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PRESENTATION

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

Good afternoon, everybody. I'm Tim Wojs, and I cover residential and commercial building products here at Baird, and welcome to our Global Industrial Conference this afternoon. We're delighted to have Stanley Black & Decker join us again at the conference.

And Stanley, iconic brand, largest tool company in the world with leading brands like DEWALT, CRAFTSMAN, Stanley FatMax and Black & Decker and now kind of in the process of closing on an MTD transaction, leading manufacturer there of outdoor power equipment.

So joining us from the company, Don Allan, who's President and CFO. We have Lee McChesney, who is VP of Corporate Finance and CFO of Tools Business; and then we have Dennis Lange and Christina Francis from IR.

In terms of format, I think Don has a couple of prepared remarks and slides that he'll run through, and then we'll go to Q&A. So Don, I'll turn the floor to you.

He's got to -- Don's muted.

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

Okay. Can you hear me now, Tim?

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

Yes. We can.

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

Thank you. So I just have maybe 5, 7 minutes max of comments. We've got 2 slides we want to go to. So if we go to the first slide, which shows our 3 different segments we have as a company, just to take a bit of a refresher for everybody.

Last year, our revenue was about $14.5 billion. This year, we think it will be about $17.5 billion in 2021. We have the acquisitions of MTD and Excel, which we think will close in the coming days and weeks here. So we'll get a full year of an impact of that next year, which will add about $3 billion in revenue to get us over $20 billion. And then with our expectation of organic growth of around 10% or better next year, that's going to put us up into the $22 billion -- roughly $22 billion of revenue as a company.

So we're excited about the continued growth story of Stanley Black & Decker. As you can see, for 2021, we're expecting close to 16%, 17% organic growth. We have the different levers I mentioned going into '22. The market cap of the company is around $30 billion, clearly, heavily weighted to our Tools & Storage business, which includes the outdoor business today. And then we have our Security and Industrial platforms, which are both roughly $2 billion in size.

We've been really clear over the last 5 or 6 years how we want to be known as a company that's highly innovative, not just in our industry -- the industries we serve, but just on a broader basis, that, that's a key differentiating factor around Stanley Black & Decker.

We continue to drive top quartile performance in turbulent times and then making sure that we maintain our focus on being a socially responsible citizen and being a corporate leader in ESG.

So if we flip to the next page and touch on growth. Growth continues to be a significant part of our story, as I mentioned. I talked about the expectations for next year for 2022. But when we think about long-term growth prospects, we think it's very, very clear on this page that we have many levers that are going to allow us to continue to grow organically over the long term.

We also want to make sure that we're continuing to enhance our margins. We're going through a transition period now where we were hit with some heavy inflationary headwinds, cost-to-serve headwinds and we're quickly responding with price actions.

We are seeing a really robust demand environment where almost every business we have is experiencing high levels of demand, high levels of backlog. There's only 2 businesses within our Industrial segment, which are tied -- one tied to aerospace and one tied to auto manufacturing that are not experiencing that. However, they will be part of the rebound -- or cyclical rebound we will experience in the next couple of years. So we see a great deal of growth that we're currently experiencing, but also the prospects of growth continuing in '22, '23 and beyond.

And you can see the 5 different categories. Reconnection with the home and garden. That is not just a temporary pandemic event, that's something that we see as a long-term permanent end change. It's something that people will be spending more time. They're centering, their activities will be more focused on their home. And even though the pandemic will eventually fade, most of us will be working in some type of hybrid environment. And so our home will continue to be an important part of our world.

E-commerce. We've made tons of investments in the last 10 years in e-commerce. We've built a business within Tools & Storage that e-commerce now represents close to 20% of the total global revenue of Tools & Storage.

Electrification. As we bring in the outdoor acquisitions, we want to electrify that and really use that as a really significant share gain opportunity for that business and for Stanley Black & Decker.

Health and safety. You're seeing our Security business grow high single digits organically. We think that's something that can continue for the next several years because we have solutions that are oriented towards the safety of your employees in a commercial building or a retail location or a financial services location or a health care institution. And making sure that you have all the right protocols as people reenter that workforce in a new hybrid environment.

And then, of course, we have margin resiliency. That's there for us to continue to drive profit enhancement around different areas of price, productivity through the supply chain, Industry 4.0, et cetera, et cetera. And that's in addition to the normal things we do around margin management, mix management, pricing actions and then, of course, the normal annual productivity we drive across our supply chain and our functions.

