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SWK.N - Q4 2020 Stanley Black & Decker Inc Earnings Call

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OVERVIEW:

Co. reported 2020 revenue of $14.5b and adjusted EPS of $9.04. 4Q20 revenue was $4.4b and adjusted EPS was $3.29. Expects 2021 organic revenue growth to be 4-8%, GAAP EPS to be $9.15-9.85 and adjusted EPS to be $9.70-10.30. Expects 1Q21 organic revenue growth to approximate 21-26%.

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PRESENTATION

Operator

Welcome to the Fourth Quarter and Full Year 2020 Stanley Black & Decker Earnings Conference Call. My name is Shannon, and I will be your operator for today's call. (Operator Instructions) 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 - *Stanley Black & Decker, Inc. - VP of IR*

Thank you, Shannon. Good morning, everyone, and thanks for joining us for Stanley Black & Decker's 2020 Fourth Quarter and Full Year Earnings Conference Call. On the call, in addition to myself, is Jim Loree, President and CEO; Don Allan, Executive Vice President and CFO.

Our earnings release, which was issued earlier this morning, and a supplemental presentation, which we will refer to during the call, are available on the IR section of our website. A replay of this morning's call will also be available beginning at 11 a.m. today. The replay number and the access code are in our press release.

This morning, Jim and Don will review our 2020 fourth quarter and full year results and various other matters followed by a Q&A session. Consistent with prior calls, we're going to be sticking with just one question per caller. And as we normally do, we will be making some forward-looking statements during the call based on our current views. Such statements are based on assumptions of events that may not prove to be accurate, and as such, they involve risk and uncertainty. It's therefore possible that actual results may materially differ from any forward-looking statements that we might make today. We direct you to the cautionary statements in the 8-K that we filed with our press release and in our most recent '34 Act filing.

I'll now turn the call over to our President and CEO, Jim Loree.

James M. Loree - *Stanley Black & Decker, Inc. - President, CEO & Director*

Thanks, Dennis, and good morning. Today, we issued record fourth quarter results marking an outstanding close to a very dynamic and successful year. As I mentioned in our 2020 shareholder letter, we expected the operating environment of the 2020s to be one of volatility, uncertainty, complexity and ambiguity, or VUCA for short. Lest we had any thought of easing into that construct over time, like others, we were thrust into action as the pandemic roared onto the scene in March and April. And as for many companies, the early days of the pandemic brought into focus the first rung of Maslow's hierarchy of needs. We quickly established pandemic-era tactical priorities: first, protect the health and safety of our employees and supply chain partners; secondly, ensure the continuity of our operations and financial stability; and third, do what we can or could to mitigate the impact of the virus in our communities.

We undertook a myriad of actions consistent with those priorities, including the implementation of intensive company-wide safety protocols, including mandatory masks from day 1; significant liquidity enhancements; cost reductions, some temporary, some permanent; as well as a substantial increase in our philanthropy, both in dollar terms and in kind.

We asked our people to be guided by our purpose. For those who make the world, we emphasized our 3 simple leadership principles, which include creating clarity, inspiring engagement and growing and delivering. Our people, while dealing with their personal hardships and challenges, characteristic of this era, responded beautifully to our lead. Amidst 4 weeks of collapsing sellout revenue in April, we were hunkered down, ready to ride out the storm. And then suddenly, in the last week of April and on into the summer months, an abrupt and very positive phenomenon emerged in the Tools business.

Our end users, many of them homebound, with time on their hands, discovered and/or rediscovered DIY projects, both indoors and outdoors. We enjoyed a surge in North American retail of a magnitude never before experienced. By June, POS was running 30% to 40% greater than the prior year. E-commerce growth exploded at levels even higher than that. Unfortunately, both we and our channel partners had solid inventory positions at the onset of the demand. By May, we were ramping up our factories to extraordinary levels. By the third quarter, the demand trend had extended to Europe and other markets around the world, albeit at somewhat lower levels but still in strong double-digit territory.

The second half of 2020 proved to be an all-out test of our supply chain resiliency and ability to serve the growth. Customer inventory levels have been substantially reduced by midyear and our global factories were running at historic levels just to keep up with the POS demand, and they still are. We faced rolling labor shortages, supplier issues and various arbitrary government edicts in jurisdictions all over the globe. However, we were able to prevail and operate continuously with only minor exceptions. And along the way, we've moved forward with significant capacity expansion actions for both power and hand tools, and we look forward to serving continued growth in the future.

2020 was by far the most difficult backdrop we've ever faced, but we were prepared for volatility and our people rose to meet the challenges. Fortunately, we went into it with strength and have stayed strong for the duration. Back in 2016, we committed to a vision that embodied purpose-driven performance. We've built a company that is anchored by a support of people-oriented culture, striving to deliver top quartile shareholder return to become known as one of the world's great innovators and to elevate an already strong commitment to ESG and corporate social responsibility.

We demonstrated in 2020 that when corporations like ours put people first and work to have a positive impact on society at large, the result can be extraordinary resilience, which benefits our shareholders through outstanding growth, cash flow, margin expansion and ESG, and that is the story of 2020.

On the heels of an excellent third quarter, the fourth quarter was the pinnacle of our 2020 performance, and we entered 2021 stronger than ever. And now I'll take a moment and recap the 4Q numbers, which demonstrate the power of our momentum as we enter 2021.

Revenues were up 19% to $4.4 billion with organic growth of 16%. This was led once again by Tools & Storage, which had organic revenue up an impressive 25%. Our total company operating margin rate, excluding charges, was a fourth quarter record at 16.5%, up 290 basis points from prior year, with volume leverage, productivity, cost actions, price and margin resiliency initiatives all contributing. Adjusted EPS for the quarter was $3.29, up 51%, versus prior year.

