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SWK.N - Q1 2021 Stanley Black & Decker Inc Earnings Call

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OVERVIEW:

Co. reported 1Q21 revenue of $4.2b and adjusted EPS of $3.13. Expects 2021 organic revenue growth to be 11-13%, GAAP EPS to be $10.15-10.55 and adjusted EPS to be $10.70-11.00. Expects 2Q21 organic revenue growth to approximate 30%.

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PRESENTATION

Operator

Welcome to the First 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.

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 First 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 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 first quarter results and various other matters followed by a Q&A session. Consistent with other calls, we are going to be sticking with just 1 question per caller. And as we normally do, we'll 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, 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.

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

Thanks, Dennis, and good morning, everyone. I have to say it's an exciting day for us here at Stanley Black & Decker. Today, we have the opportunity to report an outstanding start to 2021, highlighted by record revenue and EPS and many other accomplishments. These powerful results were backed by strong markets and excellent operational execution, which supports our improved outlook for the year.

And thank you to our 53,000 employees around the globe who delivered these results by maintaining focus on our pandemic era priorities. The priorities of employee health and safety, serving our customers with continuous operations and doing our part to help our communities mitigate the impact of the virus, have served us extraordinarily well this past year.

First quarter revenues were up 34% to $4.2 billion versus prior year. Each of our segments and regions contributed to deliver an all-time record 31% organic growth. Our Tools & Storage business continued on its extraordinary growth trajectory with 45% organic growth. Yes, 45% growth in the quarter.

All regions and business units contributed to the performance with blazing hot markets across the globe, led by a confluence of positive factors. Vibrant markets and secular trends, including the consumers' reconnection with the home and garden, e-commerce and outdoor electrification in concert with our ubiquitous channel strategy and an intense focus on supply chain execution enabled a strong business growth.

Our portfolio of iconic brands such as DEWALT, Craftsman and Stanley in combination with industry-leading innovation has proven to consistently deliver ongoing gains in market share at the POS level and now at the sell-in level as well. The Tools first quarter performance is an outstanding example of what this powerful combination can deliver.

Industrial organic growth was 6% as we've seen a strong double-digit recovery in automotive, general Industrial and Attachment Tool end markets, along with share gains. This was partially muted by continued market declines in aerospace and Oil & Gas. And for Security, 1% organic growth was in line with our expectations given the many restrictions placed on our installation and service techs.

We've made continual progress with our digital health and safety product offerings and the security business transformation to a data-enabled technology provider is accelerating. We are excited about the full potential of these opportunities to support revenue growth throughout the year.

And there was great news regarding our operating margin rate as well. The rate for the quarter was 17.6%, up 760 basis points from the prior year, with volume leverage, productivity, cost control, price and margin resiliency all contributing.

Adjusted EPS for the quarter was another all-time record at $3.13, up 161% over prior year. And both our operating cash flow and free cash flow were each about $240 million higher than in the same period in 2020, a year in which the company generated a record $1.7 billion in free cash flow. All-in, an impressive first quarter and a strong start to 2021.

This great performance in the sustained market recovery through April has given us more visibility into the second quarter and to some extent, the back half as well. As a result, our point of view for 2021 and momentum going into 2022 has significantly improved since I outlined our initial observations during our January earnings call.

First, as you can see, Tools remains on a roll. In addition to all the positives already mentioned, the pro is back in full force and the commercial and industrial markets are hot as well. Europe is far stronger previously imaginable, given many countries are still bogged down in lockdowns, and the emerging markets are blazing. We are clearly benefiting from secular trends that have been amplified and accelerated by the pandemic.

We're also benefiting from the extraordinary efforts of our people to manage the supply chain effectively amidst numerous challenges, including parts availability, among others. With that said, many of our retail partners would like to replenish their inventories as our current production levels are basically serving their point-of-sale growth.

In this regard, we recently have begun production in 2 new factories in Mexico, and an additional one in Fort Worth, Texas will be up and running in a matter of weeks. Our current view is that this will enable the approximate 4-week channel inventory rebuild to occur in the back half of this year. The secular surge in global DIY, driven by the consumers' reconnection with the home and garden continues to be a key demand driver across our global markets. The massive shift to e-commerce continues, and we achieved nearly 100% growth in this growing channel during the quarter.

The electrification of the outdoor product market is accelerating just as we have launched a significant number of new products and increased listings. We now expect this business to reach $900 million in 2021, up approximately $250 million versus last year. We are already benefiting from our multiyear relationship with MTD and our option to acquire the remaining 80% at a very attractive 7 to 8x EBITDA multiple with a window that opens in July of this year.

Our success comes from building a position as the world's leading tool company that can attract diverse world-class talent, an array of iconic brands, market-leading innovation, immense category breadth and depth and a passion to serve our customers' shareholders and other stakeholders. In this regard, I would like to underscore a key point.

