

30-Jul-2024

Stanley Black & Decker, Inc. (SWK)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Dennis M. Lange

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

Donald Allan, Jr.

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

Christopher J. Nelson

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

Patrick D. Hallinan

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

OTHER PARTICIPANTS

Julian Mitchell

Analyst, Barclays Capital, Inc.

Timothy Ronald Wojs

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

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Adam Baumgarten

Analyst, Zelman & Associates

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Nigel Coe

Analyst, Wolfe Research LLC

Rob Wertheimer

Analyst, Melius Research LLC

Michael Rehaut

Analyst, JPMorgan Securities LLC

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Second Quarter 2024 Stanley Black & Decker Earnings Conference Call. My name is Shannon, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

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

Dennis M. Lange

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

Thank you, Shannon. Good morning, everyone. And thanks for joining us for Stanley Black & Decker's 2024 second quarter webcast. Here today, in addition to myself, is Don Allan, President and CEO; Chris Nelson, COO, EVP, and President of Tools & Outdoor; and Pat Hallinan, EVP and CFO.

Our earnings release, which was issued earlier this morning, and a supplemental presentation, which we will refer to, are available on the IR section of our website. A replay of this morning's webcast will also be available beginning at 11 AM today.

This morning, Don, Chris and Pat will review our second quarter results and various other matters, followed by a Q&A session. Consistent with prior webcast, we are going to be sticking with just one question per caller. And as we normally do, we'll be making some forward-looking statements during the call based on our current views.

Such statements are based on assumptions of future events that may not prove to be accurate, and as such, they involve risk and uncertainty. It's therefore possible that the actual results may materially differ from any forward-looking statements that we might make today. We direct you to the cautionary statements in the 8-K that we filed with our press release and our most recent 1934 Act filing.

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

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

Donald Allan, Jr.

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

Thank you. Dennis, and good morning, everyone. As you saw in this morning's release, we extended our trajectory of solid execution on our operational priorities, which drove gross margin improvement versus the prior year and very strong cash generation in the second quarter.

It is also extremely satisfying to report that we delivered organic growth this quarter. As you are aware, there was a significant demand normalization post pandemic that required a recalibration of inventory for us and our customers. We believe that we have stabilized our share position in the marketplace, and this quarter, we capitalized on the strength of the DEWALT brand and supportive pockets of end-market demand to deliver positive, organic revenue growth in the period.

Our priorities remain consistent at this stage of our transformation, and this morning, you will hear tangible progress in each of these key areas of focus. First, we continue to drive profitability improvement through the significant transformation of our supply chain to achieve our target of 35%-plus gross margins. Next, we experienced strong free cash flow generation and significant balance sheet strength improvement. And finally, new investments to stimulate sustainable growth are increasing with the primary aim of reinvigorating share gain to achieve organic growth at 2 to 3 times the market.

We continue to be energized by the compelling long-term growth opportunities in our industry and believe in our ability to capture their value. Yet, we remain clear eyed about the near-term environment and expect mix demand trends to continue in 2024 across our markets. As we capture the savings from the cost structure improvements, which are broadly in our control, we will be measured and disciplined as we selectively invest in the parts of our business that offer the best prospects for growth.

We are focused on how we outperform the market to gain share and are pleased by the green shoots emerging in various channels. So while our markets will be choppy for the short term, we are building the processes and structure to create a sustainable growth operating model which will ensure we significantly benefit from the long-term growth opportunities in the industries we serve.

I have asked Chris to describe how we are both thoughtfully and aggressively pursuing our growth agenda in Tools & Outdoor, which he will discuss in further detail this morning. Our Global Cost Reduction Program remains on track for expected run rate savings of \$1.5 billion by the end of 2024 and \$2 billion by the end of 2025. Our teams continue to accelerate savings actions, which have successfully delivered \$1.3 billion of run rate savings program to-date. These results reinforce our confidence in achieving our 35%-plus adjusted gross margin goal.

I am confident that by executing on our transformation strategy, we are positioning the company to deliver higher levels of sustainable organic revenue growth, profitability and cash flow, which will drive strong long-term shareholder returns.

Now, turning to second quarter results. We delivered \$4 billion of revenue, down 3% versus the prior year. This includes 1% of organic growth, which was led by DEWALT, the outdoor product categories and Engineered Fastening. This was more than offset by a 3% drag from the Infrastructure divestiture and 1% of currency.

Adjusted gross margin was 29.2%, up 560 basis points versus the second quarter of last year. Our supply chain transformation was a major contributor to this improvement. It has strong momentum that we expect to carry through the back half and into 2025.

Adjusted EBITDA margins returned to double digits and were 10.7%, which is a 5-point improvement versus prior year. This was driven by our gross margin expansion, offset by deliberate increases in growth investments. Adjusted diluted earnings per share was \$1.09 for the second quarter.

