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EDITED TRANSCRIPT

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PRESENTATION

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

All right. It looks like we're ready to go with the next session, everybody. We have -- really excited to have Stanley Black & Decker here with us today. We have both Don Allan, President and CFO; as well as Dennis Lange, Head of Investor Relations. Don, I know you have some prepared comments, so I'm going to turn it over to you, and then we'll get into the Q&A.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Sounds good. Thank you, Joe, and good afternoon to everyone. And so we have 3 slides we'd like to walk through as a little bit of context for our company. And so as a reminder to many of you, Stanley Black & Decker, market cap just under $20 billion. Our revenue last year, $15.6 billion, will be up to close to $20 billion in 2022, as we add the acquisitions of MTD and Excel within the outdoor space. That adds about $3 billion in revenue in the current year. And then we have some organic growth on top of that made up of primarily 2 segments. So our Tools & Outdoor segment, which is a large portion of the company; and then our Industrial segment.

I'll spend a little bit of comments on the next slide related to Tools & Outdoor, but maybe just some splits about the types of products within Tools & Outdoor, you can see that power tools is close to half of the portfolio. Our outdoor power equipment is about 1/4; and then hand tools, storage and accessories makes up the rest. Clearly, the worldwide leader in tools and outdoor, and I'll dive into that in a little bit on the next page.

Our Industrial business, which is heavily weighted to our Engineered Fastening business, which is highly engineered fasteners, both machines that apply the fasteners as well as the fasteners that are used in manufacturing and production for cars, planes and a variety of other products that are manufactured across the globe, makes up 3/4 of that segment.

And then we have an Infrastructure business, which is heavily weighted to attachments and tools that are used in construction and demolition in the various projects of that nature. That really is a nice business that continues to demonstrate strong growth profitability and is tied to here in the United States, likely a lot of investment across infrastructure by the U.S. government and the states as well. And so we think that business is positioned for nice growth going forward for the next several years.

And as Engineered Fastening sees recovery in the automotive and aerospace industries, we think there's a nice cyclical recovery there. And we think this business is at the trough and starting to recover, and we're starting to see that play out here in 2022. And we do think there's about a $300 million cyclical recovery revenue opportunity for this segment that plays out over some time frame in the next 2 to 4 years, depending on how quickly those industries recover.

a company that continues to be known for innovation, continues to be focused on high performance and also making sure that we're doing the right thing from a social responsibility perspective in the products that we produce and put into the market and that are used by our end users.

So if we migrate to the next page, I'd like to spend a little bit more time on the Tools & Outdoor portion of our company. Clearly, amazing brands, brands such as DEWALT, which is the high premium construction brand that plays in both power tools, certain hand tool categories, certain outdoor product categories as well and something that the professional really strives to have in their portfolio of products. And you have other great

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powerful brands like CRAFTSMAN, Stanley and Black & Decker, and then more niche brands that play in certain categories or geographies such as IRWIN, Facom and LENOX as examples.

And then new additions to our portfolio through the acquisitions of MTD and Excel, with Troy-Bilt, Cub Cadet and Hustler, really rounding out a robust set of brands across both the tools and the outdoor space. As we know, this business is really focused on commercialization opportunities, how we continue to drive innovation and really making sure we're investing in our brands along the way. So they continue to be very relevant and leading in their categories across different areas.

The business has products and power tools, as I mentioned, outdoor space, which can be a combination of handheld outdoor products as well as walk-behind mowers, ride-on mowers, large platform mowers that are used by the professional landscaper. A large part of that is gas-driven today. But as many of you know, we are leaping forward with a significant electrification effort. As we electrify those particular products over the next 3 to 5 years, we see that as a wonderful growth opportunity.

Hand tools, accessories and storage make up the remainder of the products within that business. And you see the segments that we serve, with a heavy weighting to construction, but also some strong presence in industrial, auto repair and consumer and do-it-yourself.

There's been a lot of questions over the last year as to whether we're gaining share as we've seen different types of growth profiles by ourselves and our competitors in this space. And an interesting fact for you to be aware of, as we saw that our major home center customers reported their full year 2021 results, we noted that our POS actually exceeded the growth rates that they showed in the categories of Tools & Outdoor in their 2021 numbers, which demonstrates that we are gaining share in those particular customers. And we also know we're gaining share across the globe.