And now let's turn to the full year. Revenues were $14.5 billion, up 1%, with 10% organic growth in the second half more than offsetting the first half pandemic-related issues. Our full year operating margin rate expanded 110 basis points to 14.6%, attributable to strong cost control, productivity, our margin resiliency initiatives and price. Adjusted EPS for the year was $9.04, an 8% increase versus 2019, especially remarkable when considering our original pre-pandemic guidance midpoint last January was $8.90 a share.

We converted the strong sales and margin results, along with just over 0.5 turn of working capital improvement, into record cash flow. Free cash flow was $1.7 billion for the year, $1.7 billion for the year, an all-time record for the company, up 55% versus 2019 with a conversion rate of 136%.

And lastly, I'm happy to report that we successfully exceeded all of our 5-year, medium-term environmental, health and safety goals established in 2015. We targeted a 20% reduction of our energy consumption, our carbon emissions, our water use and our waste generated in our facilities and more than attained each one of those goals. In addition, we significantly improved our recycling and use of renewable energy and achieved our safety goals. When I became CEO in 2016, we updated our vision to elevate our commitment to social responsibility.

Achievement of these goals is an important milestone in our journey to execute on our 2030 sustainability strategy. More goals and more milestones ahead as we continue on this march.

So where do we go from here? In a world of elevated uncertainty, here are a few observations to simplify and clarify our point of view on that for '21 and '22. Without question, tools and outdoor demand is on a roll, and we think it will be for some time to come, benefiting from a series of exogenous factors, including: first, the secular surge in global DIY driven by the consumers' rediscovery of home and garden; secondly, a massive acceleration of the global shift to e-commerce within our channels, which plays to our strength as the global tools leader in e-commerce; and third, a cyclical boom in North America home improvement driven by increasing new and preowned home sales associated largely with household formation and the urban exodus; and then there is the need to rebuild channel inventories levels -- inventory levels, which we believe are at least 4 weeks lower than desirable.

Our Tools business has never been stronger or better positioned to gain share, and we have consistently grown organically and gained share every year since the merger of Stanley and Black & Decker 11 years ago. Our unmatched array of iconic brands, market-leading innovation, combined with our scale and organizational agility, continues to support that investment thesis.

Total company operating margin reached new heights in the second half of 2020, breaking through the 15% threshold at 17.7% and 16.5% in 3Q and 4Q, respectively. This is a significant increase of about 300 basis points over prior year and it is not a coincidence. It derives from an intentional confluence of tight cost management, volume leverage, price/mix management and our margin resiliency initiative. The latter applies cutting-edge digital technologies to optimize margin performance across multiple value pools.

Skeptics point out that the third quarter benefited from cost reductions, some of which were admittedly temporary in nature. These skeptics now have to deal with the fourth quarter in which the 16.5% includes the vast majority of temporary costs such as furloughs, 4-day work weeks, executive salary reductions and benefit deferrals back in the run rate. This was accomplished as we began to fund significant new investments in growth initiatives, including major thrusts into e-commerce, revitalizing the Black & Decker brand, security, health and safety and outdoor products.

And although the second half '21 Tools' growth comp is difficult, we believe it is manageable, and we are predicting full year total company organic growth of approximately 6% at the midpoint, with a super strong first half and a modest negative in the back half yielding the 6% midpoint, which is the high end of our long-term growth objective for that measure.

Our strong share momentum, aided by numerous growth catalysts such as FLEXVOLT, Craftsman, ATOMIC, XTREME, POWERDETECT and e-commerce, should not be underestimated. On top of this, there's an industrial-related portion of Tools that is in the midst of a cyclical rebound as we enter 2021, along with about $4 billion of Industrial, which includes Engineered Fastening Automotive and the Security segment revenue, which was negative in 2020, and all those are expected to be positive in the aggregate in 2021.

So for all these reasons and more, as Don will cover in his remarks, our 2021 adjusted EPS guidance is introduced at $9.70 to $10.30 a share. At the midpoint, this is $10, up 11%, which is a very good place to start our journey into 2021. And while it is too early, way too early to guess at what market conditions might be in 2022, we stand to benefit from our multiyear relationship with MTD and our optionality to acquire the remaining 80% at a very attractive multiple with a window that begins to open in July of this year, which brings me to a brief update on MTD.

Our current planning assumption calls for the exercise of our MTD option and the potential addition of up to $3 billion of revenue from the MTD transaction in 2022. And just to clarify, we expect to implement or exercise the option in late '21 and begin to recognize revenue subsequent to regulatory approvals and, hopefully, beginning in 2022.

The Lawn and Garden category is experiencing similar benefits to Tools from the consumers' reconnection with the home. And MTD LTM revenues now approximate $2.6 billion with a very strong second half revenue performance in the books, comparable to our Tools business.

Additionally, MTD continues to make progress on multiple opportunities to generate operational efficiency and margin improvement, delivering a 6% operating margin in 2020 with momentum coming into the 2021 season and plenty of runway ahead for further improvement.

The transaction was structured in a financially prudent way, whereby we purchased 20% of the company at an 11x multiple with the option to purchase the remaining 80% anytime during a 10-year window beginning this July. MTD's incremental EBITDA improvement since our initial purchase is shared 50-50 and is thus valued at 5.5x, which provides us the ability to acquire a market leader in outdoor power equipment at an all-in multiple at the time of option execution likely to approximate 7 to 8x.

We are excited by the multiple levers to accelerate growth and margin expansion with this acquisition. In addition to the initial revenue contribution upon consolidation, we see additional organic growth opportunities in the pro outdoor equipment market as well as to drive electric-powered and autonomous mower offerings while employing our successful commercial model to fully leverage our portfolio of brands and channels.

