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SWK - Q4 2019 Stanley Black & Decker Inc Earnings Call

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OVERVIEW:

Co. reported 4Q19 revenue of $3.7b and adjusted EPS of $2.18. Expects 2020 GAAP EPS to be $8.05-8.35 and adjusted EPS to be $8.80-9.00.

CORPORATE PARTICIPANTS

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

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

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

Jeffery D. Ansell *Stanley Black & Decker, Inc. - Executive VP and President of Tools & Storage*

CONFERENCE CALL PARTICIPANTS

Brett Logan Linzey *Vertical Research Partners, LLC - VP*

Deepa Bhargavi Narasimhapuram Raghavan *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Justin A. Speer *Zelman & Associates LLC - MD of Research*

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

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

Ross Paul Gilardi *BofA Merrill Lynch, Research Division - Director*

Takeheiko Makishi *Barclays Bank PLC, Research Division - Research Analyst*

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

PRESENTATION

Operator

Welcome to the Fourth Quarter and Fiscal Year 2019 Stanley Black & Decker Earnings Conference Call. My name is Shannon, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over to the Vice President of Investor Relations, Dennis Lange. Mr. Lange, you may begin.

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

Thank you, Shannon. Good morning, everyone, and thanks for joining us for Stanley Black & Decker's Fourth Quarter and Full Year 2019 Conference Call.

On the call, in addition to myself, is Jim Loree, President and CEO; Don Allan, Executive Vice President and CFO; and Jeff Ansell, Executive Vice President and President of Global 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 Jeff will review our fourth quarter and full year 2019 results and various other matters, followed by a Q&A session. Consistent with prior calls, we're going to be sticking with one question per caller. And as we normally do, we will be making some forward-looking statements during the call.

Such statements are based on assumptions of future events that may or 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 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 President and CEO, Jim Loree.

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

Thank you, Dennis, and good morning, everyone. As you saw in this morning's press release, we successfully closed out the year with an in-line 4Q performance. Quarterly revenue was up 2% to $3.7 billion with organic growth of 2% amidst a mixed global macro. Our total company adjusted operating margin rate was 13.6%, up 30 basis points year-over-year. And adjusted EPS for the quarter was $2.18, up 3%.

Full year revenues were $14.4 billion, up 3%, with a solid 3% organic growth performance. Our operating margin rate was quite resilient at 13.5%, just 10 basis points under last year despite absorbing $445 million of external pretax headwinds from tariffs, FX and the like, a significant portion of which were not and could not have been anticipated at the beginning of the year. Adjusted EPS for the year was $8.40, a 3% increase versus 2018, a notable accomplishment under the circumstances.

And finally, we were thrilled to deliver $1.1 billion of free cash flow for a conversion rate of 113% and a CFROI of 14%. Working capital turns improved to 9.8 turns, up a whole turn versus prior year. And this strong cash performance helped us support our growing dividend and enabled us to finish up the year with a balance sheet in great shape with a debt-to-EBITDA of approximately 2.0x while absorbing $900 million of capital allocation to M&A in 2019.

And in this regard, we closed on 2 previously announced transactions - during 2019. First, our 20% minority partnership with MTD provides a path to enter the $20 billion-plus outdoor power equipment market with an industry leader in a financially prudent way. Beginning in July 2021, we have an option to purchase the remaining 80% of MTD with a potential to add approximately $3 billion of revenue at an all-in EBITDA multiple in the range of 7 to 8x. This option remains in place for 10 years, giving us maximum flexibility to enter the market at an appropriate time of our choice.

We also closed on the acquisition of IES Attachments, a leading provider of off-highway specialized attachments for prime moving equipment, doing business under the Paladin and Pengo brand names. This transaction almost triples the size of our infrastructure business unit while further diversifying our presence in the industrial markets. The business features high profitability, good growth and is heavily weighted to the aftermarket, which represents approximately 60% of revenues.

In addition, today, we announced that we have reached an agreement to acquire Consolidated Aerospace Manufacturing, or CAM, which gives us an exciting platform for growth in the aerospace components and fasteners market, and I'll provide a bit more color on that in just a moment.

Another highlight from 2019 was the progress made by our Security business. 4Q was a significant step forward in the turnaround as we generated our best Security organic growth in recollection at 4% with all major regions and businesses contributing. North America electronic security was up 10%, a very encouraging indication of the power of our new business model.

Security also demonstrated its ability to accrete its operating margin rate, which was up 20 basis points for the year. And so we appear to be at an inflection point with increasing positive momentum in organic growth and a stable operating margin rate poised for accretion in 2020.

And as for the future of Security in our portfolio, we look forward to providing you with a midyear update, as promised. However, we are confident in the value we are creating through this transformation regardless of whether we choose to retain or to monetize the asset at some point.

So looking back at 2019, a lot of progress was made against a volatile uncertain backdrop of tariffs and other external headwinds. Despite the $445 million of pressures, we more than helped serve with our financial performance.