Free cash flow in the quarter approached \$0.5 billion, primarily due to accelerated working capital improvements. The strong cash generation, along with proceeds from the Infrastructure divestiture, contributed \$1.2 billion of debt reduction in the quarter. We continue to prioritize improving balance sheet health, and in a few moments, Pat will address our plans for more progress over the next 18 months.

As we delever, we are also maintaining our commitment to returning value to our shareholders, and to that end, our board of directors approved a modest increase to our quarterly cash dividend, which is now \$0.82 per share.

Finally, we are raising our 2024 full-year adjusted diluted EPS guidance range by \$0.10 at the midpoint to a range of \$3.70 up to \$4.50 and increasing our free cash flow guidance to \$650 million up to \$850 million. Pat will provide more color on this later in our presentation.

I want to thank our team members for their collaboration and focus as we continue to make substantial progress on our transformation plan and achieve our interim financial goals we established about two years ago.

I will now pass it to Chris Nelson to review the business segment performance. Chris?

Christopher J. Nelson

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

Thank you, Don, and good morning, everyone. Beginning with Tools & Outdoor. Second quarter revenue was approximately \$3.5 billion with 1% organic growth versus prior year. DEWALT delivered another strong quarter, generating its fifth consecutive quarter of organic growth. DEWALT's performance, combined with a stronger outdoor season drove 2% volume growth. We are particularly encouraged by this result given the soft consumer backdrop.

Total revenue was flat as volume benefits were offset by 1% of currency in addition to 1% of price, which was consistent with our plan to support DEWALT cordless promotions. We are now back in line with historical levels of seasonal promotions.

Second quarter adjusted segment margin was 10.4%, a 590-basis point improvement compared to last year. We delivered year-over-year margin expansion through lower inventory destocking costs, supply chain transformation savings and shipping cost reductions, which were partially offset by targeted investments designed to accelerate share gain and organic growth.

Turning to the product lines for the second quarter. Power tools declined 2% organically, driven by the consumer DIY category. Hand tools organic revenue was flat, with new DEWALT product introductions driving increased product listings with our customers. Outdoor organic revenue grew 6% with strong retail volume growth, driven by handheld cordless outdoor power equipment and incremental retail product listings.

Turning to Tools & Outdoor performance by region. North America generated 1% organic growth, driven by the same factors as the overall segment. Second quarter US retail point-of-sale demand was up modestly versus the prior year, led by outdoor and regained DEWALT cordless promotions.

In Europe, organic revenue was down 3% as declines in France and Italy were partially offset by growth in the UK, the Nordics and Iberia. We are prioritizing investments in new product listings to grow market share and overcome the macro softness that is affecting this region's economy.

To round out geographic performance for the quarter, all other regions in aggregate grew 5% organically. This was driven by double-digit growth in Latin America, led by Brazil, along with high single-digit growth in India. In summary, for Tools & Outdoor, the quarter was highlighted by a return to organic growth with a meaningful step-up to segment margin.

Now moving to Industrial. Second quarter Industrial revenue declined 20% versus last year, which was nearly all due to the Infrastructure divestiture. Price contributed positive 2% to growth, offset by a 2% currency headwind. The Engineered Fastening business grew 2% organically, driven by aerospace growth, which more than offset the market softness in automotive and customer destocking in general industrial.

The aerospace business grew 24% organically, supported by new business wins and a strong booking rate. The Industrial adjusted segment margin was 13.5%, an improvement of 50 basis points versus prior year, driven by price realization and cost control.

I'd like to thank our teams around the world for their dedication to delivering another solid performance in the second quarter. Their focused efforts delivered organic growth and margin expansion across both business segments.

Moving to the next slide. As I reflect on my first year here at Stanley Black & Decker, much of my time and energy has been directed towards learning about our end-users and channel partners' priorities and how to both efficiently and effectively accelerate the next phase of Tools & Outdoor organic growth and market share gains.

It's clear to me that we have four essential attributes for success: one, an industry with strong long-term growth characteristics; two, iconic brands; three, a differentiated innovation engine; and four, deep customer relationships and loyal end users. I have strong conviction that we can create long-term value by capturing the commercial opportunities ahead of us, both now and into the future.

To capture these opportunities, we are funding investments both by redirecting existing resources towards the most promising opportunities as well as investing incremental dollars consistent with the \$300 million to \$500 million range that Don and Pat have referenced on previous occasions.

Along with market-facing priorities, I've also been focused on our team, putting in place the right capabilities and skills to execute our strategy. I am pleased to have my new organization established with a leadership team consisting of seasoned Stanley Black & Decker veterans complemented by external talent who bring fresh perspectives. They are all in place and driving forward momentum.

The valuable breadth and depth of knowledge across the leadership team and organization is allowing us to activate our strategy with urgency. We are prioritizing our resources on the highest impact opportunities, which we believe are serving the professional end user within our most attractive markets.

