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PRESENTATION

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

Hi. Good morning, everyone. It's Markus Mittermaier here from UBS industry team. Welcome back here to the next session with Stanley Black & Decker at the UBS Industrials and Transportation Conference. Really delighted to have Stanley back here.

We have this morning with us, Jim Loree, CEO. We have Lee McChesney with us, VP Corporate Finance and CFO of the Tools business. And we have Dennis Lange, Vice President of Investor Relations with us as well.

I'll hand it over to Jim in a second. Here are some slides, which you can also see here. If you click on slides, on that icon. Please also feel free to e-mail me any questions. You can use that little text box on your screen and I'll see the questions. I'll try to make it as interactive as possible in the Q&A.

And with that, let me hand over to Jim. Jim, thanks so much.

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

Thanks, Markus, and welcome, everybody. It's great to be here, if virtually. Nonetheless, we've got a great story in this company that is coming together beautifully during the pandemic and looks like a fantastic story post pandemic as well.

We just are coming off the best quarter in our history. 34% revenue growth, big accretion in both gross margin and operating margin and decent start to the year from a cash flow perspective. So now we're in the midst of the second quarter, and we're looking at very similar kinds of dynamics in terms of revenue growth and consistent with our guidance, leaning towards even a little better, at least on the midpoint. And so we're in a really good place here in the second quarter.

And I would also say that, as you know, we have 3 businesses, you would know if it was on the screen there, tools and storage, security and industrial. And of course, Tools business is absolutely booming. It's up 45% organically in the first quarter, and it's going to be up in the same neighborhood, maybe slightly less this quarter. And coming off, some people would say it was a fairly easy comp, especially in the early part of the second quarter.

But now we're starting to get some visibility into the back half of the year. And it looks like it's not going to be that kind of strength in terms of percentages. But the dollar volume is really holding in there really, really strong. So I think as we go into the second half, we're going to be evaluating, upgrading our previous guidance, and we'll have more to come on that as we finish up our May numbers, and we'll see going forward.

But we're in a really good place. And I said in a previous communication, I said that some people think that the second half of the year for us is going to be really challenging with these difficult comps, and they are very, very difficult with the third quarter and fourth quarter of last year were, what, 15% and 25% up. Does that sound right?

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

Yes.

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

So that's what we're up against. And if we're able to bolt those and it looks like that's a possibility now, we'll get that built into the base, and then we'll have a base to grow off of in 2022 on top of the likelihood that we'll be executing the option to acquire the remaining 80% of MTD, which would add another $2.6 plus billion of revenue annualized.

So from a revenue and growth point of view, we feel really good. And then from a margin perspective, we're operating at a higher margin level than we have historically, much higher. And that we're in the process of investing, investing as much as $200 million annualized now into growth initiatives, which we're really excited about. So it's great times for Stanley Black & Decker and for our investors as well.

So let's move to the next chart. We're just coming off this growth summit, which was a 2-hour live broadcast that we did on May 13 virtually. It's a combination of live presentations, a couple of videos and some other audio-visual techniques and very entertaining 2 hours. If you have the time to spend and you want to learn more about the company and what's ahead, where we've been, I think I highly recommend that. It's available on our website, and you can get it in the Investors section and -- for a replay. And then there's an additional 45 minutes of Q&A after that.

The key messages from the growth summit were -- the first thing is we built this great company. It's a people-oriented culture, and we have 3 elements that we really pursue here: performance, innovation and social responsibility. It's a great mix in the 2020s. It's a great magnet for talent, and it is an inspirational combination of things to pursue, and we're making progress on all those fronts.

The second, we have a really strong track record of performance and shareholder return. You look -- some of us have been with the company now -- C-level jobs myself for 21 years. And same for Don Allan, not all of that was a C-level job, but most of it. And during that time frame, we've returned 1,000% TSR cumulatively. And the numbers aren't too bad for 5 year, 3 year and 1 year -- I'm sorry, 5 year and 1 year. 3 year, not great, but not terrible.