We're a performance-driven company that's driven by our people and guided by our purpose, which the purpose is For Those Who Make The World. And so we're excited about these catalysts that you see on the right side of the page. I really believe it sets the table for a great growth story continuing at Stanley Black & Decker.

So with that, I'm going to pass it back to you, Tim.

QUESTIONS AND ANSWERS

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

Great. (Operator Instructions) Don, maybe just to start on the growth side. 10% is kind of what you said in your prepared remarks. I know a fair amount of that is going to be some of the carryover pricing actions that you're taking.

But how do you think about the visibility to the volume side? Whether that's maybe some channel rebuilding -- channel inventory building at some of your customers? Or you've got some of these growth opportunities, are there -- is there kind of a clear line of sight to some of the revenue from those as you look into '22?

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

Yes. I think I'll kind of go through each of the 3 segments and talk about that aspect of it. And maybe I'll start with the smaller ones and work our way up to the bigger one in Tools & Storage, just for something different.

And so let's start with Security. I talked about what we've been seeing in that business organically, 7%, 8%, 9% organic growth. We think that's going to play out again in the fourth quarter. We have a great road map for that in 2022. The backlog is at historical levels. We almost have close to $0.5 billion of backlog in that business. And so we're really excited about how that continues to perform based on the investments that we've made over the last 1.5 years to 2 years.

And so the transformation journey continues. And so these new solutions we've come up in health and safety that have to do with the entryway around the building, that have to do with when they're in the building and monitoring people's activities, it's also using video analytics solutions. So cameras collecting various pieces of data, which could have to do with movements of folks in the building. It could have to do with correlating that with a POS system in a retail environment and figuring out when the right time to run promotions are during the day based on volume and traffic.

All these different things are solutions that we've been working on in that business for several years, and now they're really coming to fruition as a result of the pandemic and eventually coming out of the pandemic. So a great growth story emerging there. Given where we are with backlog, given where the opportunity funnel is, I think that high single digit, maybe even 10% is possible for '22 and '23.

Moving to Industrial. Interesting situation, you've got a portion of the business that's really got high backlog, high demand and that has industrial fasteners, the Attachment Tool business, our 2 businesses that are experiencing that right now.

Two other -- 3 other businesses are really seeing very difficult environment. So you have the oil and gas business, which is pretty small, $100 million, $150 million in annual revenue. We have our automotive fastener business and our aerospace fastener business, which are obviously tied to automotive production and airplane production. Those are both at troughs for the most part right now. So there's a significant cyclical recovery that will come from those 3 businesses, primarily the 2 that I mentioned at the end, which is aerospace and automotive.

And so we think that's a $300 million opportunity. Whether that all comes in '22 or partially in '22 and partially in '23 and maybe even some of the aerospace in '24, we'll see, but there's definitely a recovery aspect cyclically that will be -- we'll benefit from that tailwind over the next year to 2 years.

And then we move to Tools & Storage. And so in Tools & Storage, we have a lot of positive things happening there. And so let's kind of walk through them one to one. Before I do that, though, let's talk a little bit about the demand environment and actually the industries that we serve in this space and why we're pretty bullish about this business for the next couple of years.

So residential housing activity continues to be very intense: remodels, construction, significant backlogs, significant activity. The residential homeowner continues to be centered around their home as I mentioned in my opening comments. So they're continuing to invest in that. And even when they move into a hybrid work environment, being at home for part of the time is going to -- they're going to want to make sure that's a comfortable environment for them to be working and obviously living their personal lives as well.

I think the shift away from investing in your home is going to be slow and gradual. I think people will not just suddenly be jumping on planes and traveling all over the world. It's going to be a more gradual process that plays out over multiple years. And so a lot of the dollars -- of their dollars will be continued to be funneled into the -- investing in their homes.

Commercial real estate, you're seeing kind of a bit of a reconfiguring of that market where companies are remodeling, renovating their existing office buildings for the new hybrid environment. We're doing that here at Stanley Black & Decker. We have like a 3-year plan to remodel all our different offices over that time horizon. And that's going to result in a lot of construction activity across the globe for many industries that our products serve.