Over the past 12 months, as we've continued to streamline and focus our business, we've doubled down on being brand-led and are prioritizing DEWALT, CRAFTSMAN and STANLEY. These powerful brands have significant scale in the marketplace and strong brand equity with end users. By continuing to strengthen these brands and maximizing brand health, we can capitalize on their potential for long-term growth, share gain and margin improvement.

Turning to innovation. We view our long-standing ability to listen to end users and to deliver purpose-built innovation as a core differentiating capability. We are laser-focused on driving innovation to help solve the most pressing challenges our professional end users face, namely finding ways to improve their safety and productivity on the job site while ensuring they have robust tools to help deliver the high-quality craftsmanship their customers expect.

Our core brands have been synonymous with delivering this type of value to job sites for many years, and we will continue to push the boundaries of these solutions as enhancing safety and productivity on the job site has never been more relevant to the professional end user.

For example, we announced the next evolution in battery technology this quarter, the DEWALT XR POWERPACK 8-amp hour battery with tabless cell technology. This joins the reinvigorated XR line, which houses the best-performing 20-volt MAX batteries and power tools from DEWALT. This battery technology conducts more energy, delivers more power output and has a longer lifespan, which enhances end-user productivity.

We also introduced the DEWALT TOUGHSERIES Construction Jack, a tool designed to increase productivity by giving one person the confidence and security to lift, level and hold material without assistance. With up to 340 pounds of lift capacity and fine-tuning adjustment features, this tool is a must-have for any end user.

Market activation is another investment priority and growth opportunity. We are more aggressively activating our core brands through amplified digital product marketing and additional field resources, both with the goal of extending the reach and impact of our brands and innovation.

We expect our elevated marketing efforts behind DEWALT, coupled with support to grow the trades through grants, scholarships and tool donations will broaden user engagement and brand ambassadorship. These sales and marketing initiatives are funded with new investment dollars and the reallocation of resources, which illustrates our prioritization efforts towards our best prospects for growth.

In addition to delivering cost savings and driving margin improvement, which you have heard from Don, our supply chain transformation is also an enabler of growth. Enhancing operational efficiency and achieving 35%-plus adjusted gross margin unlocks incremental optionality to invest even more behind our brands and to accelerate the virtuous cycle of organic growth.

We believe that our emphasis on operational excellence, in combination with the structural changes we are making to our production and distribution network, which are the crux of our supply chain transformation, can become a sustainable growth enabler for the company as we serve our customers and end-users with excellence and speed.

In addition, the continuous improvement capabilities we are strengthening as a part of this transformation will serve as a sustainable engine to help generate recurring productivity to self-fund the business and our brands.

In summary, while the near-term market demand environment remains mixed, we are optimistic about the long-term growth opportunities in our industry. We are aggressively moving forward to accelerate the growth of our powerful brands with our end-users and customers around the globe.

We have a talented team deployed that is moving with speed and a clear mandate, executing our transformation plan and accelerating share gain. This simple but powerful mandate energizes our team as we work to position ourselves to win in the marketplace.

Thank you. And I'll now pass the call over to Pat Hallinan.

Patrick D. Hallinan

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

Thanks, Chris, and good morning. Turning to the next slide. We're two years into our transformation journey and are continuing to make meaningful progress each quarter. I would like to highlight our accomplishments during the second quarter and how we intend to meet our objectives with continued focus and intensity during the back half of 2024 and beyond.

We achieved approximately \$150 million of pre-tax run rate cost savings in the quarter, bringing our aggregate savings to approximately \$1.3 billion, since program inception. Our performance represents strong execution. On a year-to-date basis, we are tracking to plan, driven by strategic sourcing actions. We are diligently capturing cost efficiencies to counter the soft demand backdrop. I am pleased to say the savings we generated in the first half, support the second half gross margin expansion included in our guidance. More on that later.

We continue to target \$1.5 billion of pre-tax run rate savings by the year-end of 2024 and \$2 billion of pre-tax run rate savings by the end of 2025. We are on track to achieve both targets. As a reminder, the biggest areas where we see savings opportunities are strategic sourcing, operations excellence, footprint actions and complexity reduction.

Strategic sourcing remains the largest contributor to our transformation savings to-date. We are actioning \$5 billion of addressable spend across areas such as materials and components, finished goods and indirect expenditures.

Operations excellence is the next area of opportunity. Our initiatives are driving productivity improvements that translate into tangible results. This initiative encompasses our manufacturing operating model and leverages lean principles. In 2024, this has been particularly effective in reducing downtime and improving labor efficiency. We have a robust pipeline of projects lined up to deliver savings this year and beyond.

Turning to footprint-related projects and product platforming. We are optimizing our distribution footprint as well as redesigning our manufacturing network to leverage scale and centers of excellence as we maximize operational efficiency. This multiyear endeavor continues to progress as planned, and we expect to exit or transform a number of facilities across the globe over the next 18 months.

