REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2021 Stanley Black & Decker Inc Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2021 / 12:00PM GMT

CORPORATE PARTICIPANTS

Dennis M. Lange *Stanley Black & Decker, Inc. - VP of IR*
Donald Allan *Stanley Black & Decker, Inc. - President & CFO*
James M. Loree *Stanley Black & Decker, Inc. - CEO & Director*
Lee B. McChesney *Stanley Black & Decker, Inc. - VP Corporate Finance & CFO of Tools & Storage*

CONFERENCE CALL PARTICIPANTS

Jeffrey Todd Sprague *Vertical Research Partners, LLC - Founder & Managing Partner*
Joseph John O'Dea *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*
Julian C.H. Mitchell *Barclays Bank PLC, Research Division - Research Analyst*
Kenneth Robinson Zener *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*
Markus M. H. Mittermaier *UBS Investment Bank, Research Division - Head & US Equity Research Analyst of Americas Electrical Equipment and Multi Industry Research*
Michael Jason Rehaut *JPMorgan Chase & Co, Research Division - Senior Analyst*
Nigel Edward Coe *Wolfe Research, LLC - MD & Senior Research Analyst*
Robert Cameron Wertheimer *Melius Research LLC - Founding Partner, Director of Research & Research Analyst*
Timothy Ronald Wojs *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Welcome to the Third Quarter 2021 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 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 2021 Third Quarter Conference Call. On the call, in addition to myself, is Jim Loree, CEO; Don Allan, President and CFO; and Lee McChesney, Vice President of Corporate Finance and CFO of Tools & Storage.

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 11:00 a.m. today. The replay number and the access code are in our press release. This morning, Jim, Don and Lee will review our 2021 third quarter results and various other matters followed by a Q&A session. Consistent with prior calls, we're going to be sticking with just 1 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 future events that may not prove to be accurate and as such, they involve risk and uncertainty. It's therefore possible that actual results may materially differ from any forward-looking statements that we may 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 CEO, Jim Loree.

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

Thank you, Dennis, and good morning, everyone. This morning, we announced a record third quarter, which was powered by 11% growth, primarily a result of an impressive 10% organic growth performance. Customer demand remained at robust levels across commercial and retail end markets and strong trends continued in homebuilding and remodeling, commercial construction, professional activity and global economic growth. Innovation was also a positive, which is driving demand around electrification and other themes.

We're continuing to prioritize meeting this heightened customer demand while operating in an unusually complex supply chain environment. I thank our 56,000 employees around the world for delivering record revenue under the circumstances. And in particular, I want to offer special thanks to our employee makers and plants, DCs and operations organizations as well as our sales and service people for their incredible dedication, agility and resilience to serve our customers during this period as they always do.

Tools generated 13% organic growth in what we believe to be the strongest demand environment in our history, resulting from positive secular trends, robust professional activity and strong global markets. Our brands such as DEWALT, CRAFTSMAN, Stanley and Black & Decker, among others, were fueled by a steady stream of innovation and a strong and resilient supply chain, which is putting great products in the hands of our loyal end users across the globe. Industrial grew 1% organically, driven by continued double-digit growth and share gains in our general industrial and attachment tool businesses. as these end markets remained solid.

Industrial growth was tempered, however, by lower auto production activity as OEMs continue to be impacted by electronic and other component shortages. Aerospace also experienced trough conditions as the industry recovery while promising to be likely in the foreseeable future, has yet to occur. Security delivered another strong quarter with 8% organic growth. The security transformation to a data-enabled cloud-based technology provider is building significant momentum, and our team successfully converted this robust backlog into revenue growth. Order rates were strong and we posted a third straight record quarter and backlog.

We're excited about the full potential of these opportunities to support elevated revenue growth in the fourth quarter and beyond. The overall company adjusted operating margin rate was 12.2%, down from the prior year as growth investments and higher supply chain costs that accelerated in the quarter more than offset volume leverage, price mix benefits and margin resiliency. Adjusted earnings per share for the quarter was $2.77, down 4% year-over-year. And similar to most companies engaged in global trade, our supply chain costs were higher this quarter. We have worked tirelessly to get components and finished products to where they need to be to serve this extraordinary customer demand. Through data analytics, we now have visibility into every container on and off the water, and we utilize this visibility to prioritize and expedite the most critical items, often with premium freight. To offset the additional expenses, we have deployed price increases, surcharges and productivity measures.

To be clear, we have made a conscious decision to incur temporarily higher expediting costs to serve our customers and meet demand as effectively as possible. We have sized the pricing and productivity actions to ensure that we are well positioned to address the inflation and achieve margin accretion in 2022. This implies that our actions will be sufficient to restore our margins to normalized levels as the actions catch up to the higher costs in 2022. And further, we remain highly confident in our multiyear growth and margin expansion plans. There are several positive secular demand trends that are benefiting our businesses, and we remain bullish on the resi and nonresi construction markets as well as the industrial recovery.

We have developed an array of growth drivers to position our businesses to capture this opportunity, and we are continuing to invest in innovation, manufacturing, automation, inventory and our supply chain to meet the strong demand in the near term and fuel sustainable growth over the medium and long terms.