We are gaining share and making bold investments to widen our lead in the future. And as it relates to profitability, we, once again, delivered significant gross margin and operating margin expansion and are continuing to perform at historically strong levels. At this point, all temporary cost actions have been restored, and we are making significant investments, as I said. We have incorporated increased inflation into our outlook, and we are taking aggressive actions to protect our margins in 2021, 2022, and Lee will review those in a few moments. Additionally, our tech-enabled margin resiliency program will support our margin rates.

And finally, the market rebounds across automotive, general Industrial and Attachment end markets and Security continued. We remain optimistic that this will continue and the potential for increased global infrastructure spend could enable further gains across the portfolio.

So in summary, we have high conviction in our prospects for growth, supported by our catalyst, the positive trends I outlined, benefiting our markets and cyclical recoveries across the businesses. As a result, we are raising our adjusted EPS guidance to a range of $10.70 to $11 per share. This represents a significant update from our January securities -- previous guidance.

The revised midpoint of $10.85 now reflects a 20% increase versus prior year, with a total company organic growth at 11% to 13% for the year. And as you can see, there's a lot to be excited about in what lies ahead of us in terms of significant opportunities for value creation.

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

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

Thank you, Jim, and good morning, everyone. I am pleased to report on the business segment results that contributed to our exceptional start to 2021.

Tools & Storage delivered 48% revenue growth, with volume up 42% and price and currency each contributing an additional 3 points, resulting in 45% organic growth for the first quarter. In addition, the operating margin rate for the segment was 21.4%, up 990 basis points versus the prior year. This is the result of the team's relentless focus on margin excellence, and strong operational performance.

Volume, price, productivity and cost control were the main drivers of this expansion. These positive drivers were partially offset by higher costs in supply chain, such as expediting product via airfreight to serve the incredibly strong demand as well as new growth investments to support share gains in the future.

On a geographic basis, we had incredibly strong organic growth and market share gains across all regions, up 41% in North America, 47% in Europe and 67% in emerging markets. This performance was driven by our industry-leading innovation, strong professional demand and the ongoing trends from secular shifts related to e-commerce, outdoor product electrification and the consumers' reconnection with the home and garden.

The U.S. retail channel delivered 48% organic growth as underlying consumer demand remained elevated with continued momentum from professional and DIY users. Additionally, our omnichannel and e-tailored e-commerce platforms nearly doubled in the first quarter, which further reinforces our conviction behind the additional investments we are making to capture this accelerating opportunity.

Point-of-sale growth for the quarter remained exceptionally strong and consistent with the high end of our forecasted Q1 range. Retailer inventories remained relatively in line with Q4 2020 levels. So the anticipated increase in store inventories of approximately 4 to 5 weeks is now expected to occur in the back half of the year.

The North American commercial and industrial tool channels are continuing to experience positive sequential trends with growth in the mid-30s versus low single-digit decline in Q4 2020. Pure-play construction-focused customers within these channels were up close to 40%, more than 2x the mid-teens growth we experienced last quarter, a resounding signal that the pro is back and demand is clearly accelerating in this space. Also, with the recent positive trends in North American industrial manufacturing activity, our MRO customer base rebounded this quarter as well, posting growth in the high 20s as compared to double-digit decline in the fourth quarter.

Now shifting to Europe. The European tools business realized impressive share gains across all regions driven by the rapid acceleration of e-commerce as well as a retail channel strength. This performance was led by more than 80% organic growth in the U.K., while France, Central Europe, the Nordics, Italy and Iberia were all up over 30%.

Finally, the momentum in emerging markets continued to accelerate with strong construction-related demand in addition to impressive traction in e-commerce. Latin America was up 77% organically, with all countries up over 50% and led by an outstanding 86% growth in Brazil. Asia delivered 62% organic growth with China and India both at least doubling in size. South Korea, Malaysia and Vietnam all grew in excess of 50%, while Japan, Thailand and Indonesia each posted strong double-digit growth for the quarter. Russia and Turkey remained strong, delivering 52% and 89% growth, respectively. Those numbers are absolutely crazy, but they're wonderful.

So let's turn our attention to Tools & Storage SBUs after reviewing the fantastic geographic revenue performance. Power Tools delivered 50% organic growth, which was the result of continued momentum from the positive home and construction trends as well as sharp commercial and supply chain execution combined with new product launches.

New core innovations led the way, building upon our strength with Craftsman, the fastest-growing brand in the industry; and DEWALT, the largest professional tool brand in the world as measured by total revenue. We built these positions with industry-leading innovation, launching products such as FLEXVOLT, ATOMIC, XTREME, POWERDETECT and FLEXVOLT ADVANTAGE, all within the last 5 years. These products are delivering growth well ahead of the SBU average and are positioned for our pro users. To further highlight positive professional demand, FLEXVOLT grew over 80% in the quarter.