We are well underway with our platforming strategy, which identifies methods to standardize parts and components across product families to eliminate complexity and to improve procurement scale. We are incorporating this strategy into our product development process across power tools and outdoor products with significant opportunities across DEWALT, CRAFTSMAN and zero-turn mowers. This exciting program is in the early innings, and we believe it can be a source of material productivity well beyond 2025.

In aggregate, our supply chain transformation initiatives are expected to generate approximately \$0.5 billion of savings in 2024, achieve a full year gross margin of 30% and fund additional growth investments in our core business.

I would like to commend the organization for diligently pursuing the goals of our transformation. This journey would not be possible without everyone's contributions. We are developing the sustainable cost structure and operational efficiency needed to return our adjusted gross margin to 35% or greater while enabling targeted growth investments.

Moving to the next slide. Two main areas of focus this year are generating free cash flow and expanding gross margins to support long-term growth and value creation. We generated a historically strong \$486 million of free cash flow in the second quarter of 2024. This brings our year-to-date free cash flow to approximately neutral. Our performance was supported by approximately \$400 million of accelerated working capital improvements, which were realized earlier in 2024 versus our initial plan.

We continued to make progress on our inventory levels and sequentially reduced our inventory balance by approximately \$100 million this quarter. Inventory days remained below 150 and are moving toward our long-term target of approximately 120 to 130 days.

The remainder of the working capital favorability was a result of improved accounts receivable and accounts payable balances versus our plan. Our strong free cash flow, along with the net proceeds from the Infrastructure sale enabled \$1.2 billion of commercial paper reduction during the second quarter.

The strong momentum in the first half and a modest reduction to our capital spending expectations gives us the confidence to raise our full year free cash flow guidance range to \$650 million to \$850 million, up from our prior range of \$600 million to \$800 million. We expect second half free cash flow in excess of the dividend to support an additional \$400 million to \$500 million of short-term debt reduction by year-end, which will result in a total debt balance that is a little over \$6 billion.

In 2025, we are targeting further deleveraging through free cash flow generation, coupled with the funds generated by strategic portfolio pruning actions. Our goal for the year-end 2025 is total debt in the low \$5 billion zone, inclusive of inorganic cash generation. This plan enables us to achieve our desired leverage metrics and is consistent with the discussions with our rating agencies.

Another item of note. This past quarter, we proactively renegotiated the company's core credit facilities, securing access to significant liquidity to support the company's ongoing transformation. We prioritize maintaining investment-grade credit ratings and have access to \$3.5 billion in credit facilities backed by a long-standing, well-capitalized and diversified bank group.

Our capital allocation priorities remain investing in our organic growth and our transformation, funding our long-standing cash dividend to return value to shareholders and further strengthening our balance sheet.

Turning to profitability. Adjusted gross margin was 29.2% in the second quarter, a 560-basis point improvement versus prior year, driven by lower inventory destocking costs, supply chain transformation benefits and lower shipping costs.

In the first half of 2024, we improved adjusted gross margin by 40 basis points sequentially versus second half 2023, consistent with our plan. We are planning for further sequential improvement in the second half of this year with adjusted gross margin expected to approximate 31%.

Our second half step-up is supported by our supply chain transformation savings, which are and have been tracking to plan. This plan puts us on a path to deliver our long-held transformation goal of approximately 30% full year 2024 adjusted gross margin and exit the year in the low-30s.

We continue to be on a solid trajectory of adjusted gross margin improvement against a challenging macro backdrop. Our momentum gives us confidence in our ability to achieve our gross margin objectives for 2024 and achieve 35%-plus adjusted gross margin within the transformation time horizon.

Now turning to our 2024 guidance and the remaining key assumptions. In addition to the updated free cash flow guidance I just shared, we are revising GAAP earnings per share range to \$0.90 to \$2 and raising adjusted earnings per share range to \$3.70 to \$4.50. The GAAP earnings per share revision is primarily a result of incorporating the second quarter environmental reserve expense of approximately \$155 million into the range.

Adjusted earnings per share is being revised \$0.10 higher at the midpoint. Our outlook factors in a soft macro environment in the second half. We are leveraging the cost savings within our control to offset this and generate second half adjusted EBITDA growth versus the prior year.

The EPS improvement at the midpoint passes along a portion of the second quarter operating outperformance and includes lower back half interest expense due to accelerated deleveraging. Our midpoint assumption for full year organic revenue is expected to be down 0.5 percentage point.

This contemplates the continuation of the stretched consumer in Tools & Outdoor along with a declining automotive production backdrop in Industrial. Our sales range contemplates plus or minus 130 basis points, which is the primary area of adjusted earnings per share variability.

Turning to the segments. Tools & Outdoor full year organic revenue is expected to decline 1% at the midpoint plus or minus low-single digits, with a range of variability similar to the total company. Pricing for Tools & Outdoor is expected to be relatively flat for the full year, which is consistent with what we are seeing in the market today.

