**Stanley Black & Decker Inc at JPMorgan Homebuilding & Building Products Conference (Virtual)**

New York May 19, 2020 (Thomson StreetEvents) -- Edited Transcript of Stanley Black & Decker Inc presentation Tuesday, May 19, 2020 at 1:00:00pm GMT

CORPORATE PARTICIPANTS

Donald Allan, Stanley Black & Decker, Inc. - Executive VP & CFO

CONFERENCE CALL PARTICIPANTS

Michael Jason Rehaut, JP Morgan Chase & Co, Research Division - Senior Analyst

**PRESENTATION**

**Michael Jason Rehaut**, JP Morgan Chase & Co, Research Division - Senior Analyst

Good morning. My name is Mike Rehaut. Welcome, and thank you for joining us today on the second day of our 13th Annual Homebuilding & Building Products Conference, which is virtual in the new world, and we're thrilled to kick off the second day with Stanley Black & Decker CFO, Don Allan. Don, longtime executive with the company.

And Stanley Black & Decker, one of our top ideas over the last few years, 2 years or so kind of the overall thesis essentially being around both top line prowess, multiple catalysts driving enhanced visibility for above-market growth in our view as well as more recently coming off of their Analyst Day last year. And even before that, a multiple factor toolbox in effect,around margin enhancement, margin resiliency and, of course, most recently, the $1 billion cost-cutting program that they laid out in response to COVID-19. So this is a name that would remain constructive on due to those factors as well as a strong free cash flow reinvestment track record. Like I said, we have Don Allan with us who will be walking through some slides. This is a 35-minute session. After some prepared remarks and some brief walk-through, I'll ask a few questions. And then we also have our ask-a-question function where people dialed in can relay questions. I'll moderate those questions and pass them along to Don as well.

So without any further ado, Don?

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

Great. Thank you, Michael, and good morning to everybody on the Zoom cast today. So I'd like to go through with 3 or 4 pages this morning. But before I jump into the first page, I'd like to give some commentary and thoughts related to how revenues are trending here in the second quarter as we're now through 7 weeks of shipments for us and we have about 6 weeks of POS at this stage. So just as a reminder, back in the April earnings call for the first quarter, we talked about for the first 4 weeks of the month of April, we were seeing revenue shipment trends of being down about 40%. And however, we were starting to see some strong U.S. or North American retail POS performance of low double digits begin to emerge around that time frame. And so we indicated that we were watching that closely to see where those trends were going. At the time, we indicated that we felt the second quarter appeared to be trending towards a 35% to 45% decline with a closer to the low end of that range about 3 weeks ago.

So as we sit here today, based on the information we received, quarter-to-date now through 7 weeks, our shipments are actually down 25%, so down much lower than what we saw the first 4 weeks, which were 40%. So that's a very positive trend. The reason we see that is it's really in a couple of areas. One, North American retail and the POS continues to be very strong, and so we're maintaining that strength that we saw emerging around the earnings call and has continued over the next 3 weeks. Also, our security business is performing well. We're not seeing as deep of declines as maybe we felt 3 weeks ago. And so those 2 factors together make us feel that we're actually trending now for the quarter to a range of 20% to 30% decline for the full quarter. However, we do think we're really starting to trend closer to the bottom of that range, probably somewhere between 20% and 25% based on what we're seeing. But we'll continue to watch this, especially the U.S. retail channel. But we'll also be looking at other parts of the globe, how quickly the European markets recover, some of our emerging markets recover as well. And if things change in a significant way, we'll provide another update in the future to make sure that we're being transparent as the quarter evolves and as this kind of reopening around the globe continues to emerge, and we see trends as a result of that.

So clearly, we feel very good about the recent trends, but we're also making sure that we maintain a disciplined approach around our cost actions. And because we know this is a very dynamic and fluid situation and things could change again as this reopening occurs. But certainly, very positive information at this stage.

So now moving to the presentation. I'll quickly move through 3 pages because many of you have heard this before. But as we looked at how we're going to navigate the COVID-19 pandemic, we've really had 4 priorities, the first being how do we ensure the health and safety of our employees and our supply chain partners. The second is maintaining business continuity and financial strength and stability, making sure we have the right levels of liquidity and do not have too much leverage on our balance sheet, and I think we're in great shape in that regard. The third area is making sure we continue to serve our customers as they provide essential products and services around the globe. And then fourth, making sure that we do our part to help mitigate the impact of the virus across the globe and really trying to control that spread by doing social distancing, working remotely where we can.