We think we've created a company now with some of the portfolio moves that really can focus on driving even more enhanced, stronger performance within the tool and the outdoor categories. We have a multiyear runway ahead of us for growth and margin expansion.

And if we roll to the next page and just kind of wrap up my comments, we've had a long track record of performance, as I've mentioned. But what's exciting to me is that looking forward, there's a lot of opportunity. I just mentioned that we believe we have a significant growth and margin expansion opportunity going forward.

The reason we feel like we have that growth opportunity is because of the innovation that we have invested in and we'll continue to invest in, and we will continue to accelerate those investments as we go forward. We have a significant e-commerce business that represents close to 20% of our Tools & Outdoor business. And we will continue to invest in that around the globe, but also here in the United States.

The electrification opportunity is quite significant for our Outdoor Products business, in particular related to the acquisitions of MTD and Excel that we completed in the fourth quarter of last year. And then our margins are a big focus for us going forward. We're going after price actions to offset the inflationary headwinds that we're seeing from commodities and transportation costs. We have another round of pricing that we'll be implementing at the end of this quarter going into the third quarter and the back half of 2022.

And there continues to be a very focused effort on making sure that we offset the impact of inflation with price increases. And we've been very successful so far in what we've seen in the last 2 quarters, where we had positive price of 5% in Q4; 5.5%, almost rounded up to 6% in Q1. And we believe those numbers are going to get bigger in Q2. We think we'll be close to 7% to 8% of a price impact. And in the back half, we'll be creeping towards 10%.

This is an important part of our margin recovery story, but we'll also be working on a lot of other things within performance resiliency, making sure that we're doing everything we can to combat the inflation that's coming towards us and slow that down and minimize that impact as much as possible, really prioritizing where we spend our money and how we spend our money to ensure that we're being very efficient with our cost and the controls around that. And so we'll do a lot of the things that we always do in times like this to ensure that our margins continue to improve as we go through the year and continue to improve in 2023.

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The company is driven by a vision and the purpose that we've talked about before, and it really centers around being a force for good and continuous delivering strong performance, making sure we are one of the most innovative companies in the world while also maintaining our commitment to corporate social responsibility.

So those wrap up my prepared comments, and I'll flip it back to Joe, and we'll get into the Q&A. Joe?

QUESTIONS AND ANSWERS

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Awesome. That was really helpful. Lots to cover, I'm sure. And those comments were helpful. But why don't we start with just the price/cost, since that's top of mind for everybody. And I want to maybe even just start with the change in the guidance. Because I think originally, we were expecting $1.20 to $1.30 positive in the bridge. And now, it looks like it's more like a $1.80 headwind for the year. It looks like your pricing is coming in ahead of expectations. I guess I'm just curious, were you assuming moderate inflation throughout the year? And is that what's really surprised to the upside? Maybe any context you can provide around that would be helpful.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. The change that happened in the first quarter was really heavily weighted to what's going on with commodity inflation and transportation costs. So we saw a big bump up of about $600 million in inflation in our view for the year. And when you look at that, you really have to break it down to a lot of different commodities. So lithium, cobalt, nickel, which go into our battery cells. So we connect to our power tools and our cordless power tools. Transportation costs continue to be high and escalated as well. And then you have a variety of kind of oil-based things, such as resins, which clearly impacts transportation costs as well that are having an impact. And then kind of general base metals was another category such as steel, as an example, saw a tick up.

And the event that really triggered this was the war in the Ukraine. And what happened was when Russia invaded Ukraine, we saw dramatic spikes in commodities across the board over a period of time. Initially, it wasn't everything. But as we went through the first month of the war and it continue to proceed, we saw all commodities start to kick up.

And the good news is those things have -- they've relatively leveled off since then, and we haven't seen a dramatic shift in the last 4 weeks or so, maybe even 6 weeks at this stage. But we're basically utilizing those spot rates that they kind of spiked up to and where they've maintained themselves for what we expect for the remainder of the year. Where before, we were using the spot rates before the war, and what we expect is we really held those through the remainder of the year as well. So you basically saw a jump up in these categories that quickly hit our P&L because they're in categories where we have contracts around battery cells, contracts around transportation that the ability to slow down the impact of that into our P&L is more challenging. We can slow it down a little bit, but you only can probably slow it down a few months versus multiple quarters. And that's why it jumped up so quickly as a result of those factors.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

That's super helpful. And then just to contextualize it for everybody. I mean, now you're thinking that commodity inflation and freight as well gets -- I guess you're talking about $1.4 million number for the year, with pricing coming through in the 1 1 to 1 2 range. Pretty big step-up in pricing expected through the rest of the year. So help us understand, like how much of that is already through, how much is still expected to come through? And then how are the conversations with your customers today and being able to get this price?