And now I'll take a moment to review our recently announced MTD and Excel acquisitions. The combination of these 2 high-quality complementary companies with our existing outdoor business creates a powerful growth engine with approximately $4 billion of revenue across all categories and channels in the $25 billion-plus outdoor category. Of the $4 billion, we expect approximately $3 billion of that in -- of the $4 billion to be a direct result of closing the 2 transactions in the coming weeks. Even before that, we are starting from a position of strength with strong outdoor brands in DEWALT, CRAFTSMAN and Black & Decker as well as the fastest-growing franchise in cordless electric outdoor products.

Our legacy outdoor business is benefiting from the long-term trend of electrification, primarily now in handheld products and walk-behind mowers. MTD is one of the leading players in U.S. retail with great brands such as Cub Cadet and Troy-Bilt and brings a relentless dedication to innovation. Excel focuses on zero-turn mowers and offers a range of premier commercial grade and prosumer equipment, with Tier 1 niche pro brands such as Hustler and BigDog. Excel also brings us access to a strong and extensive professional dealer network. These acquisitions are complementary to each other and fill gaps in our current presence in the outdoor space, which brings me to another major growth driver.

With these acquisitions, we have an ESG opportunity to lead large-format electrification and outdoor. The customer adoption of electrified riders and zero-turn mowers is still in the early stages but the future potential is compelling. In collaboration with MTD, we have been making great progress since 2019 in developing innovative electrified solutions that offer a compelling value proposition in terms of run time, price point, and environmental impact. Additionally, MTD has semiautonomous and autonomous mowing technology, which we will commercialize in the coming years.

Outdoor will undoubtedly unleash an array of impressive innovation over the next few years. Global channel development and professional branding are significant additional revenue synergies that we think as we think about ways to grow sales through our future outdoor activities, applying MTD's strong innovation with a leading professional brand like DEWALT presents an excellent opportunity to win the pro user with a full line of gas and electric options. To fully realize this potential, we plan to build on our existing position in retail as well as expand our sales in the pro dealer network.

MTD has a strong presence in the retail channel with approximately 1,500 dealer locations. Excel exclusively distributes through its 1,400 outlet dealer channel, which is largely geographically complementary to MTD's dealers. The opportunities for brand, product and channel revenue synergies to expand sales and carry accretive margins are both meaningful and exciting.

And finally, on one more outdoor growth front, we have an opportunity in the $4 billion high-margin parts service segment as we build our presence and serve our customers. The benefits from this growth will also come with margin expansion as we apply our SBD operating model and our global scale to execute on cost synergies, launch margin-accretive innovation and develop a vibrant professional franchise. We expect these opportunities to provide a pathway to mid-teens or higher margins over the long term. Both acquisitions are currently progressing through their respective regulatory processes. And for MTD, we are happy to say that the United States HSR review is complete. Additional reviews are underway in several other smaller countries. We currently anticipate to close in late 2021 or early '22 for both transactions pending successful completion of the regulatory processes.

And as must be obvious, we're excited about the future of outdoor products at SBD. The significant ESG growth and margin opportunities have the potential for excellent value creation in 2022 and beyond. Extreme innovation is at the heart of SBD's culture. It is one of our 3 strategic pillars: performance, innovation and social responsibility. Innovation differentiates all our franchises and defines our brands. Over the last couple of years, we have brought incredible innovation to the market from FLEXVOLT to ATOMIC and XTREME and now DEWALT power stack and Black & Decker reviva, which I will cover in a few moments. It is clear that our tools innovation machine has never been stronger.

Nonetheless, we are doubling down on our investments in innovation and new product commercialization. These investments will support the largest pipeline we have ever had with new products across all our major categories and end users. Over the last 12 months, we have added approximately 1,300 new employees with deep domain expertise and technical knowledge in critical areas, including sales, engineering, product management, brand, industrial design, e-commerce and end-user insights. Our supply chain investments are also key innovation enablers moving closer to the customer, adding capacity, improves agility, customer responsiveness and speed to market as we develop and commercialize new products. We have approximately $200 million of new innovation and growth investment projects in process which are included in our second half 2021 run rate.

These projects will allow us to effectively better serve the strong global product demand for tools and position us for sustained long-term growth. Earlier this month, we announced our latest breakthrough innovation, the DEWALT POWERSTACK battery, a remarkable design and engineering achievement. POWERSTACK is the world's first power tool battery to leverage lithium-ion pouch cell technology and introduces a new era of performance for DEWALT power tools. POWERSTACK batteries will begin shipping in the fourth quarter of this year with annual growth potential measured in hundreds of millions.

This is another example of our leading-edge differentiated innovation, driving the revenue growth potential of our core business. The POWERSTACK battery is 25% smaller, 15% lighter than our comparable DEWALT 20-volt 2 amp-hour battery and it delivers 50% more power with 2x the charge cycles, making this revolutionary design the lightest and most powerful and longest-lasting compact battery from DEWALT. And it is compatible with our DEWALT 20-volt system. The combination of POWERSTACK and our proven capabilities to design and manufacture the best and most compact brushless motors in the industry, we have just unlocked a new dimension for smaller, lighter and more powerful tools with enormous runway ahead.