And so with that, why don't we move to the next page and get a little bit into the cost actions that we took on. Michael mentioned the $1 billion of annualized savings, the playbook that we -- and the framework we laid out back in about 3 weeks ago in our earnings call. You can see the 4 different categories here: indirect cost, compensation areas, benefits and then deflation. So if I put -- look at indirect cost and deflation together, that probably represents about 2/3 of the $1 billion in annualized savings with the weighting more to the indirect cost side than the deflation side. The deflation actions are well underway. We're making significant progress towards that and feel very good about our ability to hit that objective as we go through the remainder of the quarter into the third quarter. The indirect cost actions, same result, a lot of activity to really control these costs. Some of them are related to lower volumes, but a lot of them are really trying to pursue sustainable changes that we can keep in place and really keep these savings in our cost base. And as the economies start to recover, these just don't naturally creep back into the system.

And then the last area is compensation and benefits, which many of these actions were temporary at the time, furloughs, temporary reductions in certain benefits, especially in the United States.

We had some reduced work weeks going from 5 days to 4 days for salaried individuals. And then we had some more permanent actions of reduction in force and voluntary retirement programs. So those areas we're watching closely. We will maintain all those actions at least through the end of this quarter into the beginning of the third quarter and then we'll evaluate where revenue trends are going and whether we need to make some changes there in the sense of bringing back some of those permanent actions or more likely probably continuing to maintain them for a period of time through the third quarter as we see the world recover from this very difficult crisis. So more to come on that. But the playbook is really fully executed at this point. And now it's really just figuring out how we translate some of these more temporary actions into sustainable actions going forward.

And then the last page of my presentation would be just a reminder of all the great growth catalysts that we have at Stanley Black & Decker that help position us through a crisis like this. And when I think about what's happening in the Global Tools & Storage business, as an example, the world is shifting e-commerce. But we have a great e-commerce platform in many countries around the globe, and we continue to build upon that through this crisis and see this as a wonderful growth opportunity for us as we go forward like it has been before. But now we can probably accelerate things, really move forward at a much faster pace.

Craftsman continues to roll out. It's performing incredibly well at our major partner and other partners that we have. And we feel that, that's one of the reasons we're continuing to see strong POS in the U.S. retail market is how well that's performing. And then the rollouts of Stanley and Stanley FatMax and ATOMIC for DeWALT and XTREME for DeWALT, and the FLEXTVOLT continued rollout of all those new products that we continue to do each year is ongoing and continues to be a valuable growth catalyst even in a difficult environment like we're going through right now. So we feel very well positioned to continue to stimulate demand as the world recovers.

And then, of course, there's MTD, which is a future acquisition, which, at this stage, really appears to be performing well through this crisis, which is not a surprise. But it's a positive as you think about downturns and recessions. And of course, this is very unusual going through a pandemic, but seeing that this business performs well from a revenue perspective, and they're making great progress in improving their profitability along the way. So all these catalysts continue to be strong, and we feel we're well positioned to continue to stimulate growth as we come through this hopefully very short-term temporary period of time.

If it is longer, we still have these catalysts that allow us to continue to gain share across the markets.

So with that, those are my opening comments. And I'd like to turn it back to Michael to open up to Q&A. Thank you.

**QUESTIONS AND ANSWERS**

---

**Analyst:** Michael Jason Rehaut, JP Morgan Chase & Co, Research Division - Senior Analyst

**Question – Michael Jason Rehaut:** Great. Great. Thanks very much, Don. I'm going to -- as I mentioned, I'll start off with a few questions and then as there are any questions from the virtual audience, certainly pass those along as well. And again, a reminder to those dialed in, click the ask a question function, and we'll certainly be able to pass those along as we get them.