Earnings growth through that entire period, strong earnings growth. So a strong track record, and it's the same people at the top of the company that have been here for a long time, and we -- I and we have never been more excited about the growth ahead. So great time to be part of this company and to be associated with it.

And part of that is that we're just extremely well positioned to benefit from the trends that accelerated during the pandemic. And there are things like the reinvigoration of the focus on the home and the garden, electrification and the increasing attention being paid to ESG and climate in particular and what that means for electrification of some of the markets that we're in and some of the industrial markets as well. So the -- both empower tool, outdoor power and industrial markets and especially in Engineered Fastening.

So -- and then e-commerce. We're the industry leader in tools in e-commerce by a factor of at least 3. That is growing incredibly, incredibly robustly. And the channel shift that's been going on during the pandemic is, I believe, sustainable, maybe not at the same percentage growth levels, but certainly as a shift -- accelerated shift into e-commerce continues in omnichannel. So very well positioned there.

And then we've got a really creative and interesting kind of edgy program here to drive margin accretion and margin expansion that we're using all sorts of technologies, such as artificial intelligence, machine learning, Industry 4.0, advanced analytics and really focusing them on the value pools of the company to support margin expansion.

Next slide, please. I talked a little bit about some of the things that we're excited about in e-commerce, almost $2 billion last year and growing at a very high rate right now and expect to double in just a few years, the e-commerce business. Black & Decker, a brand that we have not invested in over the last 10 to 20 years and a brand that is a very relevant brand. Even today around the world, it's about a $1 billion business for us, and we have had a team now working for almost a year on revitalizing that brand, completely rethinking it, driving it more towards youthful buyers, e-commerce and lifestyle. And we expect that to be a big growth driver as we go forward.

MTD, outdoor power equipment, we are going to be the company that electrifies outdoor power equipment. There's a really great case for that. Engineered Fastening, the lightweighting of vehicles as well as electrification, where there's about 3 to 6x more content in electric or hybrid vehicle than there is in a gasoline-powered vehicle.

And then finally, security, which has been in the midst of a transformation now for 3 or 4 years is finally coming of age as it relates to that transformation at a time when the market has shifted to focus on health and safety of people in our commercial and certainly in commercial establishments and organizations. And so that all plays. It's like a trifecta of things coming together here to make this company a very exciting company for the future.

So with that, Markus, I think I'll turn it back to you for some Q&A. Thank you.

QUESTIONS AND ANSWERS

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

Great. Thanks, Jim, for that, and there's a lot in there already that I want to unpack if I could.

So I'll come back to the first half versus second half, right, which has been a very interesting debate for the last months. But let me maybe start with the longer-term picture because you mentioned a couple of things that I think struck me during the growth summit, right? E-commerce, Black & Decker, et cetera. Maybe I'll start with e-commerce because you showed that it was up 95% in Q1. I think you said it's about 20% now of global tools and storage. You just said -- and that gives it sort of like a $2 billion roughly size. And if you want to double that, right, so I'd say another $2 billion over the next 3, 4, 5 years, if you do the math to 2025, that's 3.5% CAGR just out of online.

So how should I think about this sort of like -- is this kind of cannibalizing some of the maybe offline presence or is this incremental? Because I know that you talked about Black & Decker in Japan or in Germany where you were not active before. So how should we think about that?

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

Yes. I think it's going to be a combination. Some people like to think of it in terms of binary like it's incremental or it's not. But it really is going to be a combination because there's definitely a channel shift going on of purchase patterns with folks who have become accustomed to buying online during the pandemic and before, but especially during the acceleration. We probably accelerated the e-commerce penetration by 3 or 4 years during the pandemic, so you have that.

And so a lot of that will probably end up cannibalizing other channel aspects. But you also have a number of share gain initiatives that we are driving and e-commerce that go beyond anything that we consider cannibalization. In particular, you do have Black & Decker, as you mentioned, but also around the world in both the developed markets, certain developed markets and certain emerging markets, our e-commerce footprint in the emerging markets is really, really strong and then established over a 10-year period, and we work with all the major e-commerce players in the world in these various markets, whether you're in Latin America with Mercado Libre or in Russia with Yandex or whatever.