We continued to execute on our growth catalysts, including FLEXVOLT, Craftsman, e-commerce, DEWALT, ATOMIC and XTREME and the acquisitions. We continued to enthusiastically embrace the growing importance of ESG and multi-stakeholder capitalism, recognizing the power of purpose-driven performance and the importance of diversity and inclusion to the success of the corporation.

Our 60,000 employees, our Board members and the many business partners in our ecosystem gave it their all, and we emerge well positioned to tackle the challenges and opportunities of the 2020s. And I want to personally thank each and every one of them for their contributions. Our performance this year was no small accomplishment, and I am very appreciative.

And with that said, I want to move to another development that we announced today. As indicated in our release, today, we're sharing plans for a leadership succession in our Tools & Storage business. And after 20 years with the company, Jeff Ansell has made the personal decision to step back from his responsibilities as President of Tools & Storage and take a less intensive role in our organization. And we're pleased that we are able to share a seamless transition plan today with Jaime Ramirez, currently Senior Vice President and Chief Operating Officer of Tools & Storage, assuming leadership responsibility for the entire unit over the course of the first half of 2020. Jeff has been an incredible colleague, teammate and leader of Tools & Storage for 15 years now. In fact, over the last 2 decades, few have contributed more to the growth and success of this company than Jeff. He was integral to the historic Stanley and Black & Decker integration that created enormous growth for the company. And during his tenure, leading Tools, that unit grew from a $600 million revenue hand tool business to a $10.1 billion industry leader. His passion for customers, brands, products and innovation is truly remarkable.

And even with that track record and all those accomplishments, we were supportive when Jeff approached us about his interest in making this change. We are grateful for his many years of dedication and high performance, but also completely respect his desire to spend more time on personal and family endeavors. Further, we appreciate his willingness to remain a major contributor to the company's success in the coming years.

So effective July 1, he will transition his current operating responsibilities to Jaime and will assume the leadership of a major and exciting organic growth program involving the revitalization of the Black & Decker brand. He will continue in this role through the end of 2021, and at that point, will stay on as a strategic adviser to the company through the end of 2023.

And as I mentioned, Jaime will assume full leadership of the business by midyear. He's a 27-year veteran of Stanley Black & Decker cutting his teeth in the emerging markets. The agility, adaptability and drive to win necessary to succeed in those high-growth volatile markets will serve him well. And in addition to his strong and proven execution skills, Jaime is a champion of innovation, technology and digital transformation with a socially responsible approach. We are confident that he is the right leader to take Tools & Storage into the future, and he will bring that transformative focus along with his passion for the business to the role. Many of you have met Jaime before, and we look forward to you spending more time with him in the months ahead and the years to come.

And so on behalf of the Board and our entire management team, I want to extend our heartfelt appreciation to Jeff for all his contributions and impact in leading at our Tools business to become the largest, most innovative and most trusted tools franchise in the world.

And now I'll turn it over to Jeff to make a few remarks.

Jeffery D. Ansell - *Stanley Black & Decker, Inc. - Executive VP and President of Tools & Storage*

Jim, thank you for the kind words. It is with tremendous pride that after more than 1/4 of a century in this company and decade and a half leading the Tools business, I share with you my decision to transition my responsibilities. 15 years ago, I set out to establish our Tool business as the biggest and best in the world. That mission has more than been accomplished. At this point, I want to share more time with my wife and children as they so willingly shared me all these years. This transition allows me to do just that, and at the same time, remain professionally connected to the company that I love through 2023.

A great deal has been accomplished in the past 15 years by the Tools & Storage team and me. And while I'm in transition, the team that remains has delivered incredible results, including increasing the size and profitability of the Tool business by more than 17x, making us the world's largest tool company; developing over 10,000 new products; and growing our flagship brands to their largest sizes of history, including Stanley, Black & Decker, IRWIN, LENOX, Craftsman and DEWALT.

I leave the Tool business in excellent care. The management team is the absolute best in our industry and have known and worked alongside Jaime Ramirez for more than a decade. His long tenure and successful track record in this wonderful company have prepared him well for this role.

Our strength in every major geography in the world and our unparalleled stable of brands, combined with our robust pipeline of innovation, as well as pervasive faith in Jim, Don and our entire management team, instill tremendous confidence in me that this organization's best days are ahead. I will always be indebted to our customers and employees for making all this possible.

And with this, I'll turn the call back to Jim.

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

Thank you, Jeff. It's been a great journey and not over yet. And before I turn it over to Don Allan, I just wanted to cover a little more detail on CAM.

Growing and diversifying our Industrial business through M&A is a priority for the company and a key element of our strategic capital deployment. Our vision presented at our 2019 Investor Day is to create a $3 billion to $4 billion global industrial platform that is made up of highly engineered application-based solutions. We are looking for businesses that have the attributes you see on the left side of this slide: strong engineering capabilities with technology that is industry-leading, customer-recognized and trusted brands and a recurring revenue component or heavily weighted aftermarket elements. Additionally, we want businesses that are global in scale, can differentiate through innovation and operate in strong end markets and have the potential for robust growth over the long term.