And then the last area around the demand side is the infrastructure bill that was recently passed here in the United States. Those are categories that, obviously, our tools are used in various construction aspects of building bridges, new railways, et cetera, that our tools will be part of that and that will stimulate additional demand above and beyond the current market conditions.

So there's a lot of positive market-driven things that are happening. And then you layer on top of that the things that we're doing on the innovation side. So we recently launched our POWERSTACK battery for DEWALT, which is another enhancement of that kind of DEWALT system where we have 20-volt batteries, we have the FLEXVOLT batteries. We have products that connect to those. POWERSTACK integrates perfectly into that. It's a more efficient, lighter battery pack that helps and enhances the construction workers' efficiency and effectiveness on the job site. So it's just another way to drive another couple of hundred million dollars of revenue in the short term and probably something that generates $0.5 billion of revenue over a multiyear period of time.

Then you have what I would call just normal innovation that's happening across Tools & Storage, where we're rolling out enhancements to functionality of all the different tools that we will continue to do like we do every year.

The Black & Decker initiative, which is up and running and heavily e-commerce focused and we're kind of reinvigorating that brand, refreshing the whole product line, rolling that out in '22, '23 and '24 is another great growth opportunity.

Then there's the expansion of the CRAFTSMAN brand, where we initially rolled out for the first 3 years about 80 products with the ultimate goal of rolling out a product line that's about 200 products. So we're going to go to Phase 2 and get about halfway there to 200 products and then, in '23, we'll roll out the remainder to get to the full portfolio of products for the brand of CRAFTSMAN. So that's another way to stimulate growth opportunities as well.

And then, of course, as we bring in outdoor, there's the whole electrification of that part and how we can gain share in that industry over the next 2 or 3 years and use that as a significant growth driver as well.

So that's why we're so excited about the growth prospects of Stanley Black & Decker going forward because we just -- as we look across all our businesses, we see all these different opportunities that really are going to stimulate a strong growth performance while also being in a strong demand market.

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

Okay. Okay, that's really helpful. And maybe just kind of breaking off the piece on e-commerce. I mean almost 20% of the business now is e-commerce. I guess, a, how are you partnering with your kind of existing customers to kind of drive e-commerce growth on their platforms?

And then the second is what -- are there incremental opportunities in e-commerce that aren't available to you in the kind of the brick-and-mortar environment?

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

You want to take that one, Lee?

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

Sure, sure. So Tim, I'll just frame it up appropriately. So prepandemic, we've been working on this for 10 years. We have built this $1 billion e-commerce platform and it is the largest in the Tool business even before COVID. Since then, it's really been an increased focus and obviously leveraging what's really been a move towards e-commerce.

And that business today, by the end of this year, will be close to $2.5 billion. So many quarters, it's 18%, 19%, 20% of our sales. And part of our investment is $200 million of investment we made over the last year has been in the e-commerce space. And the advantage we have is we have been doing this for over a decade. And while everyone wants to get into e-commerce, there's a way to get into e-commerce so that you can obviously navigate the e-commerce channel appropriately, but also make sure you have a really good partnership with your traditional partners as well.

So the nice thing here is as we invest in having great content, as we invest in terms of what should be online and what should still be traditional, we can take those lessons and apply them really around the world. So yes, we have wonderful momentum in the e-commerce channels. But everyone's trying to have an e-commerce presence as well. So it's how do you navigate, how do you make sure that traditional has a robust e-commerce platform and also your traditional e-commerce retailers do as well.

So that's what we've been able to do. To your point, it's a global opportunity. So yes, we've had really good momentum in these traditional channels and in the traditional channels in the U.S., but really across the globe we've seen very similar levels of growth. So we've talked about this externally we've had quarters 30%, 40% and seeing that in Europe, I'm seeing it in Latin America, I'm seeing it in Asia.

As we look forward, though, there's still natural growth going on in those areas, but there's also opportunities like we're doing in Germany or we're doing in China, we're doing in other parts of Asia. We have parts where we have more market share opportunity, and we're actually going direct. But what's interesting is in order to be successful even going direct is the same content, same capabilities I can leverage also with people that I'm partnering with.

So we're excited with what we've done. But as we look forward here, there's more opportunity. And obviously, e-commerce is going to continue to grow. But we think our share has some nice opportunity. We think over the next 2 or 3 years, that 18%, 19% could be in the mid-20s. And we're just starting to leverage now this additional investment we put in, in the last 12 months as well.