We're also working on a multiyear road map to achieve 15% operating margin in the category. Not likely, some say. However, we believe we're up to the challenge. I remind the naysayers that Black & Decker's operating margin was below 6% in the year before acquisition, and the very same team that addressed that opportunity is still on the field today.

We continue to be encouraged by MTD's innovation and product development pipeline as well as their progress on improving profitability, and we're excited about this future combination. Even before exercising our option, we are bringing this vision to life in 2021, with SBD and MTD each independently launching a series of new products under the DEWALT, Craftsman and Black & Decker brands that are hitting the market now across the gas and electric power spectrum.

A few notable examples. MTD brings world-class innovation in riding and zero-turn mowers. And through a licensing arrangement, we'll launch a new lineup of the DEWALT-branded, gas-powered professional mowers that are now beginning to roll out at one of our major U.S. retailers. In addition, we have designed, developed and are launching new cordless, 20-volt DEWALT walk-behind mowers also with strong listings that will be made in the U.S.A. with global materials in MTD's Tupelo, Mississippi facility.

MTD continues to expand its outdoor offering into new categories with Craftsman under license. New to this -- new to market this year will be an impressive lineup of zero-turn gas mowers as well as gas-powered solutions in riding and walk-behind mowers. Concurrently, SBD will expand our battery and electric-powered offerings in push mowers, power washers and handheld products such as chainsaws, trimmers and blowers.

Lastly, as a part of our e-commerce-focused brand refresh with Black & Decker -- of Black & Decker, MTD will launch a new lineup of gas handheld products under license. And we will launch new electric offerings, including an autonomous robotic mower in Europe.

As you can see, we've been busy working our partnership with MTD, and there is a lot to be excited about that. And for 2021, these opportunities are planned to deliver more than $100 million of organic growth for SBD as well as support additional growth for MTD. With broad coverage across gas-powered products for MTD and electric and battery-powered categories for SBD, we are just starting to tap into the significant potential ahead of us.

And now I'll turn it over to Don Allan to cover the fourth quarter and our 2021 guidance. Don?

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

Thank you, Jim, and good morning, everyone. We are incredibly pleased with our fourth quarter financial performance, which closed out an amazing back half to 2020. So now I would like to review our business segment results for the fourth quarter.

Tools & Storage delivered an exceptional 25% total and organic revenue growth, with volume up 23% and price contributing additional 2 points. All regions continued to benefit from exceptionally strong revenue trends related to the consumers' reconnection with home and garden. E-commerce continued to be very strong. We had a strong holiday season and a robust lineup of new products and innovation.

The operating margin rate for this segment was another outstanding result at 20.7%, up 420 basis points versus the prior year as volume, productivity, cost control and price were modestly offset by new growth investments. As the revenue outlook improved during 2020, we released incremental SG&A investments to further the development of our brands via digital marketing, increased distribution capacity and added commercial resources to support our business model in brick-and-mortar and e-commerce. We believe much of these investments will drive further organic growth and share gains in 2021 and 2022.

Now let's look at some of the geographies within Tools & Storage. North America was up a robust 27% organically. Retail continued to see exceptionally strong POS, delivering 36% organic growth through a very strong holiday season, along with continued momentum in e-commerce.

POS growth for the quarter approximated 30%. And retailer inventories ended the year slightly below Q3 levels and well below prior year, an amazing Q4 performance for the Tools & Storage team. And what's incredibly amazing is we still have a channel refill opportunity of 4 weeks in front of us that will likely materialize in the front part of 2021.

The North American commercial and industrial channels continue to experience positive sequential trends, with both posting low single-digit growth this quarter versus declines in Q3. Pure-play construction customers within these channels were up mid-teens in Q4, significantly improved from the low single-digit growth last quarter. This trend is clearly another strong signal that professional demand is back and accelerating.

The Tools & Storage European business also had an outstanding fourth quarter as all regions grew, which resulted in 18% organic growth. This performance was led by the U.K., Central Europe, Nordics, Benelux and Iberia, all up double digits, with France and Italy up mid-single digits. The team experienced strong revenue growth in both retail, brick-and-mortar and e-commerce.

Finally, emerging markets delivered an exceptional quarter of organic growth as well, up 22%, with all regions posting positive revenue trends. We experienced strong construction demand in these markets. And when combined with positive pricing momentum, it supported this robust performance.

Latin America was the strongest performer, delivering 36% organic growth, with all countries up double digits, while Russia and Turkey had another very strong quarter, also resulting in double-digit growth in these markets. Finally, Asia delivered low single-digit growth, led by South Korea and India, each up double digits, which was partially offset by modest declines in China and Southeast Asia.

Now let's pivot and look at the Tools & Storage SBUs. Power Tools delivered 32% organic growth, benefiting from the home and construction trends mentioned previously as well as strong commercial execution for the holiday season and new product introductions. We continue to see strong share gains from our new innovations in FLEXVOLT, ATOMIC and XTREME, which now represent over $600 million of annual revenue on a combined basis.

Our Outdoor Product business delivered 29% organic growth as these categories continue to benefit from the consumer reconnection with the home as well as new DEWALT and Craftsman cordless products were launched in 2020.

The Hand Tools and Accessory and Storage business delivered an impressive 15% organic growth in the quarter. This was supported by new product launches, the strong performance in emerging markets and Mac Tools, combined with the rebound in professional construction demand I just previously mentioned.

In summary, an amazing quarter and an incredibly successful year for Tools & Storage. The team remained focused and responded with agility to the pandemic and quickly pivoted to fulfill the surging demand that emerged in the second half of the year. This effort was remarkable and helped them deliver record levels of growth and margin expansion during one of the most challenging operating environments in our lifetimes. Great job by the entire team. We thank them for their intense and focused efforts. I am really excited to see the encore performance in 2021.

