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# EDITED TRANSCRIPT

SWK.N - Q2 2021 Stanley Black & Decker Inc Earnings Call

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**OVERVIEW:**

Co. reported 2Q21 revenues of $4.3b and adjusted EPS of $3.08. Expects 2021 organic revenue growth to be 16-18%, GAAP EPS to be $10.80-11.20 and adjusted EPS to be $11.35-11.65.





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## PRESENTATION

**Operator**

Welcome to the Second 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 the Vice President of Investor Relations, Dennis Lange. Mr. Lange, you may begin.

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**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 Second 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 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 second 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 the actual results may materially differ from any forward-looking statements that we might make today. We direct you to the cautionary statements in the 8-K that we filed with our press release and in our most recent '34 Act filing.

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

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

Thanks, Dennis, and good morning, everyone. This morning, we announced a record second quarter, which capped off a historic performance over the last 12 months. Over this period, we have delivered $3.1 billion revenue growth now at a $17 billion LTM run rate. Adjusted operating margins reached new heights approaching 17%, Tools operating margins are in excess of 20%, and we added $2.9 billion of sales growth in Tools, including outdoor, over the last 4 quarters. My team and I are proud of the collective effort of our 56,000 Stanley Black & Decker colleagues. We thank them for their resilience and dedication, their agility to cut through the many challenges associated with executing on this massive growth trajectory during the global pandemic. The way they have stepped up is impressive, taking care of customers, our people, our communities. It's a great story.

Turning to the second quarter. Revenues were up 37% versus prior year to $4.3 billion. We achieved an all-time organic growth record of 33% and marked the first time all 3 segments, as currently organized, achieved double-digit organic growth in the same quarter. The extraordinary organic growth of 41% in Tools demonstrated the power of the world's leading tool company with the best brands and innovation in the industry. All regions delivered robust double-digit growth and our strong commercial and supply chain execution enabled us to capitalize on the positive secular trends and strong markets. Industrial accelerated to 14% organic growth behind the second straight quarter of double-digit growth and share gains in our automotive, general industrial and Attachment Tool businesses as recoveries in these end markets are continuing.

The growth would have been even more robust if not for auto OEM production delays related to electronic component shortages and by a few continued cyclically depressed markets such as aerospace. Security had its strongest quarter in the last 10 years, delivering 14% organic growth. The Security businesses transformation to a data-enabled technology provider is accelerating, and the team successfully converted a strong backlog into revenue. Order rates were red hot in the quarter, up 36%, and the ending executable backlog was at record levels. We're excited about the full potential of these opportunities to support elevated revenue growth in the back half and beyond.

Our overall company adjusted operating margin rate remained strong at 15.5%, up 270 basis points from the prior year, with volume leverage, price, mix benefits from innovation and margin resiliency more than overcoming the cost of growth investments, commodity inflation and higher expedited transportation costs required to serve the strong demand in Tools. Adjusted EPS for the quarter was a second quarter record at $3.08, up 93% over prior year, and free cash flow for the quarter was $339 million, up 28% versus prior year and over $300 million better on a year-to-date basis than our record-setting 2020, a year in which free cash flow was $1.5 billion.

On the heels of this great performance, we entered the second half with positive momentum and a portfolio that is well positioned to capitalize on the key trends that are driving growth, the consumer reconnection with home and garden, e-commerce, electrification and health and safety. We are investing across our businesses to capture these opportunities and enable sustained above-market growth with margin expansion. And to that end, we are raising our 2021 full year adjusted EPS guidance range to $11.35 to $11.65 per share, a 27% increase versus prior year at the midpoint.

Finally, I'd also like to highlight that last week, we increased our dividend for the 54th consecutive year. The quarterly payout now stands at $0.79 a share, which represents a 13% increase. This is a reflection of the continued confidence we have in the cash generating power of the company. A strong growing dividend is a key element of our shareholder value proposition and is consistent with our capital deployment strategy to return approximately half of our excess capital to shareholders over the long term. Of course, repurchases are the other major vehicle we could employ to do that. And notably, our Board increased our repurchase authorization last quarter to 20 million shares, giving us the flexibility to do some of that as well.

During our May Growth Summit broadcast, we showcased several significant catalysts that represent opportunities for a long and rewarding growth runway for Stanley Black & Decker. These catalysts capitalize on key 2020's trends, many of which are expected to continue into the foreseeable future. We are expecting that the key market drivers across our global tools markets will continue to be strong demand drivers and support tools growth for some time, including the secular surge in consumers' reconnection with the home and garden as well as the cyclical expansion in North America home improvement driven by new and existing home sales associated with household formation and the urban exodus.