The Industrial segment organic revenue is expected to be relatively flat to slightly positive as aero fasteners' growth is partially pressured by global automotive OEM light vehicle production headwind.

We are maintaining a disciplined approach to cost management and remain committed to funding and reprioritizing investments for long-term organic growth. Our planning assumption for innovation, brand, marketing activation and technology growth investments remains an incremental \$100 million in 2024. Our expectation for full year SG&A as a percentage of sales is to be in the mid-21% zone.

Turning to profitability. We expect total company adjusted EBITDA margin to approximate 10% for the full year, supported by savings from the transformation program. Adjusted segment margin in Tools & Outdoor is planned to be up year-over-year, also driven by continued momentum from our ongoing strategic transformation.

The Industrial adjusted segment margin is expected to be flat to slightly positive versus the prior year as operating improvements and cost controls in engineered fastening are offset by the dilution from the Infrastructure business divestiture.

Our adjusted earnings per share range is \$0.80 with variability in market demand being the largest contributor. We will work to optimize adjusted gross margin and manage SG&A thoughtfully throughout the year to balance the macro uncertainty while working hard to preserve investments to position the business for long-term growth.

Turning to other elements of our guidance. GAAP earnings include pre-tax non-GAAP adjustments ranging from \$445 million to \$495 million, largely related to the supply chain transformation program as well as the second quarter environmental expense.

The adjusted tax rate is expected to be 10% for the full year with the third quarter approximating 20% and a benefit in the fourth quarter. Our 2024 guidance assumptions at the midpoint are noted on the slide to assist with modeling. We expect the third quarter adjusted earnings per share to be approximately 25% of the full year at the midpoint.

In summary, looking forward, we remain focused on executing our supply chain improvements to further improve gross margin and earnings in the second half of 2024, and our progress to-date supports our improved full year adjusted earnings and free cash flow outlook.

We remain confident that our actions to drive toward our target of 35-plus percent adjusted gross margin, while funding additional organic revenue growth investments will continue to generate positive results. Our top priorities remain delivering margin expansion, generating cash and further strengthening the balance sheet to position the company for long-term growth and value creation.

With that, I will now pass the call back to Don.

Donald Allan, Jr.

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

Thank you, Pat. As you heard this morning, the company is making meaningful progress across our key priorities of margin improvement, cash generation and balance sheet health, while also investing in future sustainable growth. We are moving with speed and delivering results in a macro environment that has not been supportive, but we are confident that it will turn from a headwind to a tailwind in the future.

Until then, we are focused on consistent execution while positioning the company to deliver higher levels of sustainable organic revenue growth, improve profitability and cash flow to drive strong long-term shareholder returns.

We are now ready for Q&A, Dennis.

Dennis M. Lange

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

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

QUESTION AND ANSWER SECTION

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

Julian Mitchell

Analyst, Barclays Capital, Inc.

Hi. Good morning.

Q

Donald Allan, Jr.

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

Morning.

A

Julian Mitchell

Analyst, Barclays Capital, Inc.

Maybe just a question around the earnings trajectory. So it looks like sort of EPS is guided to be flattish sequentially in Q3, and then up, I think, \$0.40 or so sequentially in the fourth quarter. So understand the sort of tax rate movement from 20% to negative tax in Q4, but maybe if you could flesh out any of the moving parts around sort of revenue and margin for the third and fourth quarter. And on that tax rate point, what's a good kind of placeholder for next year, please?

Q

Patrick D. Hallinan

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

Hey, Julian. It's Pat. Yeah, you have it correct. That's the correct EPS flow. I'd say, the fourth quarter seasonal revenue impact is what drives the revenue and OM in the fourth quarter. So you're slightly north of \$3.5 billion in revenue in the fourth quarter. And you're probably in between \$300 million and \$330 million in the OM range in the quarter with the flow in the third quarter, obviously, rounding out the back half of the year. The third quarter is seasonally strong as some of the holiday shipments start humming around the September timeframe.

A

In terms of the tax drivers, as we've said before, these were some of the things that were in motion and affecting tax last year in 2023, a set of discrete planning items that were put in motion, even early stages of COVID and before. And so, it will play out through this year and a bit into next year. I'd say for next year, we're probably in the high teens. Approaching 20% range would be my guidance for tax for next year. We're obviously not at 2025 guidance yet, but that would be kind of the ZIP code I would expect to be in.

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

Timothy Ronald Wojs

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

Yeah. Hey, guys. Good morning.

Q

Donald Allan, Jr.

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

Morning.

A

Timothy Ronald Wojs

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



Nice to see good volume growth in Tools. Maybe on that kind of topic. Don, just maybe if you can give us a little bit of an update just on the operating environment. It doesn't seem like a lot has changed, but kind of curious on your opinion there and just how your retailers are kind of thinking about kind of the promotional period at the end of year.

And then you guys mentioned in your prepared remarks a few times, product listing adds and product-focused adds there. If you can maybe just talk about some of the investments and where some of the priorities are and just maybe where you're kind of focused on adding incremental shelf space?