Turning to Industrial. Total growth was 10%, which included an 11-point contribution from the CAM acquisition and 2 points from currency. This was partially offset by a 2% volume-driven organic decline and a negative 1% impact from the divestiture of a noncore product line in Oil & Gas. It was great to see continued improving trends sequentially as the organic decline in Q3 of 18% improved to negative 2% in the fourth quarter, a trend which is positioning this segment for organic growth in 2021.

The operating margin rate increased 110 basis points year-over-year to 14.7% as the benefits from productivity and restructuring cost actions more than offset the impact of the lower volume.

Diving a bit deeper into this segment. Engineered Fastening revenues were down 2% organically as growth in Automotive was offset by an improved but still declining general industrial end market. Automotive was up mid-single digits behind high-teens growth in Automotive Fasteners, which was partially offset by continued declines in Systems as most new capital investment decisions related to new car models continue to be on hold.

However, global light vehicle production continues to improve, and we remain well positioned to outpace the underlying market with content gains in the fastener portion of this business. Industrial fasteners declined high single digits in the fourth quarter. The recovery in the industrial markets continues to progress, and we once again saw a sequential improvement.

Our Infrastructure businesses declined 5% organically as positive Attachment Tools growth was more than offset by reduced pipeline construction in Oil & Gas.

And finally, turning to Security. Total revenue was down 3% with a 3% positive impact from currency, while price and acquisitions each contributed 1%. This was offset by a 5-point decline in volumes and a negative 3% due to the divestitures announced last quarter.

North America declined 5% as growth in health care was offset by lower installations in automatic doors and commercial electronic security. These businesses are serving markets that are still slowly improving from the pandemic impact and also faced a difficult 7% growth comparable in 2019.

European Security organic growth was relatively flat as they experienced solid growth in France from the new growth initiatives which began to take root. This performance was offset by lower volume in the U.K. related to the various intense lockdowns from the pandemic.

Our focus on health and safety initiatives such as touchless stores, contact tracing and health care solutions are building momentum and generated about 150 basis points of growth in Q4. With the healthy backlog, a continued recovering market and the addition of these new solutions, we are optimistic that Security can return to growth in the front half and for the full year of 2021.

In terms of profitability, the segment operating margin rate was 11.2%, flat versus the prior year as price and cost control were offset by the impact from lower volume and growth investments.

Now let's take a look at our very strong free cash flow performance on the next page. As you can see, we were able to leverage our strong operational performance in the back half to generate a record full year free cash flow of approximately $1.7 billion in 2020. This represents an increase of $593 million versus the prior year and a free cash flow conversion of 136% of net income. This result was driven by the strong growth in Tools & Storage, our company-wide cost actions and lower capital spending, delivering significant improvement in cash earnings.

Now as it relates to working capital, we delivered 10.4 working capital turns, up 0.6 turns year-over-year, reflecting the strong revenue performance and leveraging the SBD operating model to drive working capital efficiency across the company. With the strong cash generation and inclusion of the excess cash on the balance sheet, which amounted to $1.4 billion at year-end, we believe we are well positioned from a leverage perspective heading into 2021, a fantastic outcome.

Now I would like to discuss our views on 2021 as improving channel and market visibility has enabled us to reinstate guidance. Beginning with Slide 10, I'd like to dive deeper into several of our 2021 organic growth assumptions. We are experiencing a fast start to the first quarter as strong market trends in Tools & Storage continue, combined with improving industrial and security markets. Therefore, we expect organic revenue growth to approximate 21% to 26% for the company in the first quarter of 2021.

Tools & Storage is the largest contributor of this strong performance, and our plans assume a 1Q organic growth range of 30% to 40%. Underpinning this assumption is the continuation of the strong demand trends, the potential for customer inventories to start to move back to historical levels, and finally, we have an easier comp since Q1 2019 at the beginning -- Q1 2020 at the beginning impacts from the pandemic. Growth continues to be broad-based, with all regions contributing to very strong outlook. POS in U.S. retail through the first 3 weeks of January has remained in a similar band that we experienced during December, and we are assuming this trend will continue through the remainder of the quarter.

We are also seeing continued positive momentum in the commercial and industrial channels. Tools & Storage European and emerging markets continue to experience strong momentum as well. And we are currently expecting demand trends in Q1 that are similar to the fourth quarter we just completed.

Another way to look at the 30% to 40% Tools & Storage organic growth assumption is that it represents approximately $600 million to $800 million of Q1 organic growth. January, which is historically a very slow month for Tools & Storage, is on track through 3 of 5 weeks to deliver $400 million of growth in the month. Additionally, February and March were both negative comps in 2020. Therefore, we believe with the continuation of market demand trends and a modest contribution from safety stock increases across our global customer base, this represents a very strong or reasonably balanced expectation for the first quarter.

Turning to Industrial. Our first quarter assumes a decline of 5% up to flat organically. To deconstruct this a bit, at the midpoint of this range, we are calling for high single-digit to low double-digit growth in both Attachment Tools and within Automotive Engineered Fastening, which in total represent a little more than half of this segment. Supporting this, Attachment Tools experienced a 50% year-over-year increase in Q4 backlog. In Automotive, this assumes a moderation of fastener volume growth to low double digits and a less severe decline on easier comps for our Systems business.

We expect our Industrial Fastener business to continue its sequential improvement and be relatively flat. Offsetting these positive factors in Q1, we anticipate steep declines in Oil & Gas and Aerospace. CAM is included in the organic growth calculation partway through the first quarter. As both of these businesses are longer cycle, they held up relatively better when the initial impacts of the pandemic occurred and, therefore, will be challenged in the front half of 2021.