Consistent with this strategy, we are very excited about today's announcement of the CAM acquisition. CAM is a leading manufacturer of specialty fasteners and components for the aerospace and defense end market. This acquisition is an ideal bolt-on to our existing Engineered Fastening business and further adds to our Industrial portfolio in a new high-growth, high-margin market. The transaction is valued at up to $1.5 billion with $200 million held back and contingent upon the 737 MAX receiving timely FAA authorization to return to service and Boeing achieving certain production levels.

When adjusted for approximately $185 million net present value of expected cash tax benefits, the net transaction value is approximately $1.1 billion to $1.3 billion.

CAM has LTM revenues of approximately $375 million and attractive profitability characteristics. This business has strong brands, a proven business model, deep customer relationships and an experienced management team, which will create a pathway for profitable growth and value creation.

Given the favorable characteristics of the asset, the year 5 cash flow returns are within our 12% to 15% target and is expected to add $0.30 to $0.40 of EPS accretion by year 3. This acquisition of CAM also gives us a platform asset in aerospace to add on future bolt-on acquisitions.

The transaction is subject to customary closing conditions, and we're excited to welcome CAM and its 1,600 employees to the Stanley Black & Decker family as soon as possible and are ready to get work -- to get to work on the integration and synergy plan once closed.

And as you take a step back to look at what we've accomplished in Industrial over the past 3 years, it is notable that the acquisitions of Nelson, IES Attachments and CAM align closely with our strategy and have increased our exposure to new end markets while diversifying our Industrial portfolio beyond automotive OEM. These 3 high-quality assets in the aggregate represent approximately $1 billion in revenue and $2.6 billion in strategic capital allocation. Each carry strong prospects for revenue and profit growth as well as compelling cash flow returns and EPS accretion.

And now I will turn it over to Don Allan to cover the fourth quarter and our 2020 guidance.

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

Thank you, Jim, and good morning, everyone. I would also like to express my gratitude to Jeff Ansell and let him know how much I enjoyed working with you for over 20 years. We worked together to drive our company forward operationally. I will miss having you in those moments going forward, but I am so excited for you in the next stage of your SBD journey. Thank you, Jeff, for being an amazing leader through this wonderful transformation of Tools & Storage.

Now I will take a deeper dive into our business segment results for the fourth quarter. Tools & Storage delivered 1% total revenue growth with 2% organic growth and a 1-point headwind from currency. Price was modestly positive in the quarter, but slightly below our expectations as we saw our promotional mix increase in North America, which partially offset the continued pricing benefits we are receiving across the global business.

The operating margin rate for the segment was 16.5%, up 110 basis points versus prior year. The benefits of significant margin resiliency actions taken, volume and price were partially offset by tariff and currency headwinds as well as unfavorable product mix and plant under absorption related to significant inventory reductions.

Total tariff and currency headwinds amounted to approximately $85 million for the entire company with 95% impacting Tools & Storage. The unfavorable product mix was caused by reduced levels of hand tools, accessories and storage revenue versus the prior year, which, of course, has higher levels of profitability, combined with the increased promotional activities in the Power Tools SBU.

We took the opportunity within the quarter to begin to normalize our inventory levels following the completion of the Craftsman rollout and other various brand transitions we have been executing across the marketplace. This effort resulted in a very strong cash flow performance, but the lower production volumes created a nonrecurring P&L headwind that we were able to overcome. These last 2 areas of operational pressures, combined with lower-than-expected volumes, emerged during the quarter and drove a negative impact on our segment operating margin. However, we were mostly able to offset that with significant margin resiliency action.

On a geographic basis, North America was up 3% organically. U.S. retail continued to see strong momentum with mid-single-digit growth in the quarter, the. U.S. commercial channel posted low single-digit growth while the industrial-focused product lines and automotive repair channel were both down high single digits. We believe there was some ongoing customer inventory corrections that occurred during the quarter, which constricted our shipment growth in this particular area. This is the second consecutive full quarter we have experienced this negative impact in the channel.

North America's growth continued to be fueled by our brand rollouts, including Craftsman, and new product innovations, such as DEWALT, FLEXVOLT, ATOMIC and XTREME. The sell-through continued to be robust across North American retail with the fourth quarter once again delivering double-digit POS, resulting in a double-digit performance for the full year as well. It is rewarding to see these growth catalysts generating such a positive response from our end-users and delivering such a strong performance once again.

Europe delivered 3% organic growth in the quarter, with 7 out of the 10 markets growing organically. This performance was led by the U.K., France, Central Europe, Greece and Iberia, which more than offset weaker markets in Italy and the Nordics. The team once again leveraged our strong portfolio of new products and commercial actions to produce above-market organic growth.

Finally, emerging markets declined 3% organically. Weaker market conditions within Latin America more than offset the benefits from price, new product launches and e-commerce expansion. The Latin American market pressure was most acute in Chile, Mexico and Central America, which, in some cases, you are seeing the political environment or social disruption beginning to impact the business confidence and the underlying GDP. We saw strong performances in Brazil, India and China, which posted mid-single-digit growth, while Russia, Turkey and Korea all posted strong double-digit growth.