Christopher J. Nelson

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



All right. Hey, Tim. This is Chris. Nice hearing from you, and good morning as well. As far as the first part of the question from an operating environment perspective, as the guidance would indicate, we're essentially expecting the back half to have a similar operating environment as the front half. And we are dialed in to be back up to our run rate level of promotional support in the back half of the year. We feel very excited about what we've got laid in with our retailers, and especially with our ability to drive more promotion and demand in our accretive cordless power tool segment. So that's what we're kind of looking at for the back half.

As far as in that environment, what is really important is and that we're – as you heard from Don, we are absolutely committed to, is executing our strategy. So if you think about what's going to really drive their performance in the back half and beyond, it's going to be continuing that supply chain transformation that allows us to not only drive margin accretion, but as our service levels continue to improve, we're getting more opportunities to take share and shelf space in that environment as we fulfill better for our customers.

And then if we think about the investments, what we are committed to do with the investments that we're – and the incremental margins that we're generating is to make sure that we funnel those to our highest growth priorities. Specifically, we've been talking about how we want to make sure with STANLEY, CRAFTSMAN and DEWALT, we are focusing on those brands and specifically investing in both market activation from a digital marketing perspective as well as we've been working to add field resources to make sure that we can work with our end users and our customers to make sure that they are – understand our story, understand our products, and we can continue to get feedback on where we need to drive innovation.

So that combination of the transformation with targeted investment that we're committed to, and we've started to see some encouraging performance, especially as you've heard for the past couple of quarters with DEWALT. So we're going to stay committed to that and understand that we're going to navigate a fairly flat macro environment.

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

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC



Hey. Thank you. Good morning, everyone. Hey, with perhaps fingers crossed, right, getting close to some kind of cyclical bottom here on the consumer, the economy, rates, the whole thing, really want to kind of step back and get maybe a refresh perspective, Don, maybe starting with you, but just on what really normalized could look like.

And the spirit of the question kind of goes, right, \$2 billion in cost reduction is something like \$11 a share, right? Investments of \$200 million to \$300 million is \$2 or \$3. So there's a lot of "gross savings" in that construct, but where is the leakage on a net basis, right? And as revenues recover maybe in the construct of that 35% gross margin, what really is kind of a realistic EBITDA margin on a normalized basis? Sorry for the philosophical question on an earnings call, but interested in your thoughts.

Donald Allan, Jr.

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

A

Well, it's actually a very good question, Jeff, because it's something that we spend time actually thinking about as we go into our annual strat planning cycle, which is just beginning now, and be part of a board presentation in October as we think through where we are in the transformation journey, the financial goals that we've established, what's the earnings potential for Stanley Black & Decker over the next three years and beyond.

And so, when you step back and begin to think that through, we clearly feel very good about where we are in the journey around transformation. We think 35-plus percent is still very achievable in that time horizon. We do believe as the markets begin to get stronger or stabilize and start to grow, in some timeframe, I think we're all wondering exactly what that timeframe is, but let's presume that happens in the next year or so, then we really think we're building an operating model around organic growth, as we said, that can grow 2 to 3 times in the market.

And so, how do you define the market? We've done a lot of different analysis on this, and there's different ways to look at it in the short term. But over the long term, if you just look at GDP and say, can we grow 2 to 3 times GDP over the long term, we definitely think that is achievable. And so, that puts you in a mid- to high single-digit growth mode depending on GDP over the long term. And then what's the ultimate leverage you're going to get from that growth or benefit into margins.

And I still think this is a 40-ish-percent business as you grow and you leverage the effect of that. We will continue to invest. We're seeing the benefits of investing. We said \$300 million to \$500 million, and it probably is going to trend closer to that \$500 million number in the time horizon we've talked about.

So the earnings potential is strong. I'm not necessarily going to throw a number out there and say, what do we think we can get to. But to say we can get back to where were from an earnings point of view as a company does not scare any of us. It's just a question of the time horizon of that.

Operator: Thank you. Our next question comes from the line of Adam Baumgarten with Zelman & Associates. Your line is now open.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Hey. Good morning, everyone. I was just curious if you could give us some color on point-of-sale trends through the quarter and into July, would be helpful.

Christopher J. Nelson

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

A

Yeah. This is Chris, and nice to hear from you, Adam. Throughout the quarter, as I think was mentioned earlier, point-of-sale was modestly positive. It was driven – really the positive aspects were driven by an outdoor season

that was more normally patterned as that season would look as well as the over-performance that we saw in DEWALT.

As we finished out the quarter and the outdoor season at peak, we kind of saw them coming back more to that flattish type of perspective. And if you look at our back half, that's kind of what we think the market is going to look like in the back half as well.

Operator: Thank you. Our next question comes from the line of Nicole DeBlase with Deutsche Bank. Your line is now open.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Thanks for the question. Good morning, guys.