Don, obviously, the first question, as you might expect me to drill down on a little bit more is some of the additional information. You were kind enough to provide in your opening remarks around sales trends and obviously, it's a very encouraging sign to report some improvement over the last few weeks, weeks relative to the first few weeks of the quarter. I just wanted to try and make sure I understood. When you talk about originally expecting to be down 35% to 45% for the quarter, closer to the 45% range, and now you're talking about down 20% to 30%, closer to the front half of that range or the more positive half. What does that -- I mean, we can all kind of triangulate the math but just want to make sure that we're thinking about it correctly. It would sort of almost imply May and June being something significantly better than April, I would suspect around down 10% to 20%, if not better. Just want to make sure that, that's kind of the degree of magnitude that we're thinking and if you're -- or if you're expecting perhaps some further improvement in June off of the trend lines that you're seeing in May?

**Answer – Donald Allan:** Yes. So just to clarify one thing you said, Michael. The 35% to 45% that we gave back in the earnings call, we said we were trending closer to the 35%.

**Question – Michael Jason Rehaut:** 35%.

**Answer – Donald Allan:** And so we thought we were trending to the low end of that range. Now we're trending to the low end of the new range. And so -- but your question is still valid as to the sense of what does that mean for May and June? I think you're thinking about it the right way. Obviously, April was down significantly at that low end of that initial range of 35% to 45%. We're seeing that here in the beginning of May, still early, only 2 weeks. We still have 2 more weeks to go, but we're definitely trending at a lower decline than that, somewhere in the range that you mentioned, 10% to 20%, and we probably expect something similar in June. And we're still seeing some sluggish markets, in particular, outside of the 2 that I mentioned that have been strong or better than expectations. European markets are better. So they're not down 45% like they were in April, but they're still down pretty significant. And then you look at emerging markets, it's a similar trend where they were down even more than that 45% through April, but they're starting to see a little bit of improvement there as things start to open up.

The Industrial segment continues to be difficult. As we mentioned, that was probably going to be down quite a bit especially in the first portion of the quarter. And then as the automotive customers have started coming back online, that would start to improve. And some of those start dates with the OEMs have pushed out to later in May. And so we continue to see some pressure in that part of the business. But when you look at Tools & Storage, there's definitely life coming back, and we're seeing replenishment orders with our major U.S. retail customers, which is really the biggest sign we were looking for about 1.5 years ago, and that started to emerge in the last 3 or 4 days. And so it's a mixed bag, but there's certainly more positive in there that we're seeing than there are negatives.

**Question – Michael Jason Rehaut:** Great. And that actually, along this line of questioning because I think it's obviously pretty critical, and we just got an online question along these lines as well, on this topic, so I'll stay on it for a moment. You just mentioned the replenishment of orders at retail as well as the fact that you had continued to see strong POS in North American retail continuing into May. As of the conference call, you had kind of highlighted that April POS was up double digits. Is it safe to say that, that POS trend of double digits continued into May as part of your overall kind of more encouraged outlook for Tools & Storage?

**Answer – Donald Allan:** Yes. So we definitely see that low double-digit trend continuing with POS and U.S. retail. And we now have 6 weeks of POS because we haven't quite -- we haven't gotten last weeks yet. But we'll get that today or tomorrow. But the trends continue to be in line with that. And as we had talked about, we knew there would be a little bit of inventory adjustment happening during April. We were wondering how long it would go. It really would depend on how strong POS trends were. And obviously, those POS trends continue to be healthy. And as a result, we feel like maybe a large part of that inventory adjustment is behind us at this stage in some of those bigger retail customers and -- which is the good thing. If that POS level continues to maintain itself through the rest of the quarter, that would allow for certainly us to be at the lower end of that 20% to 30% and maybe even be slightly below it depending on the level of POS within those customers.

**Question – Michael Jason Rehaut:** Also, as part of your commentary from your call around first second quarter guidance, you had given an expectation around decremental margins I believe more for the full year that would be around 40% decrementals, pre-cost actions, low to mid 20s with those cost actions being taken. How would this improved outlook for 2Q? And obviously, it's just a quarter, but it is still a pretty important change from a sales-decline perspective. Does this change your outlook at all with regards to how you're thinking about decrementals either for the second quarter or the year?

**Answer – Donald Allan:** I don't think so. I think the trends are obviously, they're positive on the lines I described. But I think the math that you're thinking about is 40% before the cost actions. We knew the second quarter would have the biggest negative decremental and then it would get better in the third and the fourth to get to the numbers you described in the low 20s. So I think that is still likely. There's a possibility the decremental could be a little bit better here in the second quarter. But it's still a little bit early to call that at this stage.