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Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I mean the good news is a large part of it is already in the system. And so what we have to go after now in this -- what we refer to as round -- a kind round floor of price increases is roughly $300 million. And so the remainder is in the system within our customer base. We got the last ones done back in late April. And so the good news is we feel pretty comfortable about a large part of that price.

Now we have to make sure we maintain discipline around promotions and other activities to ensure we don't discount from the list price that are in the system. But based on the processes we have in place, I feel pretty good about our ability to control that.

So then it's really about this fourth round we're going after. It's close to $600 million on an annualized basis. But in 2022, it's around $300 million of an impact. I feel pretty comfortable with where the team is with that. They have a lot of work to do in the next 3 to 4 weeks to get prepared to have those discussions and get engaged with the customers to put them in place at the beginning of the third quarter. In some cases, maybe later in the third quarter, depending on the customer. But overall, very good positioning.

The conversations are never easy, Joe. I mean these are times where you're talking about some of the -- these are clearly the largest price increases that we've seen in any of these categories probably since the '70s. So it's an unusual period of time.

And now the good news, it's not unique to Stanley Black & Decker, I mean every category within our customers is experiencing some type of inflation with it. It's not just tools. It's everything else that you see in a Home Depot, in a Lowe's are experiencing that. And we will end up putting in probably overall price increase of close to 17% to 18% in total when we're all said and done, which actually matches well to the prices increase we're seeing in the commodities and the transportation cost side on an absolute dollar basis.

The fourth round will be a challenging discussion, and the third round was challenging, which means the fourth round will be challenging, too. But we have to do this for a couple of reasons. One, it's the right thing to do at this stage given the pressure that it's putting on our margins. When you look at our margins, if we don't do this, we will have gross margins in the low 30s. And that's not really representative of what our business should be given the brands we have, the innovation that we bring to the marketplace. Our business should be somewhere between 35% to 38% gross margin on a sustainable basis. And that's something we want to get back to, and we believe we can get back to that, which allows our operating margins to get back in that 15%, 16%, 17% category and eventually, it might work its way up to 18%.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

And that makes a lot of sense. And just the follow-on question there is how disciplined are your competitors being with their own pricing actions to allow you to get this through? And then if, in fact, you are successful, will that ultimately be a tailwind in 2023? Again, assuming that inflation doesn't kick up another notch.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Right. Yes, I would say that everybody in our space of competitive sphere is doing some type of price increase. So whether it's list price increases are done through other mechanisms depends on the competitor. So there are some competitors that do talk about they haven't done any price increase, but it's not really accurate. It's accurate in the sense that they haven't done list price increases, but they've done it through new product innovation and introductions that have allowed them the ability to get higher price levels into the market and ensure they maintain or protect their margins.

So I think it's a competitive dynamic that's interesting because power tools are different than hand tools and it's different than outdoor. And so the challenging aspects of -- outdoor is challenging but not as challenging as power tools. Hand tools, not as challenging as outdoor, but not as -- certainly not as challenging as power tools. So it does tend to come down to power tools is the area that we -- there's more price sensitivity.

But what's interesting is we've put in a substantial amount of price so far, 3 rounds, as I mentioned. And in the professional power tools space, in particular, we have seen no slowing of demand at this stage. And that does make us feel good about the decisions we're making.

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The other thing that we do is we're constantly looking at what everyone's doing in this industry around pricing by going -- getting on the Internet, getting different price, retail price levels and how does that compare to our pricing. Are our premiums shifting at all versus the competitors or discounts, depending on the product. And as we've gone through this, we've seen that if we're in a premium position, we're maintaining still a reasonable premium as we do price increases, which means others are following us.

If we're at a discount versus our competitor for a certain reason, depending on the product, we either figure out a way to close that discount because we don't think it's appropriate given the innovation and the technology we have in the product, or we make sure that discount is not -- the gap doesn't get bigger as they do price increases, and we do our price increases.