Turning to Security. Our plan assumes for a range of flat to up low single digits organically in Q1. Exit trends in December for this business were strong. And the backlog ended the year up double digits, which provides a good setup as we enter Q1, particularly as the easier comps begin in the month of March. Additionally, the business is focused on continuing to stimulate demand with their existing and new health and safety solutions that emerged from the pandemic and started to generate revenue prior to the end of the year.

Turning to the right side of the slide. I want to touch on the full year growth assumptions for all segments and the first and second half planning assumptions for Tools & Storage. As you would expect, we are planning for a very strong first half of the year. We are expecting the strong trends I just talked about through -- I just talked through for Q1 to moderate in the second quarter but remain quite strong. The continued market recoveries in Security and Industrial, strong demand in Tools and relatively easy year-over-year comps positions the company for an organic growth range of 19% to 24% for the first [Half] (corrected by the company after the call).

For the second half, we have moderated our assumptions to incorporate the difficult comps created by the strong second half 2020 growth in Tools. While we are pushing for more growth and share gains, we felt it was prudent to set expectations for a decline of 3% to 8% organically for the company. This is how we have constructed our overall range of 4% to 8% organic growth for the full year for Stanley Black & Decker.

For Tools & Storage, we are also assuming full year growth of 4% to 8%, which includes organic growth of 27% to 32% in the first half for the reasons previously mentioned, and a decline of 7% to 12% in the back half. While the growth in Tools is retracting versus 2020 in the back half, the range is up 4% to 10% versus the back half of 2019. This is a reasonable 2-year assumption based on the historical growth numbers we have seen for this business.

That being said, this is a short-cycle business and we are ensuring the supply chain can accommodate second half scenarios that are improved versus this range. The potential scenario we must be prepared for is robust tools and storage markets that continue for the majority of 2021. We have not assumed this will occur in our guidance, but we will be ready to respond if this does evolve in the coming months.

For Industrial, we are assuming 2% to 6% growth in 2021. With a stronger performance in the front half due to the easier comps, Engineered Fastening and Attachment Tools have a lot of momentum, and we are well positioned to capitalize upon the recovery as it unfolds in 2021.

As it relates to Oil & Gas and Aerospace, we expect they will remain a significant headwind to growth in the front half, but this eases a bit as we move into the back half.

Finally, for Security, we see a range for 4% to 6% growth for the full year. This is fairly consistent across the 2 halves as the front half has easier comps and the back half carries a stronger level of growth from the ramp-up of our health and safety-focused growth initiatives.

We are excited by the prospects for these tech-enabled products, which contributed 1.5 points of growth in the fourth quarter and could represent up to $100 million of revenue in 2021.

So in summary, we are expecting 4% to 8% organic full year growth with growth in every segment. We are well positioned to capture market recoveries and share gains in each of our businesses and feel this is a balanced range that acknowledges the current environment. We will continue to watch our markets and will be prepared if the back half assumption proves to be conservative.

Now I'll summarize the remaining guidance assumptions on Slide 11. We are reinitiating guidance in 2021 with an adjusted earnings per share range of $9.70 to $10.30, up approximately 11% versus prior year at the midpoint. On a GAAP basis, we expect the earnings per share range to be $9.15 to $9.85, inclusive of various onetime charges related to facility moves, deal and integration costs and functional transformation initiatives. This range is $0.40 wider than our traditional guide, recognizing that while visibility has improved, the operating environment remains dynamic.

Since I just covered organic growth, let's jump right into the cost structure considerations. We expect $125 million of carryover cost savings net of the reversal of temporary actions from the cost program we implemented in the second quarter of 2020. These actions will primarily benefit the first quarter with a modest benefit in the second quarter.

From an inflation perspective, we currently see the potential for approximately $75 million of headwind primarily associated with steel, base metals, transportation, electronic components and resins. Keep in mind, we generally lock in our supply agreements 1 to 2 quarters out, so the timing of this headwind is back-half weighted. Partially offsetting this headwind is a tailwind of roughly $45 million related to foreign exchange. Therefore, at this point in time, we have included $30 million of a headwind associated with these externally driven cost inputs.

Should we see additional pressure in commodities or should currency reverse, we will utilize our productivity programs and pricing to neutralize the pressure over time. However, specific to 2021, as a reminder, we have $100 million to $150 million of margin resiliency benefits as a contingency, which is not included in our guidance. This contingency will assist in mitigating new headwinds in these areas during 2020 if they emerge.

Finally, we have disclosed our current full year assumptions for the significant below-the-line items and our expectation for pretax M&A and other charges to assist with your modeling.

Turning to cash flow. We expect another strong performance in 2021, with free cash flow conversion approximating GAAP net income. Underpinning this expectation is capital expenditures of approximately 3% of net sales. In addition, we will utilize the SBD operating model to drive efficiencies in working capital to deliver turns improvement.

Lastly, we expect the first quarter's earnings per share to be approximately 24% of the full year performance, which is primarily driven by operating leverage on the organic growth assumptions I walked through for Q1 and the $150 million of benefits from the carryover cost actions we have implemented.

So in summary, for the total company, we expect 4% to 8% organic growth and 7% to 14% adjusted EPS expansion, a strong forecast that represents a balanced view recognizing the dynamic operating environment but also incorporates more difficult comps and inflation assumptions into the plan while delivering healthy margin expansion and EPS growth for the full year.

The organization remains focused on meeting the needs of several ongoing strong and sequentially improving markets, leveraging our organic growth catalysts as well, executing margin resiliency and generating strong free cash flow while not losing sight of ensuring we keep our employees safe and assisting our communities through the remainder of this pandemic.

With that, I would like to turn the call back over to Jim to close out with a summary of our prepared remarks. Jim?