The importance of this innovation cannot be overstated. More power, more compact, lighter, lasts longer, guaranteed tough. We love it and so will the market. DEWALT is again asserting itself as the industry leader in professional power tools. And now for something also very exciting, but quite different. It's never been more important for companies to turn their attention to building a sustainable future for our global community. The Black & Decker reviva line is our latest customer offering and creating more sustainable products and driving innovation with purpose. This line of consumer's DIY tools features 50% post-consumer recycled content in the enclosures, which reduces virgin plastic use and supports closing the loop in a circular economy.

Partnering with Eastman to apply their Tritan Renew material to our products has created the opportunity to reduce environmental impact, while continuing to develop the performance, durability and quality that our customers require. We are delighted to have found a long-term partner in Eastman, a company that will support and accelerate our wider, broader commitment to becoming a force for good in society. This product is a great example of how corporations can embrace ESG in a way that provides meaningful innovation to the consumer, reduces our impact on the environment and drives business performance. The Black & Decker revitalization is a major growth opportunity for the company, and reviva is just one great example of how we're making that happen.

And now I will turn it over to Don to talk about our supply chain investments, our business segment results and how we are positioning the company for sustained long-term growth. Don?

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

Thank you, Jim, and good morning, everyone. As Jim just highlighted in his opening remarks, we continue to see a range of powerful secular business drivers that are creating a path for strong multiyear growth for our businesses. In support of that, I want to spend a moment to share a few of the many actions we have taken to position our company for significant growth in 2022 and beyond. Three areas I would like to highlight include our latest investments in expanded manufacturing capacity, strategic sourcing partnerships and the further acceleration of our factory automation initiatives.

Beginning with our manufacturing footprint. We are aligning our new investments with our Make Where We Sell strategy as we expand capacity globally. For example, in 2021, we are opening 2 new power tool plants and 1 new hand tool facility in North America. These 3 new facilities will enable shorter lead times. And once in place, our North American capacity will have tripled since 2016. These new manufacturing plants will be accompanied by a parallel regional development of our local supply chain base over time, enhancing local market sourcing and speed to market.

As it relates to strategic sourcing, we have acted and continued to focus on securing sufficient supply of battery cells and electronic components using our power tools to support our long-term growth plans, which include the growing tailwind from electrification. We have co-invested with key battery suppliers to secure dedicated capacity for the next several years. In addition, we are adding new qualified suppliers to diversify our sourcing and working to increase our inventories for battery cells. We made great progress in 2021 and are well positioned for significant supply increases related to battery cells.

As it relates to electronic components, we are following a very similar plan. We have made progress in 2021 and are on our way to securing the chips and the throughput to support at least 25% growth in our electronic component supply for 2022. This area is currently an intense pain point. However, we see a road map for significant improvement by early spring of 2022.

Finally, we are leveraging our Industry 4.0 capabilities to drive manufacturing automation throughout many of our factories. We are deploying multiple projects in our Charlotte manufacturing facility that have a payback of less than 1 year. These flexible automation projects enable the labor efficiency and increased throughput required to deliver outsized productivity and enable our Make Where We Sell strategy.

In summary, we have positioned our business to have the capacity, supply and throughput to deliver significant growth in 2022 and beyond. I will now take a deeper dive into our business segment results for the third quarter.

Tools & Storage delivered record revenues as we maintained our focus on ensuring we keep up with the existing market demands. This resulted in 14% revenue growth with volume up 11%, price up 2% and currency contributing an additional point. The operating margin rate for the segment was 15.7%, down from 21.5% in the third quarter of last year as volume, price, productivity and benefits from innovation were more than offset by accelerating transit costs incurred to meet the strong market demand. Additionally, rising commodity inflation and new growth investments related to digital marketing and feet on the street offset those positive items I mentioned.

All regions delivered organic growth, with North America up 9%, Europe up 20% and emerging markets up 28%. This performance was supported across all markets as the secular shifts related to the reconnection with the home and garden as well as e-commerce were amplified by our industry-leading innovation and the strong professional demand. The high single-digit North American growth was underpinned by another strong retail performance, up 6% as point-of-sale demand remained at robust levels in U.S. retail, and channel inventory remained below historical levels. The strong professional-driven demand was also demonstrated in the commercial and industrial channels posting 15% growth versus the prior year.

Our thesis on demand is playing out as underlying construction activity remains strong and the Pro is driving growth, overcoming a robust growth performance in the comparable period last year and a little bit of moderation in the DIY category. Further demonstrating the durability of these trends, our latest POS results showed mid-single-digit growth over the last 4 weeks, covering late September through mid-October, with the last measured week up double digits, a very good signal of the healthy backdrop in U.S. retail.

The European Tools business experienced growth across all major geographies along with the commercial, retail brick-and-mortar and e-commerce channels. The region grew 17% organically with a standout e-commerce outperformance, up 43% versus the prior year in addition to a notable DEWALT brand strength performance, which achieved 27% growth.

Finally, in emerging markets, growth was pervasive across all regions and was led by trade solutions, cordless power tools and continued e-commerce momentum. All markets are consistently contributing to share gains, including 36% organic growth in Latin America and 22% organic growth in Asia. Finally, our enterprise-wide e-commerce strategic growth initiative continues to deliver strong results with third quarter global e-commerce revenue up nearly 20% versus 2020.