And so we have the traditional kind of e-commerce shift going on in these emerging markets, which is great. But then we also have some markets like China and India in the emerging markets, where we are under-indexed, underweight. And we are pursuing major initiatives, especially starting with China and working with Alibaba on a combination B2B2C and D2C e-commerce models that will, I think, provide a significant share gain over in the coming years in China, and this will degrade some of the capacity that we're going to free up, bringing production back to the U.S. and to other developed nations to be closer to our customers for our existing business. We will be able to fill some of that capacity with that China initiative.

We're also going -- in Germany, we're going direct to consumer. And kind of we're working through learning about how do you go direct consumer on the tool business. And using Germany as a test case in a developed market, so that project is underway. And ultimately, we'll be doing Japan. So those 2 large developed markets, Germany and Japan, where we are underweight today.

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

Very interesting. Thanks for that color. So basically, the question that I've been getting since the growth summit is how do you avoid those channel conflicts, if you will. But it sounds like in many of those initiatives in online, there is no channel conflict because you weren't really there or there is no other channel for you. Is that fair?

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

Absolutely. Let me reiterate, we have 0 plans or intention to do any direct-to-consumer in any of our major markets like North America, where we have wonderful channel partners and a great presence. We really are going after places where we're under-indexed.

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

Got it. Okay. And then if I follow up there on margins online, how should we think about that? Again, online sort of like where you go direct, right? And sort of like online in the concept of -- you go through your omnichannel partners, how do kind of margins compare versus the regular business?

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

Well, I'm no expert on the margins, but what I'm told is that they're at least as good and maybe better, but I'll turn it over to Lee who is deeply involved in that sort of thing.

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

Absolutely. So Markus, I think there's a couple of things here. Number one is this path, the journey we went on to $1 billion and now to $2 billion, gives us a nice advantage because there's a lot of investments you have to put into this business to do it well. And accordingly, though, to Jim's point there, this is a business that is really very much, on average, in line with our margins we have today. But I also think there's opportunities, in some cases, for it to be a bit higher and then there's probably some subsegments where it might be a bit lower. But on average, it's a good place.

And as we look forward, we're putting these investments into e-commerce. We're trying to get smarter doing this and also helping our partners get smarter to do this as well because there are some stories in the early days where you can go the wrong way, but that's not where we're on today after this now I say 12-year journey we've been on.

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

Got it. Okay. And then switching to the other item that you mentioned already, this reinvigoration of the Black & Decker brand. You mentioned it's a $1 billion brand. So actually it's interesting because it's roughly the same size as Craftsman, right, which you kind of built over 2, 3 years. So my question is how big can this be given that it's such an old brand? And what's the plan here? Because it looked like it could go beyond tools. If I think about lifestyle brand and how should we think about that? What are the categories? And what's the goal? Is this a $2 billion size? What's the goal?

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

Yes. The intermediate goal is $2 billion, and that's in the next couple of years. And it will go beyond Tools. It truly will be a brand, a lifestyle brand, as you pointed out, that will involve some of the things that historically Black & Decker has been involved in, but also some kind of greenfield sort of places where it hasn't played before and we've been experimenting.

So there's going to be -- I'd say you can see some of the product development and so forth coming out this year. But the real thrust and the growth in the product development area will be in 2022 and beyond. However, we are doing extremely well with the brand this year. I mean it's up probably in the first quarter, up pretty significantly.

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

It's actually up higher than our overall Tools right now. So we're obviously over-indexing into it.

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

And we're just beginning. We're just getting going. So exciting.

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

Okay. Great. And maybe more generally on brands. And let me play devil's advocate here for a moment because there's a -- you probably know what's coming. There's -- some pushback that we hear around sort of like the number of brands, right? And I get it sort of like in the U.S., the differentiation between the DEWALT and Black & Decker, at least to me, seems clear. How about other brands?

And the question I often get is, as you kind of link brands to battery technology and battery platforms, sort of like Stanley has these different brands, and I can't switch sort of like a battery from a DEWALT tool to a Black & Decker tool, how do I think about when people say you're not maximizing kind of scale effects? How do you think