That's really the secret formula of this, is how do you surgically go through and make sure you're making the right decisions because we talk about a 5% to 6% price increase on average, but it doesn't mean that we're doing that for every product. Some products, we might be only doing 1 or 2 points. Other products, we might be doing 10 points. And it really is an analysis that helps us make that decision as we go through the exercise. And that's the same thing we're doing again here for round 4.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Got it. That's super helpful. You talked about the demand outlook and that you're still seeing strength across your businesses. The Tools & Outdoors business has been humming for the better part of the last 2 years and put up -- I think volume growth was negative this quarter, negative mid-single digits. Just help me, how are you thinking about the next 12 to 24 months? Thoughts on like the U.S. consumer, the construction cycle, how that impacts your business? Any color on that would be very helpful.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I think I'll start with the consumer first, the U.S. consumer. There's clearly a reallocation of their money that's happening. So people are traveling more. They're investing in other areas. But what's interesting is they still are investing in their homes, and their home is still a center of a big part of their world. And it became -- it was a very large part of the world when everyone had to stay home for periods of time due to lockdowns or just quarantining or just being safe.

As people are migrating away from that, what we're finding is there's still a lot of people that are working from home. And so they're still investing in their home and making sure that they have what they need in that combined kind of personal work environment that exists around the home. But clearly, there's a bit of a shift of the money where people are spending there. But we don't really see that as a big impact when we compare things to '20 and '21 and now '22.

The thing that really is driving a lot of the demand is the professional. The professional construction market is still very, very strong. And you see some large commercial constructions occurring across all major cities. Residential construction continues to be strong. Renovation and repair continues to be strong. People are still investing in their outdoor kind of areas in their yards and making sure that they have the right products, either them doing it themselves or they're hiring people to do it for them. And so there's still a lot of money that's being funneled into the home or commercial construction in many cases that we think is really benefiting us at this stage and going to continue to benefit us for some period of time.

The looming question is, is there a recession coming? It is because of all the price increases that have been put into the marketplace to eventually things just become too expensive, in particular, gasoline, food. And the middle of -- the middle class and below really start to see their pocket books being squeezed. And as a result, they just really start ramping back on their spending beyond some of those core things I just mentioned.

I think we all feel like some type of recession is going to happen. It's a question of when? And what type is it? Is it more of a European-impacted recession? And then just some kind of modest slowing that happens in the rest of the world? Or is it a more broader, stronger recession that impacts the globe in a bigger, broader way? I think I lean more towards the European scenario and maybe some modest slowdown in the U.S. and other parts of the world. But I think we're all kind of grasping as to how that's going to play out.

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We're prepared for different scenarios. And the first scenario, which is like continued robust demand in a lot of our different categories. We're working on fixing the last piece of our supply chain around semiconductors, which that should be behind us in the next 2 to 3 months. And so if that demand continues, we'll be able to meet that demand. If things slow down for some reason, then we're prepared to figure out how to manage through that through cost controls and cost actions and driving more productivity in our supply chain and making some decisions there, like we normally went through any recessionary period. I think it's just good scenario planning to go through at this stage, like most companies are probably doing.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Yes. No, that's a really good point. It's a question that we've been getting a lot today actually from investors and making sure that we're asking all of our companies, like what your recession playbook actually is? And what does your company look like in a recession. Now no recession is created equal. But I am curious to hear your answer on how you would -- how you think Stanley Black & Decker would manage through a recession, either qualitatively or quantitatively?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I mean I think the -- I can honestly say that I have probably 5 or 6 things that are on the shelf that we could do that would be in response to, if we saw significant volume retraction as a result of recession, there's levers we can pull in the supply chain that would impact cost of sales in a positive way. There's levers that we can pull in SG&A to really -- what I would do is kind of focus the energy on, okay, there's all kinds of things you spend money on in SG&A. But running our core businesses like Tools & Outdoor, making sure they have the right innovation and they have enough people, feet on the street to ensure they're really commercializing as much opportunity. And ultimately, we're gaining share in whatever environment we're experiencing. So you wouldn't want to touch a lot of that, but you can touch a lot other things in other categories to really help navigate through that.