We are investing more than $200 million in innovation, e-commerce, sales and marketing and others, and we've never been better positioned to capitalize on market trends. Across the board, we have strategic differentiators that make us the world's leading tool company. Our iconic brands, DEWALT, Craftsman, Stanley, Stanley FatMax and Black & Decker; our category depth; channel development and operations excellence and a track record and commitment to market-leading innovation, our pipeline has never been stronger. We are expanding our cordless product offerings up and down the power spectrum to new users and product categories.

With our FLEXVOLT, FLEXVOLT ADVANTAGE and DEWALT POWER DETECT platforms we are the industry leader in maximizing power output with plans to nearly double the number of products on these platforms over the next 3 years. Our ATOMIC and XTREME platforms leverage the smallest, most power dense, brushless motor technology in the industry, to deliver the highest power-to-weight ratio available in compact 20-volt and 12-volt platforms and will expand the product offering across these platforms roughly 4x over the coming years. These breakthrough products have already delivered significant share gains, and they're just getting started.

The massive acceleration in the shift of demand to e-commerce was amplified during the pandemic, which was an enormous positive for us. We have approximately 3x the share in e-commerce as our next closest competitor, and we grew our global e-commerce business from 13% of Tools sales to 18% in a matter of 12 months, now about a $2 billion channel. This shift to e-commerce is going to continue, and we are doubling down our investments in talent, digital capabilities and our brands, including the revitalization of Black & Decker, which is an iconic brand that has a license to play in the largest breadth of categories within our portfolio.

We see a significant opportunity over the coming years as the team reimagines Black & Decker to drive it towards more youthful buyers as an e-commerce lifestyle brand. The increased focus on ESG and climate and what that means for electrification presents a very compelling multiyear opportunity for us as well. Our existing cordless outdoor power equipment business has grown over 70% in the first half of the year. And in Engineered Fastening, the move from internal combustion engines to hybrid and EV platforms ultimately results in a 3x increase in content per vehicle.

And lastly, the transformation of our Security business to become a technology-driven data solutions provider is gaining significant momentum, and the timing is excellent. The team has done a great job creating various solutions and products that are focused on health and safety, which has never been more relevant as the world continues to battle the pandemic. In addition to these growth opportunities, we are gaining momentum with our margin resiliency program. We continue to find new applications and use cases to apply our technology-enabled approach that will deliver a runway for sustainable margin expansion in the coming years.

And now a brief update on MTD. As many of you know, our option to acquire the remaining 80% of MTD opened up at the beginning of this month. This opportunity is exciting as we bring leading brands and capabilities in the electric outdoor category as well as the ability to deploy the SBD operating model and apply our global scale. MTD brings superb product engineering and manufacturing expertise in outdoor power equipment, capabilities in robotics technology as well as access to the independent dealer channel in outdoor.

We were just at MTD's facilities in Valley City, Ohio, last week and came away even more energized by the pipeline for innovation and the runway for growth in 2022 and beyond. The strategic fit is hand in glove and the revenue and cost synergy opportunities are compelling. We are currently in negotiations with MTD on the option execution. And should they come to a successful conclusion and subject to all regulatory approvals, we will begin work on tackling this multiyear opportunity for growth and margin expansion upon closing.

And now, I'll hand it over to Don Allan to cover a few financial details on MTD, a more detailed discussion on second quarter results and offer up some 2021 guidance. Don?

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

Thank you, Jim, and good morning, everyone. Before we leave Slide 5, as Jim mentioned, I want to make a few remarks about some significant financial attributes related to this exciting potential transaction. First, over the last 12 months ending June 30, MTD achieved revenue of approximately $2.5 billion. They have seen great traction on their Spotlight10 initiative and have improved their EBITDA rate from approximately 4.5% in 2018 to high single digits over this LTM period.

As I referenced at Investor Day, MTD has worked tirelessly to meet the supply chain challenges brought about by the pandemic, including limited throughput on larger products as well as component and input shortages. However, this has muted their output in revenue over the last 12 months. We believe these are temporary and manageable disruptions that can improve with our application of the SBD operating model. Consistent with Investor Day and taking into account our recent diligence, we believe that a combined MTD and SBD outdoor platform can become a growth catalyst to deliver $200 million in organic growth per year over the medium term.