This quarter and moving ahead, we are providing more top line disclosure for our outdoor products business, particularly as it increases importance as a growth catalyst and with our option to purchase the remaining 80% of MTD opening midyear. I am pleased to report it was a record-breaking start to the season with organic growth in excess of 120%. This performance was driven by the incremental listing wins we covered last quarter, and leveraging cordless innovations under the Black & Decker, Craftsman and DEWALT brands.

All of our major retailers participated in this explosive growth. It is exciting to see our new products hit the market and early season reads on sell-through are very positive. This is a major growth margin and ESG opportunity as we shape the conversion to electrification and bring our coreless capabilities to the outdoor equipment market. We could not be more excited about this industry and the growth potential it creates for our company over the next several years.

Finally, Hand Tools, Accessories & Storage grew 28% organically as market rebounds and new product introductions fueled the growth. We continue to innovate in our key construction, auto and industrial markets. We are seeing new product momentum, including a variety of Craftsman and DEWALT plastic and metal storage solutions as well as robust growth in the new DEWALT tape measures and accessories.

So in summary, there are a few points I want to reinforce related to our Tools & Storage business. One, we continue to leverage an industry-leading position. The team has built this position over time, and it is supported by our innovation, brands, category breadth, operational excellence and focus on keeping our customers and end users at the center of what we do. Two, this is a global phenomenon. The powerful trends that we are harnessing for growth are not unique to 1 geography. And three, this is fueled and enabled by the dedication, passion and agility of our people.

The business delivered the largest first quarter in history as it relates to sales, profits and margin rate, and the execution was superb. Thank you to the entire team for a job well done. I am excited about the possibility of record-breaking performances continuing into future quarters. Well done, Tools team.

Moving to Industrial. This segment delivered 11% total revenue growth, which includes 6%, volume; 3%, currency; and 3% from the CAM acquisition. This was partially offset by 1 point from an Oil & Gas product line divestiture.

Segment organic growth continued to improve sequentially with positive 6% growth in the quarter. The operating margin reached 15.9%, an increase of 270 basis points versus prior year as the benefits from volume, productivity and cost reductions were only partially offset by new growth investments.

Looking further within this segment, Engineered Fastening revenues were up 9% organically as we continue to see improving automotive and industrial end markets. Automotive fasteners were up 16%, outpacing global life vehicle production by approximately 500 basis points. This was held back somewhat as we moved through the quarter and navigated OEM disruptions due to their supply shortages. Our automotive systems business was up 17%, a very good sign that capital spending is improving with our automotive OEMs.

Growth within industrial fasteners turned positive this quarter, delivering low double-digit growth, driven by the continued momentum in global manufacturing and industrial activity, combined with a modest impact from customer inventory increases. Infrastructure organic revenues were down 2%. However, Attachment Tools had 16% growth as demand increased from OEMs and independent dealers. This was more than offset by significantly reduced pipeline construction activity, which resulted in a 30% decline in oil and gas.

Shifting to Security. Total revenue was up 2%, with a 4-point positive impact from currency, while price and acquisitions each contributed 1 point. This was partially offset by a 4-point decline related to the international divestitures completed in the third quarter of last year.

Overall, North America was flat organically as growth from health and safety offerings within automatic doors and health care were offset by lower installations within commercial electronic security. The field organization continues to experience productivity challenges as their customers slowly reopen and allow more on-site access.

European organic growth was up 4% as new data-driven product solutions supported 17% growth in France and 4% in the Nordics. France, in particular, has embraced the technology transformation we ignited in this business in 2019 and is experiencing the growth that we believe is possible across the entirety of commercial electronic security.

Our new solutions in health and safety continue to build momentum, contributing approximately 2 points of growth in the quarter. The positive secular trends and underlying demand once again proved resilient in these markets despite incremental lockdowns due to the pandemic. The bid and quote activity for these new solutions continues to build. And that, combined with the executable backlog at record highs gives us confidence that security is set up to deliver strong organic growth for the remainder of 2021.

Overall security segment profit rate, excluding charges was 8.5%, up 110 basis points versus the prior year as price and cost control was partially offset by the impact from growth investments related to our SaaS solutions, touchless door technology and other health and safety options.

I would now like to turn it over to Lee McChesney, who is our VP of Corporate Finance and CFO for Tools & Storage. Many of you know Lee from investor conferences over the last year, and he will now walk you through the cash flow for the quarter and our game plan to tackle inflation. Lee?