James M. Loree - *Stanley Black & Decker, Inc. - President, CEO & Director*

Thanks, Don. Very clear, very transparent, very exciting. In summary, 2020 was an extraordinary year for Stanley Black & Decker. This performance was possible due to the agility, passion and dedication of our people, combined with a strong cultural and financial foundation. It's hard to pick one element to get most enthused about given the 2020 performance, especially in the second half as well as the improving outlook. Is it the growth, the margin expansion or the extraordinary cash flow and the potential for more? Is it the demonstrated resilience of this purpose-driven company? Or is it the enormous potential given the way the company is positioned for 2021 and 2022?

In my view, it's all of the above. We are energized by the existence of a multiyear runway for growth and profitability improvement. The shareholder value-creation potential is certainly compelling over the medium to long term. And while pursuing these shareholder rewards, we are also mindful of our responsibility to society and the multiple stakeholders that we serve. And our sustained commitment to ESG and social responsibility is strong, authentic, and we continue to elevate it over time.

And as you can see, there's a lot to be excited about with our MTD partnership. And for 2021, these opportunities are planned to deliver more than $100 million of organic growth for SBD as well as to support additional growth for MTD.

So I want to thank everybody. It's been an exciting year. There's a lot of really great things ahead. And now I'll turn it over to Dennis. Dennis?

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

Great. Thanks, Jim. Shannon, we can now open the call to Q&A, please. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Nigel Coe with Wolfe Research.

Nigel Edward Coe - *Wolfe Research, LLC - MD & Senior Research Analyst*

Coming back on (inaudible) guidance, you got there in a quite different way, but well done there. So on MTD, just wanted to just touch on that. There's a bit of confusion out there. Just wanted to clarify, MTD is not in your guidance at all. Can you just clarify that? And then on the 7 to 8x EBITDA, is that based on a trailing EBITDA? Or would that be a full year EBITDA? I just want to clarify that as well. And then just my real question is on the road to mid-teens margins, what do you think are the biggest drivers of that move? And any kind of [some feel] on that would be helpful as well.

James M. Loree - *Stanley Black & Decker, Inc. - President, CEO & Director*

Okay. So thank you, Nigel. To be very clear, there's no acquisition of MTD in the guidance. There are some licensing income associated with some of the opportunities I described in the comments. There's some organic growth in Stanley based on some collaboration with MTD on products that we will be selling through our own channels and our own brands. But there is nothing related to the acquisition in the guidance.

The multiple is going to be a trailing multiple because that's how the option is basically priced. It's based on a trailing EBITDA. And so that's where the 7 to 8x comes from.

And as far as the road to mid-teens operating margin, it's our objective to get the operating margin up to around -- somewhere around 8-ish percent next year, maybe a little higher if the volume kind of comes through the way we think. And so if we start from, let's say, a base of maybe 8% to 10%, there is a whole series of cost reduction, value-creation activities that exist in a plan, if you will. It's a somewhat high-level plan because we're not able to get in and do super detailed diligence at this point.

But we have been working with a major consulting firm to come up with some -- a point of view on how we can get to a number, something in the neighborhood of probably $50 million to $100 million of additional margin improvement that is not being implemented by MTD for various reasons. One, they may not have the appetite for it or they may not have the capability to do it. But we have some ideas that are pretty specific in that regard.

And that gets us up into like the 12-ish kind of zone. And then from 12% to 15%, it really is going to be a function of really leveraging the synergies between the companies, the channel synergies, the brand synergies, the growth and also a major thrust into the professional channel.

I must say that having spent some time at MTD in September, I was blown away by the quality of their innovation pipeline, the collaboration, to the extent we've been allowed to do that through -- based on certain legal constraints and so on. But the collaboration that we have been able to do in terms of lightweighting, electrification, autonomy, those types of things, it's really, really impressive. And what they've done on their own is impressive, too.

So the combination of all those things, I expect that we will make a major thrust into the pro channel. The products are going to be very, very strong. And when we start branding those products with some of our major brands such as DEWALT, I think there's going to be a really compelling value proposition for the channel and the end user to carry those products and buy those products. So that's kind of where we're going with MTD.

You can start to see the -- in the marketplace in 2021 some of the, I'll call them, collaborations around just the edges without really being 100% owned by us. And the ability for us to generate $100 million of organic growth just with some modest collaboration in terms of commercial and product is -- really kind of underlines the potential and the power of this relationship.

Operator

Our next question comes from Jeff Sprague with Vertical Research.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

Hard to say where to start. You guys could have just maybe dropped the mic and ended the call. But I was wondering -- I guess it's for Don, but maybe elaborate a little bit more on how we should think about Tools margins going forward. As Jim said, you kind of showed us here with the cost back in the base what you can do. But it sounds like there's some investment coming back in and some other things. So should we be thinking about this kind of 18% to 20% range that I think you were talking about on the Q3 call as kind of a reasonable framework as we pencil out 2021 here?

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

Absolutely. I mean we feel even more confident now to kind of confirm what I said in October on the earnings call that, that range does make sense for 2021, between 18% and 20%. And you should see all 4 quarters in that range. So there shouldn't be a lot of significant variation in that regard. There will be a little bit of investment that we will make, but it's going to be more along the lines of some of the growth initiatives that we started here in 2020 in e-commerce and few other areas. And so we're going to continue to invest in that space that'll drive additional share gains and more organic growth.

So we feel really positive about how the business positioned itself from a profitability perspective. And although the rates are -- in the back half were over 20%, so we'll see a little bit of a retraction going into next year for the reasons I articulated. I think over the long term, we feel like it's a business that will continue to progress and improve its profitability over the coming years. It won't just be a 1- or 2-year phenomenon.

Operator

Our next question comes from Markus Mittermaier with UBS.