Now let's take a look at the Tools & Storage SBUs. Power Tools & Equipment delivered 6% organic growth, benefiting from strong commercial execution and new product introductions. User response to our new innovations within FLEXVOLT, ATOMIC and XTREME has been very positive and continues to translate into share gains for us and our customers. Hand Tools, Accessories & Storage declined 3% as new product introductions were more than offset by the aforementioned customer inventory corrections and the shift to more promotional items such as power tools. In addition, the Craftsman comps are getting more difficult and this will cause a temporary pressure to organic growth for a few quarters.

In summary, a strong quarter, an incredibly successful year for Tools & Storage generating mid-single-digit organic growth and OM rate expansion despite taking out most of the $445 million of externally driven cost headwinds that came our way in 2019. An incredibly impressive performance by the team, which continues to be resilient and acts with agility to position the business for future growth and margin expansion in 2020 and beyond.

Turning to Industrial. This segment delivered 9% total revenue growth, which included 13 points of growth from the IES acquisition, partially offset by a 4-point decline in volume. Operating margin rate increased 40 basis points year-over-year to 13.6% as productivity gains and cost control more than offset the impact from lower volume and externally driven cost inflation. Our Engineered Fastening revenues were flat organically as higher systems shipments and fastener penetration gains were offset by inventory reductions and lower production levels within industrial and automotive customers.

Our Industrial end markets remained challenged due to ongoing inventory reductions and slowing trends across these particular areas. However, despite underlying automotive production declining for a sixth consecutive quarter, our auto fastener business continued to benefit from penetration gains, outgrowing global production by 410 basis points.

The Infrastructure businesses declined 17% organically as volumes were impacted by challenging oil and gas pipeline and scrap steel markets.

Now let's turn to Security. I'm pleased to report we delivered 4% organic growth, marking the second consecutive quarter of positive organic growth. North America was up 7% organically, driven by increased installations within commercial electronic security and higher volumes in health care and automatic doors, a very impressive performance in North America.

Europe posted 1% organic growth, led by France and Sweden, which was partially offset by continued market weakness in the U.K.

In terms of profitability, the segment operating margin rate was 11.2%, down 80 basis points versus the prior year as organic growth and cost containment were more than offset by the impact from the Sargent & Greenleaf divestiture and investments to support organic growth. The investments are significant and will begin to pay dividends in 2020 as the 2019 revenue impact was modest in building momentum. Without the impact of these 2 items, Security would have experienced significant margin rate expansion.

It was encouraging to see Security organic growth accelerate in the fourth quarter, and we expect the top line momentum to continue into 2020. The business will look to balance organic growth and OM rate expansion on a consistent basis as we leverage our targeted investments in commercial electronic security. We feel the business is well positioned for success, which is low single-digit organic growth with consistent operating margin dollar and rate expansion.

Let's take a look at our free cash flow performance on the next page. As you can see, our free cash flow for the full year was excellent as we generated approximately $1.1 billion in 2019, up $312 million year-over-year and a free cash flow conversion of 113% of our net income. The improvement was due to higher cash from operations, driven by our working capital improvements as well as modestly lower capital expenditures.

As it relates to working capital, we delivered 9.8 working capital turns, up 1 turn year-over-year. As I mentioned earlier, we made the decision in the fourth quarter to reduce inventory levels within our Tools & Storage business as the heavy lifting from our brand transitions are complete. As we look ahead, we still see opportunities to improve working capital back above 10 turns in the coming years.

We are very pleased with this result. As many of you know, we have been very focused on getting our annual free cash flow back above $1 billion. And now that we've completed these significant brand transitions, we were able to complete -- achieve that objective in 2019.

So let's move to the 2020 guidance on Slide 8. We are expecting an adjusted earnings per share range of $8.80 to $9.00, up approximately 6% versus prior year at the midpoint. On a GAAP basis, we expect the earnings per share range to be $8.05 to $8.35, inclusive of various onetime charges related to restructuring, M&A costs as well as the Security business transformation and key margin resiliency initiatives. As a reminder, this guidance does not include the impact of the CAM acquisition.

In addition, we expect the free cash flow conversion will approximate 90% to 100% in 2020.

So let's turn to some of the drivers of core EPS growth, as you see on the left-hand side of the chart. We expect approximately 3% organic growth, which will generate $0.40 to $0.50 EPS accretion. The actions associated with our cost-reduction program announced in October are broadly complete and expected to deliver approximately $0.95 of EPS. These items will be partially offset by $0.60 to $0.70 of carryover tariff and currency headwinds.

Finally, below OM, we expect a net $0.25 EPS headwind year-over-year. This includes a tax rate of approximately 18%, which is up 2 points year-over-year as certain benefits experienced in 2019 will not repeat at the same levels in 2020.

Additionally, we are seeing about $0.05 of net headwind, which includes share pressure related to previous financing activities, partially offset by favorable interest expense.