Ideally, you don't want to have to do that, but like any time -- any recession we've ever experienced in the last -- since I've been here the last 22 years, which has been a few of them, we have to be responsive and we have to take the right actions to really try to minimize the negative margin impact of a recession on the company. So we mitigate the decline, but it's -- as much as possible. But we also come out strong on the other side so we can continue to gain market share.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Makes sense. You mentioned market share earlier. You mentioned it again just now. We've gotten a few questions from investors. It's been top of mind across the board in how you stack versus your key competitor, Techtronic. There's a view in the market that you've been losing share to Techtronic. And I want -- I'm going to give you the opportunity to respond to that statement as well as like their strategy appears to be slightly different in that they're all-in with Home Depot and Walmart and certain specific distributors. But help me maybe -- or help the rest of us kind of understand, like where -- how you stack relative to that specific competitor and maybe areas that you think you stack favorably?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I think they've done a very good job with their business the last 2 years, probably longer than that, 3 to 4 years of really focusing on North America, the opportunities in North America with Home Depot, the C&I channel and then Walmart recently with the other brand that they're utilizing.

I think when I look at the situation, and I'll let Dennis give a little commentary on POS last year in Home Depot, in particular, but we feel pretty good about the fact that we are gaining share, not in Home Depot. We are gaining share across the globe. And we're not losing share to anybody. And so our perspective is the numbers, when we look at POS and we look at different levels of performance, we see that we're gaining market share versus the market.

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We're very strong outside the United States. We continue to get stronger. Our European growth track record in the last almost 5 years now has been outstanding, and we continue to demonstrate strong growth within that geography and move ourselves closer to the #1 player there, who is Bosch on the power tool side. And we will continue to invest in that space because we see that as a great opportunity to grow.

Emerging markets is another area that we're experiencing 15% to 25% growth, depending on the country and the opportunities there as we really try to expand our e-commerce platforms in certain specific countries, like China as an example, or India. And Russia before the war, we were investing in that, but that's changed, obviously.

So we feel good about our track record of gaining share, and the facts played that out that we are gaining share. And we're not losing share to TTI and Home Depot. But I'll have Dennis give you a little more color on the Home Depot aspect of it.

Dennis M. Lange - *Stanley Black & Decker, Inc. - VP of IR*

Yes. What Don is referring to is we get category-level information from time to time as part of 10-K disclosures from our large customers. And we already had, obviously, indications around this because we've been pretty vocal about gaining share, as Don was talking about in the past. But now you can go look at the numbers. And you can see when Home Depot grew in the tool category, in the outdoor category, and I can tell you our POS is north of that for all those categories in those disclosures.

So if you think about it in that context that in these major customers that are gaining share in the market on their own right, we're exceeding it. So that says that this isn't a distributive game amongst 1 player or 2 players, 3 players. This is a deep market. Our brands and our innovation resonate, and we partner with our customers to grow them and gain share ultimately.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Got it. Helpful color from you both. Maybe just switching gears a little bit. There's a lot of like near-term consternation in the market as it relates to China supply chain, Europe. I want to kind of touch on all of those, if we can. First, the China lockdown is clearly fluid. I know you have shifted some of your production into Mexico and in the U.S. Just provide an update on how that's going since the quarter. I know it's only been a couple of weeks, but things are very fluid.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I mean we're obviously watching the China situation very closely. The good news from our perspective is our plant -- our major plant there, which is in Suzhou, China, has been open the entire time. And so now they do need -- they do go through daily testing every day, PCR testing their employees. And we've been very fortunate that we haven't had a situation where we've had to shut down the plant. And we've been able to maintain, I would say, really relatively solid levels of production.

We're not at full capacity because we are getting some delays of some components and parts that are coming in there because of our vendors are experiencing some disruption. But overall, we feel good at this stage that it's not causing any disruption to our expectations for this quarter or next quarter. If this continues to drag on, then obviously, it could be a situation where it may have an impact. But the on-the-ground read right now is it appears that some of these restrictions are going to start to loosen a little bit over the next 2 weeks. And if that happens, we feel like we've navigated this relatively successfully.

But this is a day-to-day, week-to-week situation that everyone's watching, and we're doing the same thing. And we're just going to have to make sure that we're all over it. We have a team of people that are fully dedicated to monitoring this and helping the local team and the logistics team navigate through any challenges they're having. But the ports are moving in China now. So the Shanghai port is actually moving product in and out. And so that's a positive sign because there was a period of time where that was shut down. So we're optimistic at this stage that we will navigate through this and not have an impact. But the next 2 to 3 weeks will be critical in whether that's actually the case or not.