Now let's turn to the Tools & Storage SBUs. Power Tools delivered 11% organic growth, which was supported by the new and innovative product launches across CRAFTSMAN, DEWALT and Stanley FatMax. Two great examples of these innovations are, one, Stanley 20-volt product line launch with improved battery technology; and two, several new offerings across both the XTREME and ATOMIC platforms.

Moving on to the Outdoor business. All regions contributed to an 11% organic growth performance. This was driven by new listings and cordless innovations under the Black & Decker, CRAFTSMAN and DEWALT brands. Notably, global sales were up over 50% year-to-date as compared to 2020. We delivered industry-leading growth, rolling out new offerings in mowers and handheld products in 2021. Looking ahead, we are encouraged by the results of our 2022 line reviews where we gained significant listings with all our major retailers, supporting our belief that outdoor electrification has the potential to be a major growth catalyst for the company.

Finally, hand tools, accessories and storage grew 16% organically, fueled by a robust market demand and new product introductions across our key construction, auto and industrial markets. A few highlights include the 20-volt spot laser and the Elite circular saw blade within the construction space. Within the automotive aftermarket, CRAFTSMAN unveiled a new set of V-Series mechanics tools that are designed to professional specifications. We also launched a LENOX GEN-TECH carbide band saw for our industrial customers. A lot of wonderful innovation in the third quarter.

Also during the quarter, the Tools & Storage team was awarded 46 Pro Tool Innovation Awards, representing best-in-class products in the construction industry. Well done, Tools team. I want to thank all the Tools & Storage employees around the world for their perseverance to navigate this dynamic environment to deliver a fantastic revenue result for the quarter. Demand in tools remains robust, lapping strong 2020 growth comps and Q3 saw strong mid-20s percentile growth as compared to 2019.

Now shifting to Industrial. Segment revenue expanded by 1%, as 2 points of price and 1 point of currency was partially offset by 1 point of volume and 1 point from an oil and gas product line divestiture. Operating margin was 7.9%, down versus 12.3% in the third quarter of last year as the benefits from price and productivity were more than offset by commodity inflation, growth investments and volume declines in higher-margin automotive and aerospace fasteners.

Looking further within this segment, Engineered Fastening organic revenues were down 1% as strong general industrial growth of 23%

was offset by market-driven aerospace declines and lower automotive OEM production, resulting from the global semiconductor shortage. Our auto fastener growth outperformed light vehicle production by approximately 15 points for the quarter and year-to-date periods. This shows our value-add business model is generating share gains despite the OEM production schedule fluctuations. Infrastructure organic revenues were up 7%, as 16% growth in attachment tools was partially offset by lower pipeline project activity in oil and gas. Momentum continues to build in the attachment tools markets with strong backlogs and order rates at our OEM and independent dealer customers.

As we look forward into 2022 and beyond, we are prepared to serve the cyclical growth recovery across many of our industrial end markets.

Now shifting to Security. Total revenue was up 5%, with 7% volume and 1 point contributions from price, currency and acquisitions, which was partially offset by a 5-point decline related to the international divestitures completed in the third quarter of last year. North America was up 12% organically, driven by strong backlog conversion in commercial electronic security and solid growth within automatic doors and health care.

Europe was positive organically led by data-driven product solutions in France, which is one of our most mature businesses and activating the new health and safety growth opportunities that we have outlined in the past. Our security business transformation is consistently driving top line momentum. Order rates globally grew 14% in the third quarter, resulting in the third consecutive record quarter end backlog. Overall Security segment profit rate, excluding charges, was 9.2%, down versus the prior year rate of 11% as price and volume gains were more than offset by higher labor costs, pandemic-related inefficiencies and growth investments such as SaaS solutions, touchless door technology and other health and safety options.

We now have broad customer access, but new safety protocols are extending installation time lines. We are implementing price actions for these new realities while we continue to invest to fuel top line momentum.

I will now turn the call to Lee McChesney who will review cash flow and provide an update on our response to the rising costs in key areas of our supply chain. Lee?

Lee B. McChesney ***Stanley Black & Decker, Inc. - VP Corporate Finance & CFO of Tools & Storage***

Thank you, Don.

Moving to Slide 11, let's review free cash flow performance. Third quarter free cash flow was a use of cash of $125 million, which brings our year-to-date results to a use of cash of $31 million. As you heard from Jim, we are focused on serving our customers and have invested in inventory to serve the robust demand environment here in 2021 and in '22 and beyond, which is a major item that explains the year-over-year performance. There's also a normal seasonality pattern to our working capital that typically results in a significant amount of our cash flow generation occurring in the fourth quarter. We expect 2021 will follow that pattern and are planning for strong fourth quarter cash performance, while ensuring that we make the appropriate investments in inventory and CapEx to support all of our exciting growth initiatives.

Let's now move to Page 12 and dive into the supply chain. The environment certainly remains dynamic as we serve the robust demand across the markets. During the third quarter, we experienced accelerated input cost inflation and higher cost to serve demand. We've initiated a comprehensive set of pricing and productivity actions in response. I'll now outline our latest expectations for inflation and our game plan for price recovery. Compared to our July guidance, key commodity inputs such as steel, resins and purchase components accelerated throughout the third quarter, contributing an incremental $100 million in costs. In addition, container and transportation costs, which largely drive our cost to serve, experienced a dramatic increase during the quarter. Average container spot prices are now nearly 7x what we were paying earlier this year. Average transit time from Asian suppliers to the North American manufacturing facilities and distribution centers have increased more than twofold from approximately 40 days to 85. Combined, these container and transit cost impacts added an additional $130 million of cost pressure.