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

Thank you, Don, and good morning, everyone. Moving to Slide 7. I will now review our free cash flow performance. Free cash flow improved $242 million versus prior year behind the strong operational performance and earnings growth.

Now please keep in mind that our free cash flow outflow in the first quarter is in line with normal working capital seasonality, which was somewhat amplified by the strong demand to start the year and as compared to a historically slower period for the business. Working capital balances also are higher than prior year as we work to serve the strong demand as well as improve the inventory positions for us and our customers.

Now despite the higher balances, working capital turns hit 7.1%, a 1.1-point churn turns improvement versus prior year. We remain confident that we will deliver strong cash flow generation for the year, inclusive of CapEx investments to support further growth. We will continue to drive working capital efficiency across the company in combination with a strong earnings performance.

I'd now like to give you a quick update on commodity inflation. As many of you follow, steel and resin represent the 2 largest commodity exposures and they have been impacted by rapid spot market increases as a global supply chain responds to the surge of demand and temporary supply gaps. This dynamic has occurred across many of our key commodities, components, finished goods that we purchase.

We now expect inflation headwinds to approximate $235 million, which is up $160 million versus our previous outlook of $75 million. Currency, however, remains a $45 million positive offset to this cost pressure. The drivers of the incremental inflation are steel, resins, copper, aluminum and some purchase materials such as batteries and electrical components.

And as a reminder, we generally lock in our supply agreements 1 to 2 quarters in advance, and this pressure has to work its way through inventory. And therefore, the majority of these year-over-year headwinds will be realized in the second half of the year.

In response, we are initiating additional pricing and productivity actions, which will partially offset the 2021 impact of the headwinds as well provide us significant carryover benefits into 2022. We believe these actions can offset about 1/3 to 1/2 of the $160 million incremental headwinds and have included that assumption in our guidance.

Additionally, we continue to have approximately $100 million of margin resiliency available over the balance of the year, which is not included in our guidance today. This will act as an additional contingency to help us offset any incremental headwinds that may materialize or support a better margin outcome for the full year.

We are remaining agile in our response to inflation and are leveraging the SBD operating model to continue to deliver the strong margin levels we've established in full year 2020 and implied in our guidance for 2021.

With that, I'll turn it back over to Don, who will walk you through our updated guidance.

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

Thanks, Lee. Turning to Slide 9. I will now outline the organic growth assumptions for both the second quarter and full year. We expect second quarter organic revenue growth to approximate 30% for the company. In 2Q, we expect the Tools & Storage business to grow 35% to 40% with continued strength across all regions and channels. We are planning for industrial to grow in the mid- to high teens with continued momentum in industrial fasteners, end markets and Attachment Tools.

Automotive will continue to show growth on the easier comps but we have incorporated moderated demand levels versus Q1, acknowledging the OEM supply constraints in the industry. Finally, aerospace and oil and gas are expected to remain depressed, partially offsetting the stronger growth expectations in other areas of this segment.

Turning to Security, we expect low double-digit growth in the second quarter. We plan for revenue levels to improve sequentially as we will benefit from increased access to customer sites to execute on the record backlog from the first quarter.

Shifting to the full year, we are raising the total company growth range to 11% to 13%, with upward revisions in Tools & Storage and Industrial. Our confidence of growing market demand in Tools & Storage continues to strengthen. We are raising the Tools & Storage organic growth expectations to 14% to 16% versus our prior estimate of 4% to 8% for the full year.

Both the first and second half assumptions improved. The first half assumption is based on stronger visibility to Q2 demand combined with the outstanding Q1 performance. The second half assumption includes the benefit from increases in channel inventory back to historical levels.

Despite the improvement, we are assuming a decline between 2% to 4% in the back half, acknowledging the tough comps. This represents growth of 12% to 16% versus 2019 and is a reasonable 2-year growth assumption given the strong market recovery occurring. However, we are preparing the supply chain for stronger demand scenarios. And we will be ready should our planning assumption prove to be conservative, which is very -- which it very well could be given current global demand trends.

The Industrial outlook improved to 4% to 6% for 2021 as we have better visibility to Industrial and Attachment Tool market recoveries. We have built in the expected automotive customer supply chain constraints into our view. And then finally, aerospace and Oil & Gas will continue to be a significant headwind. Right now, our view is that these markets will remain depressed for 2021, and but become an upside opportunity next year.

Last week -- lastly, we are maintaining our security organic growth assumption at 4% to 6% for the full year. 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 that the growth can accelerate throughout the remainder of the year.

Now I'll summarize the remaining guidance assumptions on Slide 10. We are raising and narrowing the 2021 adjusted EPS outlook to reflect the exceptional start to the year and improved demand outlook across most of our businesses. On a GAAP basis, we expect the earnings per share range to be $10.15 to $10.55, 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 from a $9.70 to $10.30 range, up to a $10.70 to $11 range. At the midpoint, this is an increase of $0.85 versus the prior guide and a 20% EPS growth versus the prior year. The drivers for improved adjusted EPS are outlined on the right-hand side of the slide.