**Question – Michael Jason Rehaut:** Right. Right. Okay. I'm going to continue to ask a few questions. We will be receiving questions virtually as we go and certainly be able to weave in those questions as well, Don. But maybe just to take a step back. I think an important part of the story, one of the slides you had up was around organic growth drivers. You highlighted, obviously, Craftsman, some of the other product innovation that you've done organically. How should we think -- maybe you could kind of step back, tell us how those drivers have resulted in growth relative to an underlying market base, how you're thinking about share gains from that context? In other words, sometimes companies are able to give, okay, we're going to grow 100, 200, 300 basis points above underlying market growth. I don't know if you're able to triangulate that but maybe just kind of give some context as to what those growth drivers, what they've been able to contribute to the top line and again, relative to underlying market growth?

**Answer – Donald Allan:** Yes. I think if you go back over the last 3 years, you're going to see that those particular growth drivers that I was mentioning, and you mentioned as well, are contributing anywhere from 1 -- 100 basis points to 300 basis points above market depending on the promotion, the initiative, the launch of the new product, the new brands. Clearly, our view is Craftsman is gaining a lot of share for us. We went through a period initially where we had to do a little bit of cannibalization, but we think that's all behind us as we moved out a couple of brands, and now we've shifted those brands into other customers. And so we think that whole kind of negative drag impact in the first 6 to 12 months is behind us. And now it just is in a really in a share gaining mode. And if we continue to see positive results and we look at our major partner with Craftsman and the POS performance that we're seeing there, especially in the last 3 to 4 weeks as that continues to be very healthy, as I mentioned. And so that's positive.

At our other major partner, we've got a lot of great things going on with DeWALT and the FLEXVOLT line and the ATOMIC line and all these different things that continue to be great growth drivers for us that allow us to gain share in a difficult environment. I think when we get through this second quarter and we see whatever the GDP decline is versus where we end up, I think we could actually see that we've gained share again because that's what it feels like is happening based on that POS performance we're seeing as well as the other indicators we're getting from our midsized, smaller customers around the globe, is that even in this difficult environment, we think we're gaining share, because of the innovation that we've created, because of the variety of brands that we have that serve the premium end of the market in that kind of mid-price point part of the market where Craftsman and Stanley, in particular, are very strong. And then we have a do-it-yourself brand, that I haven't even touched on in Black & Decker, that obviously is benefiting from this kind of remote, virtual social-distancing world where people are at home and working on projects. And so we're actually seeing a lift in those lines. And that is on -- that particular brand is at several customers and e-commerce. So we're very positive and bullish on the amount of share that we're gaining through this and how much we have gained in the last 3 years, and we think we're going to continue to do that coming out of this particular initiative. And we feel like we're taking quite a bit of share away from some of our major competitors.

**Question – Michael Jason Rehaut:** That's very helpful. Another element that I think is top of mind across at least some investors is mix and promotions in this type of backdrop. I think one of the big economic numbers that came out over the last few weeks was that CPI was down sequentially, one of the biggest drops, I think the biggest drop on record. And negative product mix has been something that has come across the building product sector for the last couple of years on and off different companies. You just mentioned the Black & Decker brand. And to the extent that it's more DIY going on and it's obviously at a lower price point than DeWALT to the extent they have hobbyists that take on that brand. What are you seeing across your markets and in particularly -- in particular the U.S. in terms of product mix? And has the promotional environment, also to that extent, has that changed at all?

**Answer – Donald Allan:** Yes. I'll start with the promotional piece. I mean, if anything, there's been less promotions at this stage. And right now, many of our retailers are kind of gearing up for a big kind of Father's Day period of time, which -- but I would say it's normal Father's Day promotions. It's not a higher level or unusual level. And so we've been working with them since the beginning of the year to work on the Father's Day rollout and further rollouts later in the year around holidays. There's no real changes to that plan. They haven't cut back, and they're not enhancing them either. So we think we're well positioned for that particular time frame. And obviously, we have the right inventory levels in the stores as well, and we can provide the replenishment that they're looking for as that has started in addition to what I just described. So we feel pretty good about that aspect and don't think there'll be any higher levels of promotion that could be a drag on our margin rates.