Our planning assumption for 2022 continues to call for the addition of MTD. Assuming $2.6 billion in revenue and continued progress on OM expansion, we believe this could contribute approximately 9% adjusted EBITDA margin or just over $230 million in consolidated adjusted EBITDA in 2022. Considering the benefits of our 20% stake currently in our P&L and applying interest and intangible amortization assumptions, this would result in approximately $0.50 of incremental adjusted EPS accretion in 2022. With our pathway for growth and margin expansion, this EPS accretion increases to over $1 by 2025, a strong P&L result that also carries a robust year for cash flow return on investment in the high teens.

I will now take a deeper dive into our business segment results for the second quarter. Tools & Storage delivered 46% revenue growth with volume up 38%, currency up 5% and price contributing an additional 3 points. The operating margin rate for the segment was 20.2%, up 320 basis points versus prior year. Volume, price and benefits from innovation and productivity were partially offset by commodity inflation, higher expedited transit costs to serve stronger demand and new growth investments. The extraordinary Tools & Storage growth was realized across the globe again in Q2, with organic growth of 30% in North America, 63% in Europe and 85% in emerging markets.

This performance was driven by the ongoing strong professional demand and robust levels of innovation across our brands, in addition to the continuation of the global penetration of e-commerce, outdoor product electrification and the consumers' reconnection with home and garden. We continue to see growth and share gain across our brick-and-mortar and e-commerce platforms in U.S. retail, with the channel up 22% organically in the second quarter. POS remained robust, and retailer inventories ended the quarter still below normalized levels.

Professional products are leading the growth across the front half and the share gains are consolidating. The first half 2021 POS is up approximately 40% compared to 2019. The North American commercial and industrial tool channels once again experienced positive sequential trends accelerating to 68% organic growth. The growth was supported by strong professional-driven demand and positive trends in manufacturing and industrial production, while our company-specific marketing and digital efforts drove share gains with our Industrial customers.

The European Tools business realized 63% organic growth, driven by an expansion in commercial, retail brick-and-mortar and e-commerce channels due to the strength of the industrial rebound, coupled with professional construction demand. All regions contributed to double-digit growth and share gains were led by the U.K., France and Greece, which were up 130%, 73% and 67%, respectively. Finally, emerging markets was up over 85%, driven by higher construction-related demand.

All markets contributed to share gains. Latin America was up 130% -- I'm sorry, 136% organically, with all countries at least doubling and Asia delivered 36% organic growth with at least double-digit growth across the region and India up nearly 3x. Russia and Turkey delivered another solid performance with organic growth of 78% and 114%, respectively. As highlighted at our May Growth Summit, our e-commerce initiative is a strategic growth driver for the business, and we are continuing to invest for further expansion. Second quarter global e-commerce revenue was up nearly 40% versus 2020, with a double-digit growth result from each region.

Turning our attention to the Tools & Storage SBUs, all 3 SBUs had excellent contributions to the overall performance. Power Tools delivered 39% organic growth, benefiting from supportive markets and our growth catalysts. This was enabled by the relentless supply chain execution, combined with new and innovative product launches across CRAFTSMAN, Stanley FatMax and DEWALT. This includes an industry-leading breakthrough innovations such as DEWALT POWER DETECT, FLEXVOLT ADVANTAGE, ATOMIC and XTREME.

DEWALT FLEXVOLT was our first breakthrough as many of you know, and was once again a leader in 2021. Under this brand, we are introducing a 15 amp-hour battery and the 60-volt SDS MAX 2-inch hammer, both of which will be world's first innovations. Our FLEXVOLT system is now up to 45 products and is forecasted to represent over $600 million in 2021 revenue. It remains a key growth driver and is a unique and advantaged platform that we continue to leverage. We are passionate about innovation, and the pipeline continues to be robust. Stay tuned as more breakthroughs are on the horizon for our power tool products.

The outdoor products business grew 40% organically, with all regions contributing. This performance was driven by new listings and cordless innovations under the Black & Decker CRAFTSMAN and DEWALT brands. This also includes expanding our offering in walk behind mowers and pressure washers, leveraging our FLEXVOLT technology and the Black & Decker Robotic Mower launch in Europe. We continue to expand our cordless technology and other innovations to the outdoor electric category to drive growth and are very encouraged about the future product pipeline.