Just to clarify our tariff assumption, we are assuming the benefit within our guidance from the recently announced trade deal, so this means List 4A is at 7.5% beginning in the middle of February, and Lists 1, 2, 3 remain in place at 25% rate. This resulted in a net benefit of about $0.10 in our guidance, which includes a reduction in our tariff expectation as well as lower-than-expected pricing benefits.

As it relates to pricing, we have benefits built into the plan across all our businesses, but since the tariff environment has de-escalated for the time being, much of the new 2020 pricing we achieved will be generated by executing margin resiliency actions.

So let's turn to margin resiliency. We are now in full execution mode and expect to generate $300 million to $500 million of cumulative benefits from this program over the next 3 years. As a reminder, the margin resiliency program is generating accelerated productivity by applying technology to our manufacturing and procurement processes as well as our back office. This was developed as a response to the dynamic nature of the external operating environment, which we now view as our new reality. As such, we are leveraging the program as additional contingency to offset any incremental headwinds or market dislocations that may come our way throughout the year. Should the external environment stabilize or in the event we start to see some tailwinds, we will leverage this program as an opportunity to outperform our guidance or reinvest into our businesses.

I would now like to review our expectation for the next quarter. We expect first quarter's earnings to be approximately 14% of the full year performance, which is about 300 basis points lower than last year. The first factor driving this lower percentage of full year delivery is that we expect a little more than half of the $115 million of full year external headwinds to impact the first quarter.

Next, we will anticipate organic growth to be relatively flat in the first quarter. We are planning for the global industrial environment to continue to be choppy, and we are facing more difficult comps in Tools due to the Craftsman rollout. While we expect Craftsman to still deliver about 2 points of growth within the Tools & Storage segment in 2020, the first quarter discretely is one of the toughest comparisons for the load-in, which started to intensify in the first quarter of 2019. These 2 factors represent approximately 2/3 of the reduced first quarter contribution, resulting in a relatively consistent operating margin rate and dollars versus last year. The remaining 1/3 of the first quarter difference is related to higher-than-expected tax rate and the impact from consolidating MTD's full winter season.

Now we're going to turn to the segment outlook on the right side of the page. Organic growth for the Tools & Storage is expected to be at mid-single digits in 2020. There are multiple catalysts supporting growth, including core innovation, benefits from our breakthrough, such as FLEXVOLT, ATOMIC and XTREME, e-commerce and the continued contribution from the brand transitions with Craftsman, Stanley and Stanley FatMax. Margin rates are expected to be positive year-over-year as we realize the benefits from volume, our cost actions and productivity, which will more than offset the carryover impact from the external headwinds.

In the Industrial segment, we expect a relatively flat to modestly negative organic performance. This outlook reflects the current slow market conditions within the automotive and industrial end markets as well as the oil and gas pipeline and attachment tool markets. Our expectation is that the front half will continue to carry similar market pressures as what we saw in the back half of 2019. Once we get to the second half, we do see the opportunity for better performance and potentially modest growth as the comp ease. Operating margins in this segment are expected to be positive year-over-year as productivity and cost actions are partially offset by modest tariffs and currency headwinds.

Finally, in the Security segment, we are expecting organic growth to be up low single digits in 2020. With the investments we have made over the past year, the team has positioned the business for a more consistent top line performance. This is expected to translate into improved operating margins year-over-year as we leverage volume and deliver on our focused initiatives to lower our cost to serve.

One last matter as it relates to guidance. With the recent virus outbreak in China, we are anticipating some questions as it relates to our manufacturing footprint. First, our major facilities and suppliers are not located in the affected area. Our largest tools and engineering fastening facilities are located in the broader Shanghai area. We also have plants that are in Mainland China adjacent to Hong Kong and Macau as well as a plant along the Eastern Coast. We are staying close to the situation, and the team is working through contingencies for manufacturing and for our supply base. With what we know thus far about the 1-week extended shutdown for Chinese New Year, we feel this is an impact that is contemplated in our guidance. Of course, this is a very dynamic situation and our teams will react and respond as conditions change, and we will update you as we know more throughout the quarter.

So in summary, for our total company, we expect a 3% organic growth, 5% to 7% adjusted EPS expansion, inclusive of a 2-point tax headwind, a solid result and a balanced view that focuses on delivering margin expansion by realizing the benefits of our cost actions and generating volume leverage to successfully overcome the carryover impacts from tariffs and currency.

We believe we are taking the appropriate actions to position the company for success in 2020. The organization is focused on leveraging our organic growth catalysts, executing margin resiliency, generating strong free cash flow and successfully integrating the CAM and IES acquisitions.

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

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

Thanks, Don. One last look at 2019. It was a successful year considering the environment. The performance was possible due to the agility, passion and dedication of our workforce, and I thank our people for their commitment. It's their extraordinary dedication, passion, teamwork and sheer will to win that makes this company so special. Our teams acted with speed and determination while facing into $445 million currency, commodity and tariff headwinds as well as very dynamic end markets. We delivered 3% total revenue growth, including 3% organic growth, and our OM rate remained strong at 13.5% and adjusted EPS expanded by 3%.

In a really positive note, free cash flow was $1.1 billion with very strong conversion and a CFROI consistent with our long-term financial objectives.