Markus M. H. Mittermaier - *UBS Investment Bank, Research Division - Head & US Equity Research Analyst of Americas Electrical Equipment and Multi Industry Research*

Maybe can I -- in recent weeks, there's obviously been some concern around raw materials. And Don, you mentioned the $100 million to $150 million contingency that is not part of guidance. I just want to make sure that I understood that right, that it's not part of the guidance and wondering how quickly you could put that into effect. And also, what are you seeing up-to-date so far on the raw material side?

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

Yes. I'll start with the raw material part of that question. I mean we saw these trends kind of emerge in October time frame, November and in the categories I mentioned of steel, resin, electronic components. And so that is going to continue for a period of time. Right now, we have $75 million of an increase in those types of categories in our guidance for 2021.

I don't think it's going to radically deviate from that. It could go up a little bit as the year goes on, but we do have to keep in mind that the way that we structure our contracts, it usually takes a good 6 months for that to really impact our P&L, which gives us time to respond with pricing actions, if that makes sense, or productivity or whatever the case may be. And then that kind of helps us mitigate that over a longer period of time, maybe over a multiyear period of time, those actions.

The margin resiliency program is an annual program that we started about 3 years ago, which was built on -- let's look at the different areas of our company, the functions, the operations teams, how we price our products, et cetera, and use technology such as artificial intelligence, advanced data analytics and make better decisions in those particular areas to drive efficiency and effectiveness. And we've seen that -- over the last few years that the ongoing process of the team that's been created and the technology that they use, we have about 100 people that are focused on this full time in the company, drives about $100 million to $150 million of annual value. Now we could put that in our P&L and make it part of our guidance, but we think it's more prudent in volatile times like this to have it outside the guidance as a contingency. And so when new things come your way that are headwinds, you have an offset.

These things are underway. They're in process. And so they're driving value this month, in all 12 months out of the year. And so if the headwinds don't come, you get the opportunity to position yourself to outperform. And we think it's a very balanced way to approach guidance and the way to operate in this world given the level of volatility that we've all seen in the last 4 years, but in particular, the last 12 months.

James M. Loree - *Stanley Black & Decker, Inc. - President, CEO & Director*

And I just want to comment too on the inflation perception because it was really interesting sitting here and listening to some of the feedback from investors over the -- from the last couple of weeks about this inflation concern. And we were scratching our heads to some extent because we've had inflation more often -- more years than not over the 20-plus years I've been here. And we've always been able to offset a part of it with price and new product development, new product introductions and so on. And then there's always productivity that has come through and helped offset the rest of it and actually given us some decent margin accretion in certain years even when there was inflation.

And so this reflex reaction that occurred, which was, oh, my gosh, Stanley Black & Decker is inflation prone, didn't make any sense to us. But then when we thought about it, we realized that if you go back to the '17, '18, '19 kind of time frame, there was this $1 billion of headwinds that we have all behind us now. And that $1 billion of headwinds was a triad of things. It was the inflation, it was the tariffs and it was the FX. And $1 billion was just too big a series of headwinds to just offset with the normal types of offsets that I talked about, so we ended up having to do some restructuring.

And by the way, we still generated 6% earnings growth during that time frame. So it wasn't catastrophic. It was just a lot of work and a lot of pain in order to get through that period and we did it. But any one of those, whether it was the FX or the inflation or the tariffs, any one of those we could have handled easily through our normal contingencies and things like that. But when we put them all together in that 3 years in a row, it just became -- it became a lot. And so that perception, I think, develops.

So immediately, when the winds of inflation started blowing in the third, fourth quarter, we got this reflex from the investment community. But I think as of today, I hope that we can put that behind us because it is not a significant material issue to us in '21.

Operator

Next question comes from Tim Wojs with Baird.

Timothy Ronald Wojs - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

My question really just -- I'm curious if there's a way that you could kind of frame or parse out what you're seeing from the DIY and your pro business. And I know it's more of an art than a science, particularly in the home center channel. But just kind of curious when we start to hit tougher DIY comps in the second half, if your pro business and the pro channels can help absorb this. So really just any color on DIY versus pro and if there's any acceleration in pro that's built in your assumptions.

James M. Loree - *Stanley Black & Decker, Inc. - President, CEO & Director*

Well, I did lay out in my remarks kind of the things that I thought were driving the demand, which is one is the secular shift to DIY with so many people at home and with the home being in the focal point as well as outdoor being the focal point of people's activities and the number of projects, and the number of people doing projects and doing projects for the first time is at record levels.

And I think another thing is the install base of battery systems is a big deal with this kind of growth that we have in 2020 and now into '21. There are going to be more and more first timers or people that have bought new battery systems, investing in additional tools for their battery systems.

And frankly, I think once people discover DIY, it tends to be somewhat addictive. So I think that we're going to have a -- it is a secular shift, in my opinion. I think the home center CEOs would agree with that. I've heard them talk about that as well. So that's a big deal. Obviously, it abates over time as the comps kind of get tougher in terms of its percentage impact on growth.

And what we saw in 2000 relative to the pros was in the beginning, the pros, like -- let's say, like April, May, projects kind of came to a grinding halt for the most part, except for the really essential ones. And then into the summer, the pros started coming back into the third and fourth quarter. You can't even get a contractor in this country anymore if you want one. So at least I have had that experience. I think the contractors are very busy in the resi and both the remodeling and in the new construction areas. They've got a tremendous backlog. I think they are back. I mean, I think that has played out.

So as we go forward, I think what we're really looking at is more of kind of going up against the comps and getting back to a more normal environment as we get into '22 and beyond. But it's -- it is one. It is an art, as you say, and it's difficult to really parse in great detail exactly what's happening. But that is our gut feel and instinct based on what we can see here at this point.

Operator

Our next question comes from Nicole DeBlase with Deutsche Bank.

Nicole Sheree DeBlase - *Deutsche Bank AG, Research Division - Director & Lead Analyst*

Can we first just clear something up with respect to the inflation headwind? Is that just a pure inflation headwind? Or is there any offset from pricing embedded in there?