Walking from the $10 midpoint from our January guidance, incremental pricing and volume net of incremental growth investments along with margin resiliency and other actions contribute approximately $1.50. This is partially offset by commodity inflation headwinds of approximately $0.80. In addition, we are planning to call our Series C preferred stock and the elimination of the preferred dividend adds a $0.15 benefit to 2021, bringing us to the current adjusted EPS midpoint of $10.85 million.

Demand variability that I covered earlier remains as the primary driver beyond the adjusted EPS. We have also disclosed our current year -- our current full year assumptions for the significant below-the-line items and our expectation for the pretax M&A and other charges to assist with your modeling.

Additionally, the company is reiterating free cash flow to approximate GAAP net income. And lastly, we expect second quarter's adjusted earnings per share to be approximately 25% of the full year performance.

So in summary, we expect 11% to 13% organic growth and approximately 18% to 22% adjusted EPS expansion for the company in 2021, a very healthy EPS expansion for the year, yet a balanced view, recognizing the dynamic operating environment. As I said earlier, we are preparing for the potential for higher market demand beyond this guidance view and as Lee mentioned, have $100 million of margin resiliency not included in our guidance as a contingency to drive better performance or withstand new volatility.

From a capital allocation point of view, we are very well positioned and have excellent flexibility due to our current cash position and leverage ratios. Therefore, we can retire the preferred stock mentioned earlier, and react accordingly if our stock price trend presents an opportunity in the short term while staying on track with our expected timing of MTD later this year or early next. We are confident that we have positioned the company to deliver above-market organic growth with operating leverage, strong free cash flow generation and top quartile shareholder returns over the long term, all while maintaining the safety of our employees and continuing to assist in our communities.

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

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

Thanks so much, Don. And as you've out there have seen and heard, we had a very strong start to the year as we delivered record organic growth, reflecting positive secular trends, vibrant markets and a strong array of growth catalysts. I am pleased with our team's continued efforts and excited about the enormous potential given the improved outlook and strong momentum we've built over the last 12 months.

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 home and garden, e-commerce, electrification and health and safety. We are capitalizing on this opportunity by funding innovation, commercial and capacity investments to support continued organic growth and share gains. Additionally, our option to acquire the remaining stake in MTD in July has the potential to add up to $3 billion of revenue in 2022 and create an exciting multiyear runway for growth and significant EPS and cash flow accretion.

Our passion for positive differentiated performance, becoming known as one of the world's most innovative companies and elevating our commitment to corporate social responsibility, ESG, has never been stronger and that is in the wake of 1,016% TSR delivery during the 20 years or so since I've held C-level positions in this company with support during that entire period from Don and Lee.

We have a clear vision for winning in the 2020s, taking our story to yet an even higher level, which you'll see up close and personal if you attend our virtual Growth Summit on May 13. This event will be a great opportunity for us to communicate more details on the compelling array of opportunities we are pursuing for growth and margin expansion as well as our strong commitment to planet, people, prosperity and governance. We will be showcasing a number of the executives leading these initiatives, so please reach out to Dennis if you're interested in attending and we look forward to seeing you there.

And now we're 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 Nigel Coe with Wolfe Research.

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

Lots to unpack here, but I think I'll get the ball rolling on inflation. Obviously, a big, big step-up in the $235 million. How well ring-fenced is that $235 million at this point? Are you seeing current spot prices hold for the balance of the year? And maybe just talk about the price actions you're planning to try and cover that. In particular, I know it's Industrial, had neutral pricing. So I'm just wondering what's the strategy trying to recover price in Industrial.

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

Yes. Sure. I'll start with that, and then Lee will probably add a little color, too. Yes, I mean, we're at $235 million for inflation and the impact this year, up about $160 million from what we've said back in January. I would say this is a very volatile environment right now, and it really depends on where the demand goes in the back half of the year. I do believe as the year progresses and we get closer to July, it's difficult to have a material impact in the current year if inflation continues to increase.

That being said, there's been a few positive trends in some of these commodities in the last 2 or 3 weeks where it appears to be stabilizing. So 2 or 3 weeks does not make a trend, but it's something that at least is encouraging in the sense that maybe this is starting to modulate a little bit. But it will be one of the more volatile things that we'll have to manage.

Now the good news is that I do believe we will be managing through a very strong demand market for the remainder of the year, most likely into next year as well. And so that clearly is a benefit associated with inflation. We are aggressively underway of focus on pricing actions across the 2 major businesses where this impacts, which is obviously Tools & Storage and Industrial.