These underlying assumptions raise our full year commodity and supply chain headwinds to an estimate of approximately $690 million.

Assuming the known impacts continue, we also are forecasting approximately $600 million to $650 million of carryover cost headwinds for 2022. Now if you shift to the right side of the page, teams across the globe are actively engaged to fully address these headwinds with robust productivity actions to further boost their operational efficiency. We've also completed the price increases that we discussed with you in July and have recently taken further actions, which include communicating a new 5% surcharge in our North America Tools and Outdoor business, and further price increases across all of our businesses and regions during the fourth quarter.

The combination of our market-leading brands, when coupled with a robust pipeline for innovation, provide a setup for volume and price-driven growth in 2022. And then finally, we continue to advance our margin resiliency initiatives and anticipate $100 million to $150 million of opportunity in 2022, which we can leverage to offset incremental headwinds, further invest in the business or contribute to margin outperformance. Within a complex environment, we believe that we've sized the productivity and pricing actions to exceed the anticipated 2022 headwinds, and we are taking the appropriate actions to position the business for margin improvement in the coming quarters.

With that, I'll turn the call back over to Don to review guidance.

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

Thanks, Lee. I will now outline the full year organic growth and margin rate assumptions overall and by segment. Our updated full year 2021 guidance calls for organic revenue growth of 16% to 17%. And at the midpoint, adjusted EPS expansion of 22% versus the prior year and 31% versus 2019.

Tools & Storage and Security organic growth expectations are consistent with our prior guidance, in the low 20s and the high single digits, respectively. The teams will continue to leverage price and cost actions in addition to operational productivity to counteract the extremely dynamic supply chain cost pressures. We are anticipating a relatively consistent level of revenue for Tools & Storage across Q3 and Q4, which both represent total growth in the mid- to high 20s versus the comparable periods in 2019.

Across all the segments, margin rates will be down year-over-year, largely due to the accelerated inflation impacts, which are partially mitigated by the incremental pricing actions that were or will be implemented during the third and fourth quarter. On a GAAP basis, we expect the earnings per share range to be $10.20 up to $10.45, inclusive of various onetime charges related to facility moves, deal and integration costs and functional transformation initiatives. On an adjusted basis, we are moderating the EPS outlook to $10.90 up to $11.10 from the previous range of $11.35 to $11.65.

The key assumption changes to the company's prior EPS outlook includes the following 4 items: one, an incremental $230 million in commodity, transit and labor inflation, which is approximately $1.25 reduction to EPS; two, recent currency movements have resulted in a $0.15 negative EPS for 2021; three, these pressures will be partially mitigated by our incremental pricing actions and other actions, which add an incremental $0.30 to EPS; and then four, the benefit of a lower full year tax rate and other below-the-line assumption will contribute approximately $0.60 of improvement to EPS.

We have also disclosed several key full year assumptions and our expectation for pretax M&A and other charges to assist you with your modeling. Lastly, the company expects free cash flow to be approximately $1.1 billion to $1.3 billion, which contemplates CapEx investment levels to be between 3% to 3.5% of revenue. This updated guidance reflects our desire to maintain temporarily higher levels of inventory to serve the strong demand and improve customer fill rates. That, combined with our supply chain investments, will set us up strong or very strong performance in 2022.

So in summary, our revised guidance calls for consistent revenue expectations, generating organic growth of 16% to 17% and approximately 22% adjusted EPS expansion for the company in 2021. Considering the volatility in the operating environment that we all continue to navigate, this is an excellent top line performance with significant year-over-year EPS expansion.

Moving to the right side of the page, I'll now outline some initial thoughts on 2022. While the environment remains dynamic, we have strong conviction that we can grow our core earnings base in addition to the MTD and Excel accretion. We have been investing in our supply chain and in a powerful set of organic growth initiatives that could fuel mid-single-digit organic volume growth in 2022. In addition, we have cost productivity to help us fund investments and enable healthy operating leverage. We are also actively addressing the inflationary environment with pricing actions that should result in 3.5 to 4 points of price next year and will allow us to move -- to more than fully recover the carryover impacts from inflation experienced in the second half of 2021. We believe this price and inflation dynamic can be a positive carryover benefit of approximately $0.20 of EPS in 2022.

These factors added together should generate approximately $0.90 to $1.10 of EPS accretion. Additionally, MTD and Excel is expected to generate $0.50 of EPS and combined with the prior factors can result in significant double-digit EPS growth from operations. Below the line, we are assuming a $0.50 headwind, primarily from the tax benefit in 2021 which will not repeat next year.

So to summarize, with the current inflation and demand environment, we are programming the business to deliver $1 of EPS growth versus our 2021 guidance. Tools & Security global markets continue to demonstrate strong demand and our customers have an optimistic view for 2022. Industrial will begin to see a cyclical recovery in 2022, most likely at a moderate pace. We have a clear plan for 2022 growth assuming that conditions we are experiencing today continue. These initial thoughts on what is possible in 2022 will be refined with our guidance to be issued in January once we have a clearer picture of various external inputs.