And then secondly, my real question is can you just talk a little bit about expectations for margins within the other 2 segments, whether you want to talk about expected incrementals on the volume growth that you've set out, however you want to do it, but will be good to get some color there, too.

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

Yes. The $75 million is gross inflation. It doesn't have any price offset in it. And we'll work through those plans as these emerge and decide where it makes sense for pricing actions and when. But it is a gross number. And so that means the annualized number is probably $125 million to $150 million when you think about it. So -- and that's the right magnitude at this stage for these different areas. The areas that really are being hit hard are steel, resin, electronic components and then battery cells or base metals, if you want to call it that, however you want to call it. But those 4 categories are things that there's a high demand for right now as we all know.

The question is how long does that demand last? Is there a -- there's parts of the economy that are really going strong, and there's other parts of the economy that are not, that have not recovered as well. And the timing of that recovery is going to depend on how the vaccines roll out and how we eventually get to herd immunity and how quickly that occurs.

So we could be seeing a short-term bubble here that may be moderate for a period of time or it could be something that continues to grow modestly over multiple years. So time will tell. But I think we've got that in the right box right now, and it's something we can manage going forward with all the levers that I described.

The other 2 segments for profitability improvement, I can probably be cute and give you all kinds of leverage factors, but I think it might be simpler and just say, if you think about the whole company's operating margin rate, we're trying to improve about 50 basis points year-over-year. Tools is trying to improve roughly the same number, maybe a little bit more. And so that means Industrial and Security are going to improve about the same number, too.

So I think you can kind of look at a 50 -- anywhere from 40 to 60 basis point improvement in all 3 segments with the net result for the company of about 50 basis points for the full year.

Operator

Our next question comes from Josh Pokrzywinski with Morgan Stanley.

Joshua Charles Pokrzywinski - *Morgan Stanley, Research Division - Equity Analyst*

I appreciate all the detail this morning, especially on the inflation front. So I only have one question. I don't have like 3 imaginary ones and a real one. Just thinking about the 4% to 8% Tools & Storage growth for the full year. Jim, I think you gave some parameters around inventory. It seems like it rounds to something in the neighborhood of 2 points of kind of full year benefit from replenishment. If we're way off with that, let us know. But is the rest of that kind of evenly split North America and international? I think if I'm taking some of the inputs and making some assumptions, it seems like kind of core growth in the U.S. business, inclusive of pro, is pretty modest ex restock. Is that kind of a fair calibration of the moving pieces?

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

Yes. I think it is. It's -- we're talking about 4 weeks probably is a reasonable number to improve. It is a global number we're talking about because we do see opportunity across the globe probably heavily -- more heavily weighted to North America because we know those inventories are definitely at the very low end of the range of where we like to be. And so maybe 75% to 80% of it is weighted to the U.S. and North America.

But I think when you think about the growth that could come with that, it's probably a couple of points of growth, maybe 2.5 points of growth for the full year, which means it could be 5 points in the first half. So that's the magnitude we're talking about. And I think we'll see it start to evolve in Q1, but it might be more heavily weighted to Q2 because POS just seems really robust in Q1 at this stage.

Operator

Our next question comes from Michael Rehaut with JPMorgan.

Elad Elie Hillman - *JPMorgan Chase & Co, Research Division - Analyst*

This is Elad on for Mike. Just following up on that. I was wondering if you could talk about your ability from a production and inventory standpoint to continue to meet the strong T&S demand both in 1Q and just through the remainder of the year as you ramp up and any potential challenges either in capacity or other COVID-19 impacts.

James M. Loree - *Stanley Black & Decker, Inc. - President, CEO & Director*

Yes. We were very fortunate that we were able to really -- first of all, we started the year with a really solid inventory position, both in the company and in the channels, or at least the North American channels where the demand really spiked.

And so that was helpful because it was kind of a strange situation. But it got into May, and we were looking at POS that was starting to skyrocket and the orders were not coming in from the channel. And so we ended up building quite a bit of inventory starting in May -- actually over $500 million of inventory we built to serve POS demand that was occurring. And we had to kind of bet that the POS was going to continue at that rate, and it did. And that enabled us to really get ahead of the situation so that we've been -- now if you look at this at this point in time, we're essentially serving the POS and have been for 2 quarters now. And we're able to do that. Our end users continue to be very, very robust in buying tools. And our channel partners would like more. They would like their inventory restored. And that is the challenge.

And so one of the things that we've done and we were also very fortunate from this standpoint of -- our made -- our make where you sell campaign that we've been working on for 3 or 4 years had some pretty significant capacity additions both in Mexico and in North America and in the U.S. And a number of those are either online or coming online, including a major plant in Mexico and a major plant in the U.S. in -- later in 2021.

And so as we look forward, we're not counting on those to necessarily get the inventories back to where they need to be in the channels, but we are looking forward to the fact that we will have more capacity in the system, significantly more capacity as we get into 2021. So we're not too concerned about that.

And in the meantime, there's a tremendous amount of inefficiency that's been built into our cost of goods sold here in the second, third and fourth quarters, especially the third and fourth quarters, where in order to meet the fill rate objectives and keep the inventories at the levels that we've been able to, we've done a lot of heroic things that have been costly, things like air freight and expediting and items of that nature. And those items ultimately will be relieved, I think, to some extent, by the capacity coming online in the future.

And -- but in the meantime, they're kind of built into the run rate. You can see the margins are -- even with those inefficiencies are pretty good. And we have really pushed our supply chain hard to serve our customers thus far, and it's been successful as you can see.

Operator

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

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

Shannon, thanks. We'd like to thank everyone again for calling in this morning and for your participation on the call. Obviously, please contact me if you have any further questions. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