On the mix side, I would say, yes, there's a little bit of a mix impact because of some of the dynamics I described, but it's certainly not significant. The good news is when I look at all those different product lines, the margin rates are not dramatically different from each other. So the absolute dollars can be higher in the sense of revenue. It's a higher price point in absolute dollars for a DeWALT product versus a Black & Decker product, but the actual margin rates are not dramatically different. There could be 2 or 3 points in difference here and there, but that would be kind of the max end of the range. And I don't really think that's going to be a big negative to us. It doesn't feel that way at this stage. But it feels like it's a modest drag to the rate at this point.

**Question – Michael Jason Rehaut:** That's helpful. Also, you had mentioned MTD on your last slide. Obviously, this is a big potential acquisition or if you're closing out the remaining 80% of your investment there, you have the option to be able to exercise that beginning next year. Maybe you could talk a little bit to the extent possible around what MTD has done within their own operations in the current environment and any insights into the sales trends or the impact that COVID-19 has had on that business.

**Answer – Donald Allan:** Yes. I would say that, one, just a clarification. We can -- the first chance we have to execute the option is July of next year, so middle of next year. I would say that the business revenues continue to trend pretty well given the environment. I don't want to provide too much clarity and detail on that because they still are an 80% privately held company. But I would say that as I think about those dynamics, it's kind of what you would expect that a big part of what they -- their customer base is U.S. retail. And so 80% to 90% of their business funnels through those particular channels. And if you think about POS being strong, POS is strong, not only in tools but you're also seeing strength in outdoor and various different types of outdoor, handheld and riding and push equipment as well. So we think that based on what we're seeing, it's trending very nicely through a very difficult downturn.

And they're making progress, as I mentioned, with their profitability initiatives to improve the OM rate of the business for the mid-term and the long term. And so I think it's doing exactly what we were hoping it would do in an environment like this. And I would say they've also taken -- just related to COVID, they've taken similar types of cost actions that we've had to do, just not obviously at the same magnitude. But they've done things. Some are temporary. Some are permanent. Try to focus more on non people costs as much as possible to really minimize the impact on our employee bases. They've been able to keep most of their operations up and running. They did have a difficult time -- period of time in one of their plants down in Mexico, but they continue to work through that. And it really hasn't had a big negative impact on their revenue performance at this stage.

So what we're hearing and what we're seeing is still very positive, and it's just really continuing to reinforce that this is really a good industry to be in. This, in particular, is a very good asset that we're not seeing anything that has us concerned that we might want to take a different approach. If anything, it's just reinforcing that we feel like it continues to be the right strategy to move forward at some time frame to acquire the remaining 80%, whatever that is, second half of next year or the beginning of the following year, it's really going to depend on how quick this recovery is. If it's long-lasting, it may be something we push out a little bit longer. But it is a growth catalyst. So when you think about it, it's an inorganic growth catalyst but then it becomes an organic growth catalyst because there are all kinds of things that we've talked about that we can do with that business. We can get heavier into the kind of independent dealer side where all the larger landscapers and commercial folks buy their products and higher price points, higher kind of functionality and premium products, it's certainly at higher margins as well. It's a great opportunity that we really want to leverage that going forward and using some of our brands to help them do that. And then there's other adjacencies as we think about that, that we can continue to build out our handheld outdoor equipment, outdoor storage and other things like that, that we have a lot of assets internally that we can continue to build upon.

**Question – Michael Jason Rehaut:** Thank you for that. That's very -- that's helpful.

**Answer – Donald Allan:** Sure.

**Question – Michael Jason Rehaut:** I guess the last question I had -- I don't see many more on the board here coming in virtually but kind of centers around the Security segment, and I guess it's a 2-parter. One, you had mentioned that as part of your quarter-to-date or more recent sales update that Security was performing relatively well. I was wondering if kind of just to put that in a rough quantifiable range of what that means. We have talked about May, in general, being down perhaps in the 10% to 20% range, if security was doing a little better than that or not. I was just kind of curious in terms of what that meant relative to the rest of the business.