That being said, the market demand environment remains very strong and supportive. We have a phenomenal set of growth catalysts across the businesses, and we are actively addressing the supply and inflation environment, which has not worsened from what we have experienced in Q3. We remain well positioned to deliver above-market organic growth with operating leverage, resulting in strong free cash flow generation that will drive top quartile shareholder returns over the long term.

With that, I will now turn the call back over to Jim to conclude with a summary of our prepared remarks. Jim?

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

Thank you, Don.

It may not be obvious without stepping back from all this condensed information is this. When we deliver the organic growth in 2022 that Don discussed and when we closed the outdoor transactions, in combination, we will have added $6 billion of growth in the 2021, 2022 time period against a 2020 base of $14 billion. That is over 40% growth.

So in summary, we continue to execute on the strong demand trends and deliver exceptional organic growth despite the temporarily challenging supply chain environment. We are enjoying positive secular trends, vibrant markets and a strong array of growth catalysts, and we expect this to continue. I am more than pleased with our team's efforts, and I'm excited about the enormous potential as we close out this year and look forward to continuing top and bottom line growth to drive shareholder value creation in the coming months and years.

And finally, I am excited about all the cultural advancements we have made in recent times to attract, inspire and engage talent in the 2020s requires an acute awareness and commitment to deliver what that talent is looking for in their company's employee value proposition. We are a purpose-driven company with an authentic commitment to diversity and inclusion. We are a company that cares about its stakeholders and is doing its share to be a force for good in society. This is an exciting place for people to thrive and live their purpose. So far, it is working. Our ability to attract world-class diverse talent has never been stronger, and our passion for and conviction in differentiated performance, becoming known as one of the world's most innovative companies and elevating our commitment to corporate social responsibility inspires us and motivates us every day. We are for those who make the world. And with that, we are now ready for Q&A. 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 is from Rob Wertheimer with Melius Research.

Robert Cameron Wertheimer ***Melius Research LLC - Founding Partner, Director of Research & Research Analyst***

A lot of work going on there, obviously. My question is on a couple on pricing. Do you feel reasonably confident on the surcharge going through? I don't know if you've had feedback from channel partners if you've seen competition, what's been going on. So does that seem likely to go through? And then maybe just a little bit more of a structural question. You mentioned some really interesting data and analytics around the supply chain. Have you changed the analytics and internal rhythms around pricing as well, such that I don't know if you're trying to move faster in an inflationary environment? And I'll stop there.

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

Thanks, Rob. Those are great questions. And the first one, the surcharge. We have really tied it to these cost to serve cost or additional cost to serve items that we believe, obviously, are transient in some level. It's just a question of how long they linger in the system. And we believe we have a very solid basis to make that price increase through a surcharge. We've received a lot of initial feedback from our customers and feel like we're in a very good place to ensure that gets in place in the fourth quarter. So feeling good about that at this stage.

On the second question around data analytics, I mean, I believe that actually, on the pricing side, we got ahead of that a little earlier than we did on the supply chain side. And so we have fairly robust analytics in place around pricing. We look at pricing in a much broader way. So pricing is not just about list price increases or in this case, a surcharge. It's about how do you really manage the mix in the business appropriately, how do you manage the pricing of new products when you put them in the market to ensure that you're pricing them at the right premium, given the innovations that they are bringing to the end user.

All those things have to be factored in. And our Tools team actually has a small organization that works on that full time. And their focus is really how do they drive margin improvement with all those different levers, which can be priced -- direct price increases, can be surcharges, can be mix management, new product introductions, as I mentioned. So all those things have to be looked at, and we've been doing that for about 2 years now. And so that's a little bit ahead of the supply chain data analytics that Jim described, which, really, that was driven by necessity in the summer and fall of last year, just given the complexity of the supply chain.

Operator

Our next question comes from Jeff Sprague with Vertical Research.

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

Just to explore price a little bit more. Just correct me if I'm wrong on these kind of rough assumptions, but it seems like you're kind of modeling $700 million of price next year and I don't know, $400 million or so of it in North America. I just wonder if you could kind of address specifically North America price kind of the surcharge dynamic versus what you might be trying to do on base pricing? Just thinking about the mechanisms here when you have to kind of give the surcharges back, so to speak. So I'll leave it there.

Lee B. McChesney ***Stanley Black & Decker, Inc. - VP Corporate Finance & CFO of Tools & Storage***

Okay, Jeff. Good question. Your numbers are definitely in the right zone. I would do a couple of catalysts. Keep in mind that in the third quarter, we did execute our -- I'll say, 4.5% to 5% price increase. So we're delighted with that global execution. And as you look forward here with a surcharge, it's in this 5% zone. And then across the globe, the different price increases are in that same range. So that's what we're doing now. As Don noted earlier, the surcharges linked to these cost to serve increases, certainly, it's a dynamic environment as we go through the quarter here, if other things come to bear, we look at doing other price actions in the first quarter as well, where there could be a bit of a plus or minus to your point, if the cost of service environment improves. Right now, our mindset is that's not going to happen.

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

Yes. I would just add to what Lee said at the end there. The cost to serve dynamic is interesting. It will improve eventually. The question is when will it improve. And so that's why we took this approach around pricing fairly swiftly in the fourth quarter to respond to it. But we may be dealing with some of these supply chain challenges for another 6 to 12 months. Hopefully, in the back half of 2022, we start to see them ease a little bit. But we're prepared for them to continue through the -- for the full year of 2022.