Finally, Hand Tools, Accessories & Storage grew 42% organically, fueled by robust market demand and new product introductions. We launched the new DEWALT Tough series tape measures and hammers as well as brought new power tool accessories to the market. We are expanding our offering of new metal and plastic storage solutions across both CRAFTSMAN and DEWALT brands, in addition to further innovations across our key construction, auto and industrial markets. In summary, growth continues across the globe within all 3 of the Tools & Storage SBUs. Equally as important, this growth comes with strong margin performance as a result of the team's continued resilience and disciplined price and supply chain execution. It was a fantastic performance for the Tools & Storage and outdoor teams. Thank you, both teams.

Now turning to Industrial. This segment delivered 16% total revenue growth, which includes 13% volume, 3% currency and 1 point of price. This was partially offset by 1 point from an oil and gas product line divestiture. Segment organic growth improved sequentially with positive 14% growth in the quarter. The operating margin rate of 10.9% was an increase of 210 basis points versus the prior year. Benefits from volume, price and productivity were partially offset by commodity inflation, growth investments and trophy markets in oil and gas as well as aerospace.

Looking further within this segment, Engineered Fastening organic revenues were up 26% as we continue to see improving automotive and industrial end markets. Our automotive fastener and system sales were up 63% organically. Our fastener organic growth significantly outpaced global light vehicle production and was up nearly 90% in the second quarter. Our automotive systems business was up 5%, the second consecutive quarter of growth and a positive indication of improving OEM capital investment.

At the segment level, we had an approximate 2-point negative revenue impact versus our second quarter plan from OEM semiconductor shortages, which disrupted vehicle production throughout the quarter. Industrial fasteners accelerated to 29% organic growth behind the continued recovery in global manufacturing and industrial activity. All regions contributed double-digit growth and realized share gains. The business solidly outpaced the global industrial production index.

Aerospace fastener revenues continued to reduce by -- versus 2020 as they deal with very slow markets due to limited new planned production. However, the recovery is on the horizon and expected likely to begin in 2022. Infrastructure organic revenues were down 11%. Attachment Tools realized 16% growth, which was driven by increased OEM and independent dealer demand. Momentum continues to build in this market with strong backlogs and order rates at our OEM and independent dealer customers. However, there was more than an offset by the dramatic reduction in pipeline activity, which resulted in a 55% decline in oil and gas. This market is longer cycle as we know and is yet to see a recovery in new pipeline construction.

Shifting to Security. Total revenue was up 16% with 13% organic volume, a 6-point positive impact from currency and a 1 point contribution from price. This was partially offset by a 5-point decline related to the international divestitures that we completed in the third quarter of last year. Overall, North America was up 16% organically. We continue to get better access to customer sites and we're able to convert our backlog within commercial electronic security.

North America also benefited from strong growth within automatic doors and health care. European organic growth was up 12% as new data-driven product solutions supported gains in France and the Nordics. A strong performance considering that many of these markets still have pandemic-related restrictions impacting installations. Our new digital solutions continued to build momentum, contributing approximately 2 to 3 points of growth as the business continues to execute a required digital transformation. Overall, order rates grew 36% in the second quarter, and the quarter end executable backlog was a record high, which positions the business to deliver high single-digit organic growth for the remainder of 2021.

Overall Security segment profit rate, excluding charges, was 8.5%, down 110 basis points versus the prior year rate as price and volume gains were more than offset by the inefficiencies related to pandemic restrictions, and the cost impact from growth investments such as SaaS solutions, touchless door technology and other health and safety options. We believe these inefficiencies will save when the pandemic reaches its final stages. And as the growth investments contribute larger revenue dollars, we will see the profitability rate of this business expand as well.

Now I will turn the call to Lee McChesney to review cash flow and an update on material inflation, expedited transit costs and our price actions. Lee?

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

Thank you, Don, and good morning. Moving to Slide 7, we will review cash flow performance. Free cash flow in the second quarter was $339 million, which brings our year-to-date performance to $93 million. The quarter and year-to-date improvements versus prior year are predominantly driven by robust operational performance and earnings growth and was partially offset by higher working capital and capital spending versus prior year. We are investing in working capital to serve the end-user demand as well as improvement in inventory positions for our customers and for us.

Working capital turns at 6.7, a 1.1 turn improvement versus prior year, reflecting efficiencies delivered in accordance with the SBD operating model and the strong revenue performance. We're also making CapEx investments to drive margin resiliency and productivity as well to expand capacity and support further growth. We've had a great start to the year for free cash flow, up over $300 million versus the record 2020 performance and remain confident that we will deliver strong cash flow generation for full year 2021.