But then more strategically big picture, obviously, I think on the last call, I believe it was, you talked about putting off the decision around the strategic future of security. It was supposed to, I believe, be discussed this week originally as planned, as I understood. You're pushing that off given the environment, which makes a lot of sense. However, at the same time, commentary that we've heard from the company over the last several months, couple of quarters, has appeared to be more positive in terms of the progress that the segment has been making with its top line and margin initiatives and goals. You just kind of alluded to some of the better performance perhaps that the segment is demonstrating in this environment, which is obviously one of the reasons that you went into this business in the first place, that around diversification and a more steady revenue stream. So the question really is any reason not to keep the segment at this point?

So 2-parter there. I apologize for the long-winded -- first, more around any better granularity of quarter-to-date trends and then the bigger picture question.

**Answer – Donald Allan:** Yes. I think on the trend question, the new range I set for the company was 20% to 30%. They're trending below that number. So I think it's indicative of the environment. Obviously, there's a large recurring revenue stream. We're still monitoring all these different locations. We're doing service and maintenance work, making sure we do it in a safe way for our employees and our customer employees. And now we're starting to do some new installations. And so we have some customers that see -- that many of the office buildings are empty or the restaurants are empty or retail locations. So it's an opportunity to maybe do some of this work given there aren't really employees and certainly not customers in those particular locations. So that's -- although it was kind of sluggish in the late stages of March and early April as the world just kind of went through a radical shutdown. What we've seen kind of in the later stages of April and now in May is as a lot of that activity is really starting to pick up again for all the reasons I mentioned.

As we work through people getting back into offices and restaurants opening with customers and retail opening with customers, we'll see how that plays out with the business and whether there's a little bit of a slowdown or not. But we're encouraged by what we're seeing because we all knew that this business performed well in downturns. We certainly didn't have any test case to know how it'll perform in a pandemic. But given what we're seeing, it's actually performing pretty well in an environment that's hopefully highly unusual and something we never see again for another 100-plus years. And so that's a big positive. The other thing that -- we've obviously taken a lot of cost out of the business in response to what's happened over the last 4 to 5 weeks. And so that's helping with the profitability especially given that we're not seeing as low of a revenue decline as we mentioned at the beginning of this process. And so there's a lot of positives there.

And then the last thing I would say is we're seeing the opportunity for more growth now as we think about what is this business? It's a safety business. It's really in the business of keeping people safe or keeping assets safe. And that's what it does. It also has a health care aspect to it, which has a similar theme of keeping people safe and trying to make our health care workers as productive as possible as we keep them safe. And so we're seeing new business models and new solutions emerge that, because of the virus, that actually our security business can sell and do the monitoring, do the service and maintaining. And there's a lot of new things that 4 or 5 different revenue opportunities that we've kind of put on the front burner saying, "Hey, we need to get aggressive after these opportunities and really help stimulate more top line and maybe migrate away from some of the installation work that's at a little bit lower end of the profitability and focus more on some of these higher profitability, higher growth opportunities going forward."

So I'm kind of -- I would say I'm very positive on the direction of where this business can go. The progress that they've made in the last 1.5 years has been outstanding. But a bit of an oddity coming out of this crisis is I think we may have created an opportunity for the security business to transform itself at a rapid pace and to achieve some of the things that we've talked about, like organic growth consistently at the low end of our 4% to 6% range for the long term, getting to a 15% OM profitability business. I think we may actually be able to accelerate that given the opportunities that are evolving and the actions we've taken in the last 5 to 6 weeks. And that doesn't mean we've made a definitive decision to keep the business. It just means we have a really outstanding opportunity to make it even better than we have in the last 1.5 years. And we're going to really try to leverage that, and then we'll get back to everybody later in the year, early next year with more clarity on it. But I think the first step is really trying to jump on those opportunities I just described.

**Question – Michael Jason Rehaut:** Sounds encouraging and interesting. So I appreciate that. And that actually brings us to the end of the session. So I think that's a good place to end.

Don, I want to thank you again and Stanley Black & Decker, in general, in your participation at the conference. It's always welcome and appreciated. A great way to start off the day. We will resume the conference at quarter of 9:45 with our next company. We have with us Masco CFO, John Sznewajs. And then later in the morning, Pulte and D.R. Horton from the homebuilding side.

So thanks again, Don. Have a great rest of the day, and we'll resume the conference at 9:45. Thank you.

**Answer – Donald Allan:** Thanks, everybody. Thanks, Mike.