And as we turn to 2020, our leadership team will act with agility, leveraging our proven ever-evolving operating system to successfully navigate the underlying external environment. And additionally, we're continuing to execute on our margin resiliency initiative, $300 million to $500 million over the -- over several years, to get our margins back on an upward trajectory despite whatever headwinds might appear on the horizon.

We're looking forward to another successful year in 2020, continuing to achieve our vision to deliver strong financial performance, to become known as one of the world's great innovative companies and elevate our commitment to corporate social responsibility. We are ready for the 2020s. 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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Jeff Sprague with Vertical Research Partners.

Brett Logan Linzey - *Vertical Research Partners, LLC - VP*

This is Brett Linzey in for Jeff. Hey, just wanted to come back to the incremental revenue opportunity. I think you said 2 points contribution from Craftsman. But if we include the other key programs, FLEXVOLT, ATOMIC, XTREME with Craftsman, what are you contemplating in the guide in terms of incremental growth from those programs?

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

Yes. I would say that the 2 points for Craftsman, obviously, I stated in my prepared remarks, we expect mid-single-digit performance for the overall business on a global basis. You'll have the other share gains that we will achieve above market GDP, which is probably in the high 1s, if you look at our global mix, anywhere from 1.8% to 2%. And so any other share gains that we gain along there will add to that. And then we do have some pressures, as I mentioned, in emerging markets, that we expect to continue in the first half and then some of the industrial tool channels as well. In the first half, there will be a bit of a drag on that. But those are the main categories.

So I would expect share gains from those innovations, Craftsman, market growth of close to 2% and then you're going to have some drag in the areas that I mentioned that kind of gets you to that mid-single-digit number.

Operator

Our next question comes from Julian Mitchell with Barclays.

Takeheiko Makishi - *Barclays Bank PLC, Research Division - Research Analyst*

This is Jason Makishi on for Julian. Just a question around the first quarter guidance, particularly around the margin rate. I think last year, there was about a $40 million to $50 million inventory charge taken as a result of commodity cycles in the Tools business. Is there a reason why despite that theoretically being a nonrepeat in Q1 '20, the operating margin rate is going to stay sort of flat year-on-year? Can we get a little bit more color as to what the offsets are? And then maybe just any guidance around what the total commodity headwind/tailwind is for the full year?

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

Yes. So the first quarter, I mean, as I mentioned in my comments, we do have an incremental tariff and currency headwind of -- the annual number is about $115 million. That's about half of that is going to hit in the first quarter. So that's clearly of the magnitude of very similar to the number you mentioned related to the item in the first quarter of 2018. So that's a significant drag that we're seeing. So you had a onetime now that -- last year that goes away, but then you have this particular issue that comes in.

The -- if you look at the split for the full year, I said $115 million of headwinds. The tariff number is $80 million to $90 million and then the rest is currency. Commodities at this point, we expect to be neutral. But of course, that's an opportunity as we go throughout the year to see if we get a little bit of deflation as the year goes on.

Operator

Our next question comes from Tim Wojs with Baird.

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

I had a 2-part question, if I could. So I guess the first, just the guide for Q1 implies acceleration through the year in Tools and some more meaningful margin improvement through there. So I guess, what's your line of sight to both of those within the Tools segment?

And then the other side of this is just, Jim, you talked about Black & Decker revitalization. I was hoping you could give us just a little color on what exactly that means?

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

Don, you take the first part. We really respect and appreciate you so much, we're actually going to take your 2-part question even though it's really 2 questions. Don?

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

I think it's very cool how he dressed that, though, 2-part question, so it's really 1 question. Yes, so the cadence for Tools is that we expect in the first quarter kind of relatively flat, maybe down slightly for organic growth, but I feel like it will be close to relatively flat.

And then as we go throughout the year, this comp issue that we're dealing with in the first quarter for Craftsman is quite significant. It's almost 3 points in the quarter.

And so when you factor that in and you factor in some of these slower markets I mentioned in emerging markets and Industrial, that's kind of how you get to that number. That's going to start to regulate in Q2. And then, obviously, when you get to the back half, you don't have those type of pressures you're dealing with year-over-year. And we expect nice growth from the program at Craftsman for a full year, as I mentioned, 2 points. And I will remind everybody that POS continues to be very strong for Craftsman and it's double digits. It has been double digits throughout 2019 and we expect to continue to be strong as we go through 2020, and the success of this rollout will help us drive that type of performance. And then we expect some of these markets to get a little better in the back half, and that's probably the right way to think about the cadence.

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

And on the revitalization of the Black & Decker brand, this is an opportunity that has been in front of us for a long time, and it's taken a lot of thought and preparation. And we've had so many other priorities and revitalizing brands that it was a little bit lower on the list. But it truly is a remarkable brand, one of the great consumer brands in the world and it's an opportunity to unlock great value from this asset. And Jeff, as you know, was the mastermind behind the Craftsman revitalization and execution of that. And now he tackles this Black & Decker project and he's actually -- done a fair amount of work on this already, has a fair amount of definition for what it is. But how much of that, he and we want to share right now is not very much because there's always the element of confidentiality, and to some extent, surprise when it comes to these sort of things. And -- but I will turn it over to Jeff, and you can tell them whatever you'd like to disclose at this point in time recognizing that it won't be too much.