Turning to Slide 8. On the left side of the page, I'll share some insight regarding the commodity and supply chain environment and SBD's countermeasures. Looking at the top of the slide, we have included approximately $80 million of incremental expedited transit costs in the second half that we will incur to serve our improved demand assumption. The level of spend is fairly consistent to what we've realized in the front half of the year. This includes items such as premiums for expediting, securing containers for our supply chain and airfreight to keep pace with a hot tool market. These costs should alleviate as the global supply chain rebalances and presents an opportunity for cost savings and margin improvement in 2022 and beyond.

Now moving to commodity inflation. We continue to see elevated commodity prices and now expect $260 million of commodity inflation in the second half versus our prior assumption of $210 million. In particular, elevated steel pricing is largely driving the $50 million increase. And for the full year, this is up about $65 million and approximately a $300 million cost for 2021. Now in April, we discussed taking pricing and productivity actions to partially offset the incremental headwinds identified at that time. We are now in the full implementation mode and believe we should be in a position to offset approximately 50% of the 2021 headwind. Netting material inflation and better price realization is a neutral effect versus the prior guidance. The goal is to have our actions in place during the third quarter, so the 2022 carryover benefits of price and margin actions fully offset the carryover inflation. And finally, we also have $50 million to $60 million of margin resiliency savings that is not included in the guidance to absorb volatility or support better performance.

Now I will turn it back to Don to cover our revenue assumptions for the back half.

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

Thanks, Lee. Shifting to the right-hand side of the slide, I will now outline the full year organic growth and margin rate assumptions, both overall and by segment. We are raising the total company organic growth range to 16% to 18% versus our prior assumption of 11% to 13%. The primary driver is an improved outlook for Tools & Storage. Our visibility and confidence for sustained market demand continues to strengthen in addition to bringing channel inventories back to historical levels. We are raising the organic growth expectations for the segment to the low 20s versus our prior estimate of 14% to 16%. This results in mid- to high single-digit organic growth in the second half, which is supported by increased customer inventory as well as continued strong global demand.

This assumption represents second half organic growth of about 26% versus 2019, which is consistent with what we just delivered in the front half of 2021. The Industrial outlook is in the low to mid-single-digit range, which is slightly lower than our mid-single-digit assumption in April. The primary factors for the change are the impacts from the second quarter as well as moderating our assumption for oil and gas for the remainder of the year. Lastly, Security organic growth is assumed to be high single digits. The record backlog in commercial electronic security is encouraging. And coupled with our data and technology-based product offerings and health and safety solutions, we are optimistic for a strong second half for the business.

We are assuming the margin rate for the entire company will improve 40 to 50 basis points year-over-year. We expect the Tools & Storage and Industrial margins to increase year-over-year, even given, one, some of the significant inflationary pressures expected in the second half; and two, key new investments to drive 2022 growth. The Security margins will be relatively flat to the prior year as we manage through the inefficiencies related to the pandemic restrictions as well as the cost impact from our key growth investments.

Now I'll summarize the remaining guidance assumptions on Slide 9. On a GAAP basis, we expect the earnings per share range to be $10.80 up to $11.20, inclusive of various onetime charges related to facility moves, deal and integration costs and functional transformation initiatives. On an adjusted basis, we are increasing the EPS outlook to $11.35 up to $11.65 from the previous range of $10.70 to $11. Our revised 2021 guidance calls for organic revenue growth of 16% to 18%, as just mentioned. And at the midpoint, adjusted EPS expansion of 27% versus prior year and 37% versus 2019. The updated outlook reflects our strong first half performance as well as improved visibility to demand in Tools & Storage.

We continue to make investments to support our growth catalysts, increase the capacity in our supply chain and drive our margin resiliency initiatives. The drivers for improved adjusted EPS are outlined on the right-hand side of this slide. Walking from the $10.85 EPS midpoint from our April guidance, second quarter performance adds $0.35. Second half volume leverage, net of expedited transit costs required to meet the improved second half demand, adds $0.30. Lastly, as Lee referenced earlier, strong realization on our price actions offset increased commodity inflation and net to a neutral impact to our guidance.

On the left side of this chart, we have disclosed our current year assumptions for the significant below-the-line items and our expectation for pretax M&A and other charges to assist with your modeling. Behind the strong start to the year, the company is reiterating free cash flow to approximate GAAP net income. Therefore, we believe the free cash flow will likely approximate $1.7 billion in 2021. And lastly, we expect third quarter's adjusted earnings per share to be approximately 21.5% of full year earnings.