Tools & Storage will do what they typically do, which is a very surgical approach, focused on areas that we think pricing does not impact demand in a significant way. And so we will manage through that dynamic with our customers as we always do. And I think we'll have a pretty good success rate.

Industrial actually is an area that we feel better about. We feel like we have good processes in place. We've already got price actions that we've taken in the last 30 days, and we will likely take some more in the next 90 days in those particular businesses. But we feel like that is well under control, and the industrial team has been very focused on that. So I think the area of interest that we're all going to be watching is making sure we get the right impact in pricing in the Tools & Storage business.

Now that being said, we do what we normally do to manage through this dynamic, which is in the short term, we're looking at other areas of productivity. We look at margin resiliency as our contingency to help offset that if needed. And we're optimistic as we go through the year that we will find a way to navigate this headwind and be able to offset it completely. Right now, as Lee said, we think we're more like 1/3 to 50% at this stage. But as the next 3 months go by, I think we're going to make more progress in that regard.

Anything you'd add, Lee?

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

Yes. I think you said it well, it's volatile, but we are off, are running on the action side. It's going on in all 3 businesses. Some have been announced, but we're in conversations with all -- really all parties. And then I remind everyone, we still have our margin resiliency contingency, where we have $100 million that's not in our guidance. So if inflation was to creep up, we have some coverage there. And I think we feel we're in a pretty good place.

Operator

Our next question comes from Jeff Sprague with Vertical Research.

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

Congrats. Maybe just to play a little bit into the cost question, but just curious on the new plants, right, 2 in Mexico and Fort Worth finally standing up. I think initially, those were viewed as kind of presenting an opportunity to shift geographically and get out from under tariffs. It sounds like they might just simply be needed for volume. But to what extent do you see an opportunity to geographically shift your sourcing and kind of change the cost structure from that vantage point?

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

We'll get there eventually. I would say unfortunately or fortunately, depending on how you look at it, but the volume -- you're spot on. The volume has precluded any major shift, although you get minor shifts because of the weighting -- the change in weighting just from having the additional production in these places. But the reality is when you're trying to serve demand that's up 45% year-over-year, the opportunity to do production shifts is essentially limited.

And so once the demand returns to what I would call more historical levels and at some point, it undoubtedly will, then the trend -- we'll be in great shape in terms of we have the plans and programs. We have the people all set up to do it. We just need a window of opportunity to make that happen. And in the meantime, we'll continue to serve the demand that we have.

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

Yes. I would just add 1 thing to that. One thing we are doing is, as we bring up these new plants in Mexico, we are building out the supply base in Mexico with it. And so to Jim's point, whenever we do get to the stage where we can shift more production from China into Mexico as an example, the supply base will be well established and well connected to our existing facilities at that stage.

Operator

Our next question comes from Julian Mitchell with Barclays.

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

I just wanted to circle back to the margin outlook. Looking at the -- sort of the guidance for Q2 and what you've said for the year, am I right in thinking that the second half sort of firm-wide margin, you're looking at maybe about a sort of 15%, maybe a little bit lower margin in the second half? So down maybe a couple of hundred points year-on-year. Just wanted to make sure I wasn't way off on that math. And also sort of allied to that, if you could help us understand of the $235 million commodity headwinds, how much of that is in the second half, please?

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

Yes. The commodity headwind is close to $200 million in the second half. So a large portion of that $235 million is hitting us in the second half, so -- which really is a good lead into your first part of your question, which I do think the operating margin for the company will be somewhere around 15%, maybe a little bit higher than 15%. In the back half, it will be somewhere between 14% and 14.5% depending on how -- where the demand goes and our success and really offsetting that headwind along the lines I described.

And so for the full year, our operating margin rate will be up modestly year-over-year. When you look at the big drivers of that, clearly, a large part of that is in our Tools business because that's where a large part of the commodity headwind is focused at this stage. And so for the second quarter, Tools should be around 19%, maybe a little bit better 19% -- than 19%. And in the back half, it will be around 17% to 17.5% margins.

And so we look at that and we say that's just slightly below our 18% to 20% range that we laid out there, and we just want to remind everybody that range wasn't necessarily applicable for every single quarter. It was more about an annual performance and a long-term performance as well. And so for the year, we would expect the Tools operating margin rate to be somewhere between 18.5% and 19% and -- which would be a significant increase over last year's margin rate of 18.3%.

Operator

Our next question comes from Tim Wojs with Baird.

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

Maybe my question really just on supply chain. I guess where are you seeing the most acute pressure on the supply side? And maybe if you could just talk a little bit about some of the bigger actions that you're taking to just make sure you're at least keeping up with sell-through demand?

