes to $0.05 net on the year, just through growth investments. And we give you all of the non-tax benefit that happened below-the-line and the tax benefit is just timing within the year.

So I think, to your point, lots of moving parts, it can be difficult to keep them all straight. But I would say, look, we planned for a tumultuous year. For better or worse, that's kind of what we're living. We're expecting both in the quarter and the year to deliver the year operationally, and we hadn't planned for a conflict in the Middle East. So I think that says a lot about our ability to navigate challenges, including new challenges.

So operationally in the quarter and the year, delivering. We have some favorability below-the-line. We're carrying that forward in our guidance range, and then we have some tariff refunds, which we didn't plan on. We're using most of that to invest in growth, and there'll be a modest amount that nets out. And really, the change of $0.20 on the full year is three-quarters below-the-line benefit and $0.05 of tariffs. So lots of moving parts, but I take it as all positive that we continue to deliver in a challenging environment. And we're trying to use those funds to both make this a good year and set up future growth.

Operator: Our final question comes from the line of Sam Reid of Wells Fargo. Your line is now open.

Q

Hi. This is [ph] Eric (00:57:05) on for Sam. Appreciate the time. You kept the second half gross margin guidance of 34% to 35%. I was just wondering if you can talk to sort of the cadence of how you're looking at Q3 versus 4Q, and then with the rising sort of still elevated costs and tariff changes, does that change sort of how you're thinking about the sequencing or the puts and takes within Q3 or Q4?

Patrick D. Hallinan

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

A

Yeah, Eric, I would say, both of the quarters are going to be in that range, 34% to 35%. Q4 might be slightly ahead of Q3. Recall for our income statement, a lot of what flows through COGS in a given quarter or half year was put on the balance sheet six or so months ago. So a lot of what effectively are going to be our cost of goods sold in the back half of the year were cost of goods sold that were put on the balance sheet in the first half of the year. And so while inflation that is unfolding in real time right now has a modest effect on a current quarter, it mostly gets put on the balance sheet and comes off the balance sheet next year, or at least the second half inflation does.

And so the inflation dynamics we've been talking about, we're just talking about to make people aware that we see them clear-eyed and we're designing plans and actions to make sure that 2027 stays on the trajectory we have been telegraphing, and that we continue to deliver growth and margin improvement in 2027. I think a lot of what is to come with third and fourth quarter gross margin delivery is largely been on our balance sheet and the variances from one quarter to the next are going to have a lot more to do with things like product mix. And how much of the holiday season shifts at the end of the third quarter versus in the fourth quarter, and those types of dynamics or things like promotional mix within the quarter. But at least the structural cost elements to deliver that 34% to 35% are already in place.

Michael Wherley

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

That is all the time that we have for the Q&A. We'd like to thank everybody 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.