So in summary, our revised guidance calls for organic revenue growth of 16% to 18% and approximately 26% to 29% adjusted EPS expansion for the company in 2021. This is a very strong year-over-year expansion, yet balanced recognizing the dynamic operating environment we all continue to navigate. Many of you are probably trying to gauge what this all means for 2022. While it is too early to make a call on the markets for that period of time, our objective and mindset is to grow our core earnings in 2022 in addition to the MTD accretion I outlined earlier.

As you heard from Lee, we are in a great position from a price/cost perspective and are expecting a neutral impact in 2022 from these items at current commodity prices. Additionally, as you heard at our Growth Summit in May, we have invested in a powerful set of organic growth initiatives, and we are driving several key margin resiliency catalysts that give me confidence that organic revenue and earnings growth is achievable in 2022. The organization remains focused on day-to-day execution, implementing price increases and margin resiliency programs in response to commodity inflation, and we are operating in accordance with our SBD operating model. We believe the company is well positioned to deliver above-market organic growth with operating leverage, strong free cash flow generation and 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.

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

Thanks, Don. I'll keep this summary very brief so as to get right to Q&A. And as you've seen and heard, we had a very strong finish to the first half as we delivered exceptional organic growth, strong margin performance, reflecting positive secular trends, vibrant markets and a strong array of growth catalysts. I'm pleased with the team's continued efforts and excited about the enormous potential given the improved outlook, strong momentum we've built over the last 12 months. And as we look to the future, our portfolio is uniquely positioned to benefit from these trends, several of which have been accelerated and amplified by the pandemic, the consumer reconnection with the home and garden, e-commerce, electrification and health and safety.

We're capitalizing on this opportunity by funding innovation and commercial and capacity investments to support continued organic growth and share gains. And additionally, our option to acquire the remaining stake in MTD has the potential to generate significant revenue in 2022 and create an exciting multiyear runway for growth and significant EPS and cash flow accretion. 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 or ESG, has never been stronger.

And now we are 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 comes from Tim Wojs with Baird.

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

Nice job on the first half here. My question is really on DIY versus pro. Just if you could elaborate on what you're seeing maybe in both markets, particularly DIY, as you're starting to, my guess is or my sense is, hitting tougher comps right about now in that market? And maybe you can dovetail that just with some color on some of the drivers, Don, that you mentioned about the confidence around organic improvement in '22?

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

Yes. I mean I think the way to think about DIY and professional is, clearly, we've seen a really strong ramp in professional activity starting in the fourth quarter of last year. But what's interesting when you look across all our brands, we're seeing strength everywhere. So you saw strength across the different geographies. I mentioned the robust organic growth numbers. You've seen it in all the SBUs and you're seeing it with all the brands. And so the activity is still pretty intense, both on the DIY and the professional side. Who knows how long the DIY trend will continue. The potential for a Delta variant maybe slowing down certain activities in the U.S. and other countries could actually continue to stimulate DIY activity for a period of time. But what really has us excited is what's happening on the professional side and how that continues to be very strong.

The activity across the globe is continuing to expand at a very rapid pace. And obviously, the need for our products continues to expand with it as well. So we sit here today and feel pretty good about the trend we're seeing going into the back half. We do believe there is a way to demonstrate growth in 2022, as I said. And although we'll deal with some tough hurdles and comps, these markets are very strong. And then you combine it with all the growth initiatives that we talked about in our May Growth Summit, I mean Jim went through them in a fair amount of detail in his opening comments as well today, those really get us excited about the opportunity. So even if demand does start to slow, we see hundreds of millions of dollars of growth opportunities across those particular areas, which has us excited, which is why we think we have the potential to demonstrate organic and earnings growth next year.

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

Shannon?

**Operator**

Our next question comes from Nigel Coe with Wolfe Research.

**Brandon Tyler Reagan** - *Wolfe Research, LLC - Research Analyst*

This is Brandon Reagan on for Nigel Coe. I just was curious if you guys had any kind of position on the news that Carrier is potentially selling Chubb for $3 billion. Just wondering if this had any influence on your thoughts about the Security options?