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

Yes. So I mean, it's fairly straightforward in the sense that it's batteries, semiconductors. We don't have resin shortages per se. So I know some manufacturers are facing resin shortages. That's not our issue. Batteries, I think we have pretty much solved the problem that if the second half growth accelerates beyond the guidance -- first of all, we're good at the guidance level. And we're only talking about would upside ever be constrained. Batteries no issue. And I made a trip to Asia, specifically to free up battery capacity for the second half and we were successful in that regard.

So batteries are no issue, and it just comes down to semiconductors and how many hundreds of millions of dollars of more upside versus what's in the guidance as it relates to revenue can we achieve before we start running into shortages and we're working on that issue as well, and we think we have some ability to make headway on that in that regard as well.

Operator

Our next question comes from Rob Wertheimer with Melius Research.

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

I know a lot of work on that execution. It's remarkable. I wanted to shift from the cost side to the revenue side. And you touched on some of the share gain that you've seen, including the online channel, where I guess that kind of accelerates penetration in the new markets. And I wonder whatever additional color you're willing to give on that, whether the percent globally online, is it continuing to shift?

And maybe just for those of us who don't know the markets as well. When you gain share in EM or even in Europe, are you winning against other global players that maybe are a year or 2 or 3 behind you? Or are you maybe more winning against smaller players who might have a hard time really ever catching up? I'll stop.

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

I think our e-commerce strategy was born about 10 years ago or so when we did the Black & Decker merger with Stanley. And at that time, e-commerce was 0 or close to 0, just a smidge. And year after year after year, we worked hard developing that channel after the merger. And last year, we were up in the almost $1.8 billion of revenue. And not only did we do it with the major e-commerce player in the United States, but we did it systematically around the globe. And so pretty much everywhere you look, we have deep relationships with the big B2B, B2C players and a flourishing business.

And that channel shift that occurred last year when the percent of revenue went from 12% to 18% in Tools was truly remarkable. And now almost 2x e-commerce growth in the first quarter, that $1.7 billion plus business has incredibly strong prospects globally for this year.

And instead of resting on our laurels and just enjoying that advantage -- because we share about a 3:1 relative market share advantage in that channel globally. Instead of resting on laurels, we have taken a really significant investments in this channel beginning in the fourth quarter, third, fourth quarter of last year and then accelerating into 2021 to the extent that we now have big teams of people working on this project.

B2B2C around the globe as well as we're starting to go in markets where we are under-indexed. So take, for example, China, India and Germany, and we are investing in B2C capability, and we'll be doing a lot in that regard because those channels are so difficult to penetrate, given the existing share positions of the players that are out there today.

So I would say that the share gains are coming from the major power tools players and other tools -- and then maybe in hand tools, it's where the minor -- the more local players. And I think that's going to continue. We'll see how the e-commerce investments grow in the industry over time, and I would expect them to. But right now, we have a big first mover advantage, and we are pressing the accelerator to the floor to make sure that we sustain that advantage for as long as possible.

Operator

Our next question comes from Markus Mittermaier with UBS.

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

Could I actually ask a question on security? And especially on these comments on France, up 17%, Europe, up 4% in that data-driven product solutions business. What exactly is that? And is that a near-term kind of COVID beneficiary that you see? Or is that something that could really make a dent in overall security segment growth here going forward?

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

Sure, Markus. Yes. We're actually holding up France as an example, and that's why I used that in my comments is really what the business could be. Because they've taken the SaaS solutions, which really drive a lot of value with the customers. So it's taking data from video analytics and doing analysis and really helping our customers run their business more efficiently and effectively.

And so they're ahead of the rest of the business in the geographies of electronic security, and they've been aggressively rolling this out. And they've used the pandemic as an opportunity to work with our customers, to help them with the areas I described, to ensure they achieve higher levels of productivity, they make better business decisions around -- in the case of -- if it's a retail operation, where their products are located in a store, when they do discounting and revenue and sales opportunities, et cetera. So this is a great pilot example of what the business can achieve.

And then the North American business and the Nordics business in particular, is gaining some traction in this space as well. They're probably 3 or 4 quarters behind where France is. But we really see this as an exciting opportunity to continue to transform the business and a great pilot as an example of what can be done.

Operator

Our next question comes from Nicole DeBlase with Deutsche Bank.

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

Just a follow-up on some of the inflation discussion. How should we think about the carryover impact at this point to 2022, both with respect to inflation and the actions that you guys plan to put into place or have put into place to offset 1/3 to 1/2?

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

Perfect, Nicole. So as we highlighted earlier, we gave you the '21 number. It's -- I'd say it's equivalent maybe to $150 million to $200 million of potential pressure in '22. And there is a bit of a topic out there of is this inflation going to continue because there has been some supply disruptions. But right now, we're going with the mindset that it will and according -- and that's why we're working on the pricing actions to get the benefit you'll see this year. But next year, you'll actually have a potential scenario where you actually have more benefits than we have headwinds.