Operator

Our next question comes from Tim Wojs with Baird.

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

Yes. Maybe just on the volume growth for '22, the mid-single digits that you're kind of highlighting. Just curious kind of your confidence behind that and maybe how much of that is driven by just end market sell-out growth? Any potential restocking in some of the kind of new product introductions? And when you think about POWERSTACK and reviva, how would you kind of think about framing those growth opportunities over the next few years?

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

Tim, we have made enormous investments in growth, as you can see, by some of the output that we talked about here, and you just mentioned, 1,300 new employees, $200 million of run rate investment in the run rate and just a massive commitment to increasing the intensity of sales, product development and e-commerce and all sorts of other growth-oriented resources. And also, as Don mentioned, adding capacity and so forth. The demand is strong. The conditions are supportive. So serving the demand, I think, is the challenge. And I think we -- we're confident we've created the demand and the environment is supportive, and we need to serve the demand. That is challenging. But you can see we delivered on our third quarter organic growth commitment, 10% despite the challenges that we faced. And so we have a resilient organization and we have all the growth programs in place, and we have a high level of confidence that we can deliver that sort of growth.

There's not a whole lot of restocking in that number. A couple of hundred million, maybe a tad more. But I think it is important to point out that the -- there's enough stock in the stores to support a POS growth environment, and then we're starting to see that in recent weeks. So we have gotten the inventories in retail up to where they were a year ago. And we still feel like there's maybe a 2-week to 3-week kind of additional opportunity for restocking and the retailers will enjoy higher fill rates when that happens. But right now, the fill rates are sufficient to generate modest POS growth, and that's even before a lot of these new initiatives come to market.

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

I'd just add one thing to what Jim said, there is the cyclical recovery of industrial that's still out there. Now whether that all happens in 1 year, because we think that's about $300 million. It's still to be debated. But maybe it happens over 2 years, we get $100 million to $200 million next year and you get the rest in 2023. So that's kind of in addition to all the things that Jim just mentioned.

Operator

Our next question comes from Julian Mitchell with Barclays.

Julian C.H. Mitchell ***Barclays Bank PLC, Research Division - Research Analyst***

Just wanted to circle back on the operating margin assumptions. So it looks like you're aiming for around firm-wide 11% operating margin or so in the fourth quarter. Just wanted to check that was roughly the right ballpark. And then for next year, it looks like the margin is sort of flattish, maybe up a bit for the whole company for the year, so maybe 14% or so. Maybe just help us understand how you expect the first half, second half margin cadence to move given your comments on the price and cost dynamics.

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

Yes. I would say that your presumption on the fourth quarter is pretty accurate. And next year, yes, the operating margin rate expands maybe 30 to 40 basis points in that category year-over-year. If you look about how things will kind of play out quarter-by-quarter, we will see a significant improvement in Q1 versus Q4. Things will get a little bit better in Q2 and then the back half, you'll see another step up of maybe 0.5 point to 1 point in the back half versus the front half. So we would expect continued progression and improvement in those areas as the cost to serve will still be very high, particularly in the first half of the year. But that's probably the right cadence for you to think about.

Operator

Our next question comes from Nigel Coe with Wolfe Research.

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

So just to recap. So we've got a 4% to 5% base price increase going in during the fourth quarter. That then rolls forward whatever rolls for into 2022. And then we've got a 5% surcharge in North America in Tools & Storage. Just want to clarify that that's what the plan entails. And then what's the competitive response here? And just if you can just give us some flavor in terms of what you're seeing from competitors. Are they going out with similar price increases and surcharges? And given the import model from some of your competitors, which are obviously more import intensive than you are, kind of any share shift that you're seeing within your channels?

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

So I would say that, yes, the number you mentioned for price going in the fourth quarter is the right number. We believe that everyone, for the most part, is doing some type of price increasing, the question is what geographies and what magnitude. Most of our competitors, if not all of them, are being impacted by higher logistical cost to serve, additional costs, so to speak. So everybody is dealing with the same dynamic. And it's a question of how much you want to have your margins impacted for a period of time versus offsetting it as quickly as you can with price increases.

We've taken a very proactive approach where we have, as you saw, from leasing significant headwinds that we're dealing with here in 2021 that carry over into 2022. They appear to have stabilized in the last 30 to 45 days, which is, in our mind, a very positive sign. Maybe we've hit the peak in this area. So now it's really about how do you drive the price increases on various products in different geographies to more than offset that. And so we feel fairly confident at this point that we can get, if not 100% recovery on the price side versus the headwinds, pretty close to it. And so that's been our approach, then we have productivity that over and above that, that will help us fund investments and other things we need to do to continue to grow the business. That is the approach we're taking, and it's an unprecedented period of time around inflationary headwinds. But in some ways, it helps us do what we need to do because it is so significant and everyone in the industries that we serve are dealing with it.

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 just one on supply chain and your comments on semiconductors improving by Q1 2022. Just to be sure I understand that right, is Stanley specific comment around sort of your relationships with suppliers? Or is that a market assumptions you make? And do we need that to happen for that dollar of accretion in the [mast] that you outlined?