Donald Allan, Jr.

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

A

Morning.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Just wanted to ask about free cash flow. So Don, can you – or Pat, can you guys talk about the cadence that you expect in the second half, given the timing shift into the second quarter? So thoughts on net working capital and other variables in the back half. Thank you.

Patrick D. Hallinan

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

A

Yeah. Yeah. We're proud of the progress we made in the front half of the year. That progress was driven both by year-over-year income improvement, but also working capital improvement. The back half of the year is traditionally the strong part of the year. So we expect the drivers in the back half to remain income and working capital, but also a bit of CapEx.

And I'd say by the time we get to the end of the year, the drivers of the beat on our initial guidance are going to be a mix of working capital and CapEx. And those drivers are going to be pretty much even between those two, will be roughly on our inventory target for the year. And I would say, it's going to be pretty traditionally weighted, in that, it's going to be pretty balanced across those two quarters with a little bit towards the fourth.

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, everyone. I'd be curious if you could just maybe unpack the 2Q – the 1Q/2Q gross margin, just given the divestment of Infrastructure. I'm not sure if that was gross margin above fleet average or where that was. And then maybe the mix between the outdoor tool – the outdoor products versus power tools, given that mega mix. Then maybe just looking at the second half of the year, you said 31%, I think, Pat. How do you think that 31% divides between 3Q and 4Q?

Patrick D. Hallinan

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

A

Yeah. I'll start with the latter part of that, Nigel, and then I'll come back to the other first half dynamics. I'd say, we're very confident in delivering our year-end gross margin and taking that progression into 2025. And I think that's the most critical message we want to get across.

We'll finish the year at 30%. The fourth quarter will finish in the low-30s. We would expect the fourth quarter, even with some of the seasonal dynamics of the fourth quarter, the fourth quarter is going to be north of 31%. And the third quarter is probably going to be at to slightly below 31%. I'd say those are the ZIP codes. But those are all being driven off of the portfolio we have right now with the bias of progress at the gross margin line in the T&O business, which has been the case throughout this year and is likely to be the case heading into next year.

In terms of the dynamics across Q1 and Q2, I'd say, there's less of a dynamic that is driven by the divestiture or any other movements. I mean, the divestiture was modestly dilutive in that regard, but we had anticipated that when we set up the plan and set up the guidance. And really, what was been playing out across the front half of the year was the fact that we had some volume softness in the back half of 2023 that always puts a little bit of unabsorbed overhead onto our balance sheet, which is unfavorable. And against that, we were raising an acceleration of program savings, which is what we've been up against for a while now as the macro has been soft on our margin improvement journey.

And we've been successful in driving savings. Despite the soft macro, we expect to continue doing that throughout this year and into next year. And I think the dynamics that unfolded across the quarters were really those things coming off the balance sheet, an acceleration of savings relative to some softness in the back half of 2023.

And I think the really – the favorable news is even with a stronger-than-expected outdoor performance, which is welcome from a revenue standpoint, we still delivered gross margin with strength coming from a segment that has gross margins slightly below fleet average. So we feel confident with the trajectory we're on. And we expect to continue making progress and get into the mid-30s by the end of next year.

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

Rob Wertheimer

Analyst, Melius Research LLC

Q

Yeah. Hi. My question is on the consumer behavior. I think we all see some of the macro back and forth in other reports and such. But I'm curious what you're seeing in your internal data just to illustrate the consumer variability or weakness or uncertainty or whatever. And how much, if any, risk – or is the upside or downside, does that kind of put into back half, what's the variability around the trends you're seeing? Thank you.

Christopher J. Nelson

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

A

Thanks, Rob. This is Chris. I mean, we certainly have seen a continuance of the trend that we've seen where the professional is relatively stronger than the consumer, and we would expect that to continue. We have certainly, as you would expect in this environment, seen consumers respond much more favorably to promotions. And that's good for us because we're – we have an opportunity as we get back up to our normal run rate on promotions to

benefit from that and benefit with accretive business. So we feel good about that and what we see from the opportunity with our merchandising in the back half.

As far as what we see looking forward, I mean, it's going to be an uneven environment as we go forward. And we're going to stay really focused on our mission to execute against the supply chain transformation as well as we know the things that we're investing in with major brands and specifically targeting the professional provides us some upside to the market that we're going to continue stay diligent as we pursue. So we're excited about where we're heading and do see that that dynamic that you referenced with the consumer.

Operator: Thank you. Our next question comes from line of Michael Rehaut with JPMorgan. Your line is now open.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, and congrats on the results. Just wanted to dial in in a couple of areas, if I could. First, just to get a better understanding of, it looks like a slight reduction of the midpoint of organic sales growth for the full year to down 50 basis points from maybe flattish before. And it would appear, correct me if I'm wrong, that perhaps you're also looking for tools and storage to go slightly negative again in the back half. So I just wanted to understand the drivers of that, and if I'm correct, on the back half.