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Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Okay. I'm sure you'll be at other conferences in the next 2 to 3 weeks for us to find out.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

From a supply chain standpoint, I think you guys also kind of -- you mentioned like major electronic components are hoping that things would get better by quarter end. Still similar commentary, I guess, to that piece? Or are things kind of pushing out at all there?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

No. Things are on track with the semiconductors. So we saw the expected increase in Q1 that we were planning for. We're seeing the next level of increase here in Q2. That will help us meet the demand -- higher levels of expectations and demands in Q3. And so the good news is there's no news here, that it's actually tracking to expectations. We're seeing the expanded supply continue to grow as each week and month goes by and do not feel like there's any disruption on the horizon at this stage. And that we feel like probably July, this will pretty much be behind us, and then we're really just focused on maintaining a stable, fluid supply chain in that particular area.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Okay. Great. And Don, you mentioned earlier, if there was a concern around a recession, you think it -- based on what we know today, it be more kind of Europe-centric than here in the U.S. I'm just curious like what are you seeing in Europe today and from a demand perspective?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I would say we're not necessarily seeing a slowing of demand in Europe at this stage, but it's something we're watching on a day-to-day basis. We're also trying to get in tow through our teams with our customers, because it's also about what our customers are thinking. And are they thinking of taking different actions? Do they want to reduce their inventory dramatically, thinking that there might be a recession? And does that impact ordering for 2 or 3 months when they do that? We haven't seen those signs yet. At this stage, the European performance is in line with expectations for Q2. And we'll see if that shifts at all in the next 7, 8 weeks as we close out the quarter. But relatively in line with expectations right now.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Okay. And that's like roughly, call it, 15% to 20% of your business, right? And the commentary, I'm assuming, is mostly on like the Tools & Outdoor business?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

That's correct.

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Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

As opposed to like auto, right? Because clearly, like...

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. There's certainly some disruption in Engineered Fastening with some of the automakers in Germany, but it's not material. At this point, we feel like it's baked into our guidance that we've provided back then 2 weeks ago or so.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

I know we're going to be bumping up on time soon. Just a couple of other quick ones. So from a supply chain standpoint, I think you guys talked about $200 million in unfilled orders. Just what's your visibility in being able to ship those orders either this quarter or next?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Well, we have a little bit of a bump up in our revenue performance in Tools sequentially Q1 versus going into Q2. So some of that's factored into that situation. As the supply gets better and better for semiconductors, we'll probably see part of that $200 million read through here in Q2 and then the rest of it play out in Q3. That's probably the right way to think about it.

There's a chance that all could play out in Q2, but it feels like it's going to -- some of that's going to flow into Q3.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Got it. And then the last question I really wanted to ask you is really just around like the progression in Tools margins. Because clearly, like down a lot year-over-year, but still up sequentially, right? And you have better pricing coming through as the year progresses. So just kind of help us just understand the cadence throughout the year in that business and what you expect.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. I mean in the second quarter, we're going to -- it will be probably consistent with what we saw in Q1, although we will be getting a little -- some more price, as I mentioned earlier. We also know there's a fairly substantial increase in some of the inflation hitting that doesn't have price tied to it, new levels of inflation.

In the back half, we expect to start to see margin improvement in the Tools business. It will tick up in Q3 and in Q4. And I feel pretty good about it at this stage. And we're watching, obviously, these price -- round 4 price actions. How successful we are there is going to be a key component of that ultimate pick up. But overall, I think we'll -- after Q2, we'll start to see sequential improvement in margin rates for tools.

Dennis M. Lange - *Stanley Black & Decker, Inc. - VP of IR*

And Don, that's referring to the core -- kind of the core rate, right?

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Core, yes, core. Yes.

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Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Yes. That's right. That's right. All right. Don, any closing comments for us today? Really did appreciate your time.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Yes. Just all I would say is that we feel like we're well positioned for what we need to do going forward. We've gone through 3 or 4 massive ways of inflation. If this is now the last increase in inflation, which no one knows for sure, but if it is, I think that the teams have done a great job to position themselves for price, maintaining cost control, fending off as much of the inflation as we can and continuing to improve in supply chain along the lines that I described.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Guys, thanks so much for spending time with us today. Really do appreciate it.

Donald Allan - *Stanley Black & Decker, Inc. - President & CFO*

Thanks, Joe. Good to see you.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

Good to see you, too.

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