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

It's certainly not a -- we do not expect the industry-wide semiconductor market -- the semiconductor industry-wide market to basically meet balance supply and demand until probably 18 to 24 months from now, just based on lead times and so forth. But we're a small player in the semiconductor world. We're a niche player. And our ability to secure supply has been adequate at this point in time. And as Don mentioned in his remarks, we're already programming to have at least a 25% increase. But that is a Stanley specific phenomenon. I can't speak for the auto industry or the appliance industry or other industries that use these types of semiconductors.

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

And I would add to that. To be very, very specific to my comments, we have enough commitments in battery cells and electronic components/chips to be able to expand our supply chain by 25% in power tools if the demand is there for that to be served. And so that will happen by the spring of 2022 is what I was trying to say.

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

And as we said, the guidance that he had for 2022 was mid-single digits volume increase. So what he's basically implying here is that there is -- if the demand is there, and it's very robust. We have -- we will have the ability to serve that demand.

Operator

Our next question comes from Mike Rehaut with JPMorgan.

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

I just wanted to circle back to some of the pluses and minuses of the guidance change in '21. And apologies if I didn't catch all the details when you were kind of highlighting the 4 major differences. But you -- obviously, the big incremental headwind being the extra $230 million from the supply chain outlook. And you had several offsets to that, but still a net $0.50 impact on EPS. I was just trying to ascertain -- you highlighted for next year the $100 million to $150 million of margin resiliency. I just wanted to understand how that had been factored in the guidance up until prior to today. And if you were expecting the $100 million to $150 potential benefit this year, if that's still the case and how that has or continues to be reflected in guidance?

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

Yes. Sure, Michael. So we -- as the year has gone on, obviously, some of the margin resiliency has flowed through as each quarter has gone by. So as we got to the back half of the year, we still had $75 million to $100 million out there of possible margin resiliency available that was not in our guidance. A lot of that is dropping through when I made reference to pricing actions and other actions of $0.30 of a positive when I did the walk from our previous guidance to the new guidance. And so that's where you would see that play through. We do see another $100 million to $150 million next year that is not in the numbers that I mentioned. And so that would be there for contingency or outperformance as we usually do at the beginning of the year. And so I just wanted to clarify that as well.

Operator

Our next question comes from Ken Zener with KeyBanc.

Kenneth Robinson Zener ***KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst***

Jim, you kind of talked about versus 2019, the $6 billion of incremental, including MTD, and it is very impressive growth. I don't recall you guys putting a surcharge in -- all the years that I've covered you. So can you talk about maybe just the battery technology that you talked about? TTIs out there, you guys are here. The platform and the batteries -- the competitors keep getting squeezed, yet as we saw, you couldn't hit the growth rates in the fourth quarter because of the supply constraints. But could you just maybe take a step back and talk about how technology is really affecting the breadth of product and the tool platform is really increasingly squeezing out the competitors? And if that might change kind of -- less competitors, more capacity, if that might really change your kind of outlook in terms of how the competitive landscape is moving in your favor.

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

Yes. Well, I wish the competitive landscape was getting easier, but it's not. It's intensifying. And hence, the investments in innovation and capacity and growth and everything. And so the pouch technology is very exciting though. It is, as I mentioned in my remarks, 50% more power, 25% more compact, 15% lighter, and it lasts twice as long. You get twice as many charge cycles. So -- and one of the nice things about it, too, is that the pouch technology batteries do not compete with automotive. So we don't have to worry about the cylindrical cells that go into power tools being much, much a smaller part of the cylindrical cell market.

I don't think cylindrical cells will go away over time, because the pouch cells are slightly more expensive. So there's probably a 10% to 20% type of premium on the cost of a battery that lasts twice as long. It's going to be a very pro oriented product. It's going to play beautifully with the Atomic and Extreme compact tools. And over time, I expect it to grow to be a significant part of the market. But I don't see a crowding out of the competitors. I mean there are active vital competitors who are continuing to invest, and it's a hotly contested race for market share. I think we're doing well, but so are some of the competitors.

Operator

Our next question comes from Joe O'Dea with Wells Fargo.

Joseph John O'Dea ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

Another one for you on pricing, but I just wanted to understand the mix of the surcharge and then the base pricing. And so when I think about kind of what's implied in terms of the benefit that you're anticipating next year, it looks like what would be if we apply the total base pricing across the whole portfolio, it looks like what's implied is more in the kind of 2% range. So when you talk about what you're implementing right now versus what looks like could be maybe anticipated in terms of realized, is that kind of the right interpretation that you're just not sort of fully baking in 4% to 5% of realized base pricing and it's more the expectation that, that could be 2%? And then why wouldn't that be better?

Lee B. McChesney ***Stanley Black & Decker, Inc. - VP Corporate Finance & CFO of Tools & Storage***

Yes, I'll take that. So I'll give you a quick answer. We can certainly answer more offline. But keep in mind that we put in the 4% to 5% price increase in the third quarter. And then globally, here in the fourth quarter, we're going after another 5% target. So you will get to exactly what Don talked about a little bit earlier, which is this kind of 3.5% to 4% zone, that's really the right mindset to have for '22.

Operator

And 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***

Thanks, Shannon. 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

This concludes today's conference call. Thank you for participating. You may now disconnect.