And then secondly, you also mentioned SG&A, mid-21%, and maybe going to the higher end of the \$300 million to \$500 million in reinvestment. I was wondering if you had any early view on what 2025 SG&A could be, given those comments around higher reinvestment into the business.

Patrick D. Hallinan

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

A

Hey, Mike. It's Pat. Yeah, I think you're reading the year right. We had a growth quarter. We're very proud of driving a growth quarter in a very soft macro. The drivers of that were, I'd say, more traditional outdoor season, especially at retail and especially with electric products in outdoor. DEWALT posted its fifth consecutive quarter of growth. And then we had a strong aero through the – we had strong aero performance throughout the quarter. And auto didn't really start trailing off until late in the quarter.

Our expectation for the back half, and we're just trying to be clear eyed about the back half, that we're not here to break some big new macro news. It's just we expect DIY to stay soft. It's been soft. And now, we're heading into the holiday period where that's more consequential. Auto, we started trailing off in the second quarter, the latter parts of the second quarter. We expect that to remain soft. And so, that's – it's really driving the back half.

But you would be correct in interpreting the fact that we expect the T&O business to be down slightly in the back half, kind of roughly averaging down 100-ish basis points across the back half, really on the backs of a soft consumer during the holiday period and the fact that the outdoor season has mostly run its course. And then in Industrial, we expect aero to remain strong, but we do have some auto headwinds baked into that which has that business to slight growth but less robust than would have otherwise been the case had auto not trailed off.

The SG&A for the year is going to be slightly above 21%, I would say, for the year. As far as next year, I mean, we're not here to kind of give 2025 guidance. I don't expect SG&A as a percentage of sales next year to depart from this year in some meaningful way.

All we were trying to signal is that we really believe this is a growth business, and we're going to invest behind growth and we're going to protect growth investments. And so, Chris and his team and the broader organization is working to put growth behind the most promising elements of our business and even in a soft macro to protect those investments, but we're not trying to telegraph some meaningful departure of SG&A as a percentage of net sales this year or next.

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

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Thanks. Good morning, everyone.

Q

Donald Allan, Jr.

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

Good morning.

A

Patrick D. Hallinan

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

Morning.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Yeah. So I've got a near-term and a longer term question. On the near-term side, the commentary around getting to gross margins of approximately 31% by the third quarter, can you maybe just parse that out a little bit? If I look at things historically, it tends to be a seasonally lighter quarter and you typically don't see that much improvement 2Q to 3Q. And so, I'd love to hear a little bit more about that.

Q

And then just the longer term question is really more around like getting comfort with the timing of an eventual, like, volume inflection. And specifically, like, is there a way that you guys are tracking a replacement cycle, and ultimately, when we could see the timing of an inflection? Thank you.

Patrick D. Hallinan

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

Hey, Joe. It's Pat. I'll start with the first one. I think reading our gross margin progression across time during this transformation has been complex because there's been so many factors in motion and some of them are, what I would call, atypical factors of when does expensive inventory come off the balance sheet.

A

I would say, the read of gross margin across fiscal 2024 is more a factor of, it took a bit more of our savings in the latter part of 2023 and the early part of 2024 relative to soft volume to generate the gross margin improvement that we saw. And we had to accelerate savings throughout the latter part of 2023 and throughout this whole year in a soft macro environment to get to our originally stated gross margin objectives throughout this whole journey.

So Don and team laid out a road map in the latter part of 2022 that had us ending 2024 at roughly 30% and the fourth quarter in the low-30 percentile. But that was on a much, much more robust market and volume

assumption. We're probably almost \$1.5 billion in revenue down from that original 2022 assumption. And so, we've been accelerating savings to drive gross margin improvement.

So the tick-up from the first half of this year to the back half of this year has more to do with the savings cadence relative to longer term margin dynamics than any kind of traditional seasonal dynamic.

Christopher J. Nelson

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

A

All right. And for the second one, I think what I – this is Chris. What I would say is that, first and foremost, we really like the end markets that we serve, and we like them in the long term. And we think that there's, as Don referenced, some really nice long-term GDP-plus growth potential in those markets. But whether – especially when you're talking about the professional, and it's linked to whether it's residential or commercial and industrial construction.

But I think it's safe to say that whether it's professional or the consumer, which you could argue, partially driven by repair and remodel, are all fairly interest rate-sensitive businesses. And that would be the precursor to what we think would be – start of the inflection point. And while it wouldn't be instantaneous, we think that that is kind of the first thing in this cycle we'd want to see change that would then start to unlock some of that longer term potential that we do see for those end markets that we serve.

Operator: Thank you. This concludes the question-and-answer session. I would now like to like to hand the call back over to Dennis Lange for closing remarks.

Dennis M. Lange

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

Thanks, Shannon. We'd like to thank everyone again for their time and participation on the call. Obviously, please contact me if you have further questions. Thank you.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.