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

Well, it's an interesting question because I just happened to see it flash up on my phone about 30 minutes ago, but it is a very nice price, first of all, $3.1 billion. We consider 14.5x LTM EBITDA must be adjusted a little bit, but still very high multiple. We believe our business is probably worth at least as much, if not more, probably another turn or 2 more than Chubb, all else equal. So that, I think, pins a valuation on our business that is perhaps a little higher than even we thought it was. And so there's no direct response to your question right now other than we are obviously digesting the news. And we will continue to evaluate options, whether they be retention of the business, disposition of the business or something in between. So that's where we are right now.

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

And as I said in my comments, what has us really excited before we make that decision that Jim was describing is the trajectory it's on for organic growth with this really amazing performance in Q2 we think we could be looking at a business that is in the high single-digit organic growth for the full year of 2021. And as the business continues to demonstrate that growth with its new growth initiatives into next year, the profitability rate will come with it. And we'll get past some of these pandemic restrictions as well as those growth investments will start to demonstrate more operating leverage. So we have the best of both worlds, I guess.

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**Operator**

Our next question comes from Michael Rehaut with JPMorgan.

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

I just wanted to talk a moment about MTD and couple of questions if I could kind of borne into one in this topic. Number one, the top line, you had mentioned looking at maybe $2.6 billion for 2022, as the company has encountered some maybe supply chain issues. I was wondering if you can kind of give us -- you talked about a $200 million organic growth type of opportunity on a combined basis. But how do you see -- do you see that there was any kind of share issues that might have cropped up? I assume the broader market grew nicely. And how you intend to perhaps regain that share and grow the business organically? And then when you talk about in negotiations for -- with MTD for the option exercise, I was just curious. I think too many people just seem relatively straightforward that you had the opportunity to exercise or not. If there are any types of nuances that we might not be aware of, or is it more just a lot of more basic blocking and tackling?

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

Well, Michael, that's a lot of questions packed in one, but we'll tackle them. First of all, the market itself did grow nicely in 2021. And the growth for MTD was minimal, nominal. And that can be traced entirely to supply chain issues. The demand was there and it continues to be there. But like many large equipment providers, they are -- they have struggled a bit with pandemic-related issues, labor shortages, also some component shortages and things like that. Some companies have been situated in ways to manage them through the turbulence and still come out with great growth, as you can see in our tool business, for example. Other companies may not have had all the wherewithal or the situation might not have lent itself to that same successful outcome. And so yes, there was a little bit of share loss because of the supply chain issues.

But I can assure you that it has nothing to do with the fundamental strength of the company, the strength of the products and the brands. The products themselves -- I mean, we visited, as I mentioned, last week their headquarters and spend a couple of hours looking at their product innovation pipeline. And I can tell you, when we marry -- successfully completing this deal with regulatory approvals, et cetera, when we are able to marry the brands of Stanley Black & Decker with the products that they've come up with already, and -- it's going to be a very, very exciting combination. So we're not concerned about the supply chain issues being a long-term issue.

We have included in our pro formas a significant amount of resource to manage through those. We bring the scale and the expertise to help do that for them, with them. The negotiations really -- so if you think back to the structure, the structure was predicated on essentially a multiple of EBITDA. And the incremental EBITDA that has grown since the time we initially took our 20% stake times -- 5.5x. I mean that's the formula. So 5.5x the EBITDA growth under the theory that we both work together in different ways over the course of time to help them increase the EBITDA, so we should share that increase. And so 5.5x is half of 11x, which is what we paid for the 20%. So really, the only negotiation of significance boils down to certain due diligence items, which would be debt-like items, maybe certain liabilities that we would see an environmental or tax or those types of things as well as maybe some adjustments here and there for -- to get from a GAAP EBITDA to an adjusted EBITDA, which the formula is based on.

So one example of that would be since the formula was such a quantitative formula that the temptation that those folks could have had and didn't actually do this, but they could have, say, for instance, decrease their R&D or they could have shut down their robotics business, which is -- loses a modest amount of money to increase the EBITDA. We ask them to not do anything that would impair the company strategically for the benefit of financial -- for their financial purchase price. And they've been very high integrity, and so there may be some adjustments of that sort, but that's fundamentally what's being negotiated.

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**Operator**

Our next question comes from Nicole DeBlase with Deutsche Bank.

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

So I guess the 3Q 21.5% of full year EPS, clearly a bit lower than the normal contribution. And there's obviously a lot of moving pieces this year. So maybe you could talk a little bit about when you went through like the freight costs and the impact of price/cost, how does that differ, if any, between 3Q and 4Q, just to think about the cadence of margins for the rest of the year?