So you go back to some of Don's opening comments, there's another reason why we're really positive on the growth momentum as we look forward around the world as well.

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

Okay, okay. Great. I have a few questions here from the audience around just pricing. And as you kind of think about the pricing actions you've taken to mitigate cost inflation, what's the right way to think about the carryover impact of that into '22? And just your confidence that you can kind of maintain your competitive position with those price increases.

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

Yes. I think I'll ask Lee to comment on the '22 carryover. But the way I look at it is we've had 2 -- as you know, 2 waves of price increases. We had a set of price increases in Q3 that we executed on based on the first wave of inflationary, primarily commodity inflation we experienced. Then we had this kind of new wave of maybe 1/3 of it was commodity inflation and 2/3 of the new wave was this cost-to-serve logistical supply chain with container costs going up, the length of the supply chain dramatically longer. And we've had to respond to that here in the fourth quarter with pricing -- another wave of price increases, both of which are kind of roughly 4% or 5% in total. And so we continue to -- or individually, sorry.

And then we continue to work that here in the fourth quarter. We have a combination in the fourth quarter of a surcharge that we're doing here in North America. We're doing more permanent price increases outside of North America in those particular markets because surcharges are really kind of unusual in those countries around the globe.

And so we think like we've really struck the right balance here. What's interesting, the first -- with the first wave of price increases, we've seen no impact on demand. And I talked about that in the earnings call, where the 4 weeks leading up to the earnings call, we had seen really strong POS performance of around 10% roughly. And so we -- and in the last week, that fourth week was over 10%, low double digits. So it's really been incredibly strong the performance we've seen.

Now some of that's probably the lead into the holiday. A lot of people are buying early and so there's definitely that aspect that's playing out. A lot of the retailers got their products into the stores early. So there's some of that, but it definitely shows that the pricing is not -- initially in wave 1 has not caused any has hesitancy or slowdown in the demand.

So the next question will be as you look at this next wave, does that have any impact? And I think that's something we're going to have to watch closely. But our initial read is based on what we're seeing, it does not feel like that will be the case. We're always watching how our pricing compares to our competitors, what our competitors do or don't do, how much of a premium gets created between our product and their product because we tend to be at a premium and making sure that premium doesn't become too significant. But so far, we feel pretty good about how that's playing out.

Lee, you want to talk a little bit about '22?

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

Yes. So if you reflect on some of the guide points we gave for '22, we've talked about a 10% growth environment and 4% to 6% of that was from volume and then the remainder was from price. So that gives you a perspective of what that can do.

But underneath that, Tim, you're asking about the ratios, what we're doing here in the fourth quarter will be a bit more price-oriented in terms of pure price. But you do have other things like what we're doing with NPD, how we're handling promotions, what we're doing with mix. If you think about what happened in the third quarter, there was a bit more of that. But in the end, you kind of get to this 4% to 5% opportunity in 2022 as part of our volume outlook for next year.

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

Okay. Okay. Good. And then maybe just on the margin side in Tools, historically it's always been this, call it, 16% to 18% type margin level. Now we've kind of graduated that higher to 18% to 20%. And just given all the moving parts around inflation and things, what's your confidence that 18% to 20% is still kind of the right target for the Tools margins?

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

I still feel good about it. I mean we're definitely working through a transitory period of time here where we've had a lot of inflationary and cost-to-serve headwinds to manage through our P&L. We're working on the price -- offsetting price into the system. Obviously, there's a delay, which causes pressure to margins, Q3, Q4 and then in Q1 it starts getting better. Q2, it gets even better.

And then I think in the back half of '22, we're probably around 18%, maybe slightly better than 18%. And so I think by the back half of '22, assuming there's no new waves of inflation that come our way, which it doesn't appear at this point that's going to be the case because we've seen some good stabilization in the last 60 days around commodity prices, cost-to-serve prices, so I don't know if it's peak, but it kind of feels like it might have peaked at this point. And so if that's the case, we've responded with 2 ways of price increases. And eventually, that probably will start to fade a little bit. And then our price increases will be maintained for some level over a period of time.

So I feel pretty good about our ability to get back to that 18-plus percent. How quickly we get to the higher end of that range, it will probably take a little bit of time for that to happen because we're going to continue to feed and invest in the business. So we'll probably be around 18%, 19% in the back half of next year. '23 may be trending a little bit higher to '19 and then we'll see where we go from there.