Jeffery D. Ansell - *Stanley Black & Decker, Inc. - Executive VP and President of Tools & Storage*

So well, to add on to what Jim said, I guess, the genesis of this was that Black & Decker in any survey, any study you do is iconic -- remains iconic from an aided and unaided awareness perspective. And we looked at the progress across our tremendous stable of brands these past 10 years and I'll give you rough ranges, but we had growth like 70% in the Stanley brand, 9% and 10% with LENOX and IRWIN since we acquired it, over 250%

in DEWALT and 500% in Craftsman. We love those numbers. We're really excited, and it's fueled that growth. Black & Decker is also the biggest -- the largest size in history, but it's only been up about 3% in that time frame. So we look at it as a really opportunity cost. We could do so much with that brand, we haven't had the time to do it. I now have the opportunity to do just that, and we're excited about what can happen in the next few years here.

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

So as you can see, we're not disclosing a whole lot right now other than it's a big opportunity. But more to come on that. You'll see it over the coming quarters, should have some impact by next year and really material impact beyond that.

Operator

Our next question comes from Nicole DeBlase with Deutsche Bank.

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

My question is around free cash conversion. If you guys could talk a little bit about the differences between the low and the high end of the guidance for 2020. And I guess, what's the scope to get to 100% plus conversion sustainably from here?

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

Sure. Yes. I would say that for 2020, that range of 10%, of 90% to 100% is really dependent on probably primarily 2 factors. One would be working capital. We did end the year at close to 10 turns and so we will continue to drive improvement in that number. But to get a positive impact in your free cash flow related to working capital, you need at least 0.5 to 0.7 of a turn improvement for the whole company to make that happen. So we might get close to that, but it might actually be closer to neutral than a positive impact from working capital.

And then CapEx will be something that continues to be between 3% to 3.5% of our revenue. But we also know that it'll be probably at the higher end of that range in 2020 as we start to work through some of these China supply chain mitigation strategies as we move production to other countries in certain cases as well as we will be building our Craftsman plant in Fort Worth, Texas as well and there'll be a fair amount of cost in 2020 related to that. So those are really the 2 factors that kind of result in that variation. Our goal is clearly to get to 100% or more. It always is. But we occasionally, on an annual basis, will manage that to achieve these other strategic objectives.

Operator

Our next question comes from Michael Rehaut with JPMorgan.

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

First question -- I guess, first and only question I have is on -- just kind of parsing out the 2020 guidance a little bit more. Specifically, I just wanted to revisit the margin resiliency initiatives. You referred to it in the prepared remarks as something that you expect to continue to materialize. And just wanted to get a sense of how you're thinking about that flowing through and the timing of that benefit flowing through in 2020 if you're still thinking about the $100 million to $150 million type of benefit for the year and how it would hit the P&L?

And then just as a slight clarification. The $200 million cost reduction, I'm coming to that being about $1.05 in EPS benefit. I just didn't know if my math is off or if there was something different between that and the $0.95.

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

Yes. The last part of your question is really just kind of timing of that particular -- certain things. In certain parts of the world, you can't do it as quickly as you'd like, so you have a little bit of an impact to that. That's why it's about $0.10 different than what you're calculating for your math. But that obviously will carry over into 2021.

Our margin resiliency, I'm glad you asked that question, the -- if you remember from the October earnings call when we gave you some initial thoughts about 2020, we really had the objective of trying to position the company with an EPS growth that was reasonable, given the headwinds that we were going to experience or as a carryover into 2020, and I think we've done that with the guidance today at 6% at the midpoint. But we also wanted the margin resiliency to get about $100 million to $150 million of value in 2020, but we wanted that to be more of a contingency and I mentioned that in my comments earlier. And that's really the plan. So it's not baked into our guidance right now. It's there for if other headwinds come our way that we have to deal with, like the virus in China, as an example, might be a little bit of a headwind for a period of time. Currency might be a headwind that emerges, or it doesn't emerge, these headwinds don't happen and there's an opportunity for us to outperform, and as I mentioned, reinvest in the business. The cadence by quarter is relatively consistent. It's not going to be back end loaded in a big way. So I would expect you could be pretty close to evenly split, maybe 40% in the first half, 60% in the back half.

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

And if I could just add, when we look at the environment that we're in, over the last 3 years, the external headwinds have averaged about $300 million a year. And if you look at the 5 years preceding the '17 to '19, which would be the last 3 years, when you look at the previous 5 years, they averaged $135 million a year. So we had a step function change in headwinds. And most of those headwinds at the beginning of the year or a significant proportion of them were -- it was impossible to plan for them. And so I think we're seeing here at this juncture with the potential that we could have headwinds of hundreds of millions of dollars like we had over the past few years, and obviously, we have some of that in the plan or not or something less. And so it's only prudent to reserve a pretty significant contingency for the potential that we could have a really, really significant headwind similar to we've had over the last 3 years. And so that's kind of the way we're thinking about it. And if they don't come, then we have a fantastic opportunity to outperform our earnings as well as reinvest in the company's growth.