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

Yes, sure, Nicole. Yes, I wouldn't say there's a material difference between the third quarter and the fourth quarter. You obviously have some differences in the sense of the timing of the pricing whereas we continue to have discussions with our customers on price to be implemented throughout the third quarter, and that should be completed by the end of the third quarter. So you have a bit of a cadence of that with a full quarter impact in the fourth quarter as a positive. So that will be a helpful trend. You also had something going the other way in the seasonality that plays out of Q3 versus Q4 every year.

Just the mix of promotions and mix of activities that happened in Q4 versus Q3 can result in anywhere from an 80 basis point to 120 basis point decline in margins in the Tools business from Q3 to Q4. And so when you factor those types of things in, we think the Tools margins in the back half will be somewhere between 16% and 17%, so roughly 16.5% on average. Q3 will be around the high point of that range and Q4 will be at around the low point of that range. And so that's probably the right way to think is just due to that dynamic that I just described. The other 2 businesses will continue to modestly improve. as far as Q2, Q3 to Q4 in their profitability rates, but not in a significant way. So I think that's probably helpful color in that area for you.

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**Operator**

Our next question comes from Ross Gilardi with Bank of America.

**Ross Paul Gilardi** - *BofA Securities, Research Division - Director*

Yes. I just wanted to go back to MTD that probably you guys are characterizing as the revenue issue, as more of a supply side issue. But clearly gas powered outdoor equipment is losing share to battery electric, which is part of the reason your own outdoor business is up 40%. So I'm just a little bit confused as to why you'd characterize the shortfall in revenue for MTD as purely a supply side issue. I mean they're primarily -- correct me if I'm wrong, a gas-powered outdoor equipment company today and gas-powered equipment is ceding share to cordless. So could you just elaborate on that a little bit more?

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

Well, if only it were as simple as that. However, the MTD folks basically make gas-powered equipment and specialize in higher-end zero-turn mowers and riding mowers and have some but a relatively limited walk behind business in terms of dollar percentage of total. So electric penetration into riders and zero turns is roughly about 1%, and has stayed pretty constant. So we can't paint MTD with that brush that you are painting them with, number one, because their mix is gas powered. And we know that other gas-powered heavy outdoor power equipment makers grew. And these include some companies that we're very familiar with that grew in the 10% to 20% range during that quarter. So it is what it is. It's not a shift to electric. We will make that happen later if we're able to execute on this. And that's kind of where we are at this point.

**Operator**

Our next question comes from Eric Bosshard with Cleveland Research.

**Eric Bosshard** - *Cleveland Research Company - Co-Founder, CEO, Co-Director of Research & Senior Research Analyst*

On the Tools business, just 2 things I would love to understand a little bit better. First of all, your sense from a market share standpoint, where you're making the most notable progress? And then secondly, your interaction with your retailers. You talked about inventory, but their commitment to building inventories from here and their focus on that. If you could just expand on those 2 areas, that would be great.

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

I'd love to hear your opinion on that, Eric. But market share in terms of progress, are you talking about products? Are you talking about competitors? All of the above? I mean, clearly, there's a very intense battle going on between us and TTI. TTI has picked an exclusive strategy in the home centers with one player as well as a kind of commercial and industrial strategy, predicated on a lot of feet on the street and lot of investment in sales and marketing resources in that regard. Brand to brand, I'd say when you look at the 2 brands, DEWALT and MILWAUKEE, we believe DEWALT is a stronger brand, but not by that much. When we look at CRAFTSMAN and RYOBI, we think that CRAFTSMAN is a far stronger brand than RYOBI, and that's based on actual research.

So that's kind of the setup there. Globally, TTI is making some progress, making some investments around the world, but it's largely focused historically on North America and on Australia, New Zealand. So that's kind of the stage there. The interaction with retailers, I think the retailers are as optimistic as we are about the future. And I think they would love to have more inventory yesterday. And we keep getting that -- those reminders as we operate our factory system at full bore. And we're adding capacity. We're adding several plants this year, and that will help. We're also working on making sure that we're looking out far enough on all components that we need in expediting components all around the world to make sure that we can serve their needs from a supply chain perspective and continue to gain share. So interaction with retailers is great. It's intense. People are kind of really seeking more product, and we're doing everything we can to do that, meet their needs.

**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.

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**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.

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**Operator**

This concludes today's conference call. Thank you for participating. Everyone, have a wonderful day.

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