Operator

Our next question comes from Michael Rehaut with JPMorgan.

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

This is Elad Hillman on for Mike. Congrats on the results. Can you talk about your sense for your POS in Tools & Storage relative to the underlying market and whether that delta is widening? So in other words, how much of the strong POS could be related to you gaining share versus an underlying continuing strong market?

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

Yes. I mean the POS continues to be very robust, and it's in those numbers that we provided back in January in that range, and the trends continue. And so we believe that we're gaining very significant share. But there also is a pretty strong market demand as well that's occurring right now. And so it's difficult to gauge exactly at this stage, in this short window, how much is share gain versus market growth, but I think it's more slanted towards share gain than it is market growth at this stage.

And so I think that's the right way to think about it. The proof will be in the pudding 2 to 3 quarters from now when we're able to look at what the actual GDP performance was and what the performance was for certain trends in the tool industry. But I believe that if you look at these rates right now, probably at least half of it is related to share gains, if not more.

Operator

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

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

Yes. I just want to ask about the second half outlook for Tools & Storage. You took it up, but it's still down. And just really, do you feel like you've got to have an inevitable contraction at some point in the next 12 to 18 months just because the comps and because the market's running so hot, it's really more of a timing issue? Or could we just be in the beginning of a multiyear sustained expansion?

And then just the second part to that, did you push the 4- to 5-week restock into the second half and essentially leave the minus 7% to 12% underlying for the back half unchanged? I wasn't sure if I was interpreting your formal remarks properly.

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

Yes. I will -- on that second part of the question, we did that. We just -- we put the benefit of the inventory restock in the back half of the year, but we did not change the underlying demand assumption from January. So that the -- that's really the opportunity as we progress through the next 90 days, and we provide an update to all of you in July. Where are we at that stage? And I think that's the big opportunity in front of us, which leads a little bit into the first part of your question that I personally asked Jim to comment on this as well because I know we had a strong point of view as well.

I really think this is a robust market we're going to see for a while. And I think when you look at all the different dynamics that are happening in various geographies and the recovery coming out of the pandemic, people are still going to have a very intense focus on their homes because many of us will continue to work in a hybrid environment, even when we get back to an office on a part-time basis. So you want to have an environment at home that really is sufficient to meet the needs of both work and personal habits and behaviors.

And then you have things like infrastructure, which are just massive [builds] across the globe. I mean, we tend to talk about the U.S. as an area where there could be a potential large infrastructure investment. But there's a lot of other major countries really thinking about doing the same thing over the next 12 to 24 months. So you could see a significant influx into the economy from that as well, both in the U.S. and globally.

So I sit here and wonder, is there really a dip coming in the next 6 to 12 months? And the more I think about it, the more I feel like that we're going to continue to see the strong demand and growth continue. Obviously, I don't think we're going 40% to 50% every quarter for the next 3 years. But I do think there's a path for growth for the next 2 to 3 years. Jim?

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

Yes, I think you covered it very well, Don. But the only thing I would say is I think we're going to be able to solidify the base and then get back to a more normal kind of 5% to 10% kind of growth type environment after that. That's my best guess right now just based on everything I know about the secular trends, in particular. You think of what -- all the different things. We mentioned a number of them, but the resurgence of DIY, there's a whole generation of people now that have become familiar with DIY.

We have a whole generation of people that are using DEWALT, Black & Decker and other Craftsman, other tools that will continue to add to their collections. We have the reconnection with home and garden that Don referenced. Outdoor seems to be -- the electrification seems to be taking off in a big way. And of course, we'll enjoy electrifying the small gas engine market when we do the MTD acquisition, which is in our planning assumptions for the second half of this year in terms of executing the option. And we don't know when that will close, and that closes not necessarily in our guidance.

And then there's the urban exodus. There's a big article in the Wall Street Journal front page today about that. So this whole notion of gradual exodus from urban centers into suburban and rural areas, there's a tremendous amount of home improvement and home sales that go on as a result of that, and that is a generational thing as well, and on and on and on.

So I just believe the base is preservable. I think our forecast for the second half is on the conservative side. And in all likelihood, we'll see that base preserved in the second half in my view. But we have so many other uncertainties out there relative to inflation and other things that I think we took a very prudent approach to our guidance. We had a great increase and just the share gain in general of the company and our e-commerce share, which is definitely an ongoing phenomenon.

So in balance, I think anybody that's looking for a big contraction in 2022 is probably going to miss the boat, and we'll see.

Operator

Thank you. I'd now like to turn the call back over to Dennis Lange for any 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

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

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