But we feel like we've reshaped the profitability of the business in a very short period of time through the pandemic for a variety of different reasons. We've done some things in the supply chain to make it more efficient from a cost perspective. We've done some things with indirect costs, in particular, that have allowed us to really streamline that cost area. And most of those things are permanent or can be improved upon, in particular, going forward related to the supply chain.

So we feel like there's been a permanent shift in the profitability of the business. And as long as we continue to innovate, as long as we continue to invest in our brands, we believe that is the right level of profitability that will go along with a fairly sizable level of organic growth as well.

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

Okay. Okay. Good. And then I've got a few questions here from -- various kind of questions around MTD, and I'll try to consolidate them a little bit. But basically, the gist is could you talk about the rationale of buying MTD? And just when you think about the secular opportunity from electronification, what was really the driver behind buying versus maybe building that platform out yourself organically?

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

Yes. I think building it organically is something that tends to take a long period of time, and this is a category that is a very unique manufacturing process. So to manufacture a rider mower, to manufacture a large platform mower, to manufacture a zero turn mower is a fairly sophisticated manufacturing process and fairly sophisticated in the design as well.

So to do that on an organic basis would be fairly complicated. You could do it. It will be very slow. There would probably be a long runway for organic growth and might be an interesting way to pursue it.

But we looked at it and said, okay, you've got a business with some brands -- 2 businesses in our case, MTD and Excel, that are very good at the manufacturing process. Where they need our help is relationships with suppliers, some of them like Lean Sigma things that we do to drive more productivity on an annual basis, the processes that a bigger company would have to really continue to drive more and more efficiency throughout the supply chain. They can benefit from us applying a lot of those tools on an ongoing basis.

But they bring that strength. They also bring a lot of innovation. They have an excellent innovation engine and machine. One of the things I was really impressed with after we did our minority stake as we spent time with them is just how much innovation they drive, how much they have in their funnel for their future. I mean they really are a very innovative company, MTD, in particular.

And then Excel is really well known in the zero turn mower space. I mean they were really one of the kind of early adopters of that technology and have outstanding equipment in that particular space. So we're acquiring a lot of that skill, a lot of that expertise and we're also acquiring a significant base in the independent dealer network.

And so that independent dealer network is where we think there's a big growth opportunity midterm and long term to utilize the DEWALT brand, utilize Cub Cadet and Hustler, which are their 2 representative brands in those categories, and how do we really leverage those 3 brands across the independent dealer network as we electrify and as we bring a differentiated set of solutions that are electrified on those different platforms is really how we think we can differentiate ourselves across that particular part of the industry, which we think will stimulate a lot of growth because we'll be able to provide innovative solutions that improve the efficiency of a landscaper across the board. And therefore, the payback they get in making some of these investments in these technologies will be quite significant.

And so that's why we're so excited about it. And that's why we think it makes more sense to acquire versus trying to do it on an organic basis.

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

Okay. Okay. That makes sense. And then, I mean, do you see opportunity for the -- outdoor power equipment is actually really fragmented and I guess if you're using gas at the common power source, I can use all sorts of different brands as a landscaper or a contractor, what have you. As you move to batteries and more of a system approach, I mean, do you think there's going to be more consolidation opportunities as maybe smaller competitors aren't able to invest that same dollar level of -- for technology advancement?

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

I do, yes. And then it will be a question of like are they worth acquiring? Or do you just kind of let them slowly fade away over time as the market converts to electrified solutions. I think there'll be some examples where it makes sense to acquire because they may have some unique technology or they may have a brand that really is a strong niche brand that could add to the existing brand portfolio, especially in the dealer channel.

So there could be some interesting small acquisitions to do there. And -- but I think with the 2 that we've done, we've actually created an outstanding foundation to achieve what I just described. And you may not need to do a lot of acquisitions to build upon that in North America. Now if we want to pursue global opportunities in the European market, then there are certainly some very interesting acquisitions we can do over there.

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

Okay. Okay. Good. Well, I think we're out of time. So please join me in thanking the Stanley team for being here. And Don, Lee, Dennis, really appreciated the time and liked the conversation.

So the management team will be available for a 15-minute breakout here after this session is done. So thanks, everybody, for participating.

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

Thank you.

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

Thank you.