Operator

Our next question comes from Deepa Raghavan with Wells Fargo Securities.

Deepa Bhargavi Narasimhapuram Raghavan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay. Question is on capital deployment. It's a good start, especially purchasing some defense exposure with CAM. But Don, what -- how should we think about deployment pace, the pace of deployment going forward given the $1.5 billion cash deal takes up much of the excess cash availability over the year even as you're deleveraging. Any thoughts there?

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

I'm going to tackle that question because -- because Don has had so many questions about guidance, I want to give him a break. But also, we both think about capital deployment quite a bit and we happen to agree on our approach.

And so as most of you know, our long-term capital deployment strategy is to allocate 50% of our excess capital to M&A and 50% to giving back to the shareholders in the form of dividends and repurchases. And over the last 20 years, you will find -- if you calculate that, you will find that it actually turns out to be 50%, 50-50. And, so we've been true to that and we will continue to be true to that because we think that, for this company, that is the best value-creation strategy for the long term.

And so we shouldn't look at these things necessarily in isolation. But from a tactical point of view, we were at 2.0 debt-to-EBITDA at the end of the year. This will take was up to 2.6 for a period of time until we work it down again. So there won't be a lot of M&A activity, of significant M&A activity this year unless something really significant comes along and then we look at what are the options. And going forward, we have the Security business, which is a potential asset to monetize if something really down the fairway came along our way. We also have the MTD option in front of us, but we have 10 years to execute that. So there's no pressing need to have probably about $2 billion of -- when we finally implement -- or execute that option, it would be about $2 billion if we did it in the '21/'22 time-frame.

So I think we're in a great position from a tactical point of view, too. We have the opportunity to create excess capital if we see something really great that we want to execute on in terms of M&A. We also have an opportunity to kind of take 2020 as sort of rebuild the balance sheet year back to where we want it to be for the dry powder. And we'll go from there.

Operator

Our next question comes from Justin Speer with Zelman & Associates.

Justin A. Speer - *Zelman & Associates LLC - MD of Research*

Just wanted to just follow up on the comments on the promotional cadence and channel inventories. You mentioned them being full for at least a portion of the Tools & Storage business. You mentioned promotions being a little bit more elevated in parts of the Power Tool business. Just wanted to get a sense for what's going on there?

And thinking about the incremental tariffs, incremental pricing, if these elements are going to make it really difficult to get incremental pricing to at least partially offset the carryover tariffs and currency.

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

Yes. So I'll take that. The promotional activity, I would kind of summarize that as it's an intense holiday season. There were a lot of things going on in the power tools space, and we ran probably higher level of promotions than originally expected as we went into the quarter, which that can happen sometimes in a holiday season like the fourth quarter, or even in the second quarter occasionally as we go into the late spring and summer. So I would just say that's things that happened and nothing really unusual about that.

I would also say that we did have a little bit of a reduction in the inventory and the channels by our customers, and so not a massive reduction in weeks on stock, but there was a little bit of a reduction in some of our major customers, which is good because that's just them managing their inventories appropriately. And as you know, in the case of one of our customers, in particular, they built a higher level of inventory due to a significant launch of Craftsman and that's going to have to continue to be something we monitor. But we're going to manage that throughout the year as we go through 2020 and still achieve 2 points of growth, as I mentioned, for Craftsman as we manage that dynamic.

And if the POS continues to be strong, the way it has been in double digits, the amount that we have to manage in inventory will become smaller and smaller.

As far as tariffs go, the $85 million carryover, a lot of that is tariff that were put in place in the back half with some pricing put in place in that period as well, so there's a little bit of carryover price. But we're going to manage price more through the margin resiliency initiative versus specific pricing actions for tariffs. There'll be a little bit of that associated with 4A. But that's not a large number.

Operator

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

Ross Paul Gilardi - *BofA Merrill Lynch, Research Division - Director*

I was just wondering, can you give a little more details on CAM like how profitable is the business? When did the transaction actually closed? And sort of why is the accretion so far out? I realize these are here the same questions, but -- a number of questions, but just really some more color on CAM aftermarket versus OE and Boeing exposure and whatnot.

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

Sure. I mean we're not disclosing the actual profitability level at the request of the CAM folks. However, suffice it to say that it's a high-growth, high-margin business and a substantial EBITDA and EBITDA growth potential ahead of it. The aftermarket is a pretty significant part of the revenue base. It has grown approximately 6% organically over the long-term. So very nice asset, high growth, high profitability, good aftermarket content and a lot of engineering content, which a lot of these components are in critical functions on the airplane. So we're very happy to have made this acquisition. It's a strategic platform. There are multitude of bolt-on opportunities as well as some larger opportunities that may or may not become available over time. So it just gives us a great runway for future growth.

Operator

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

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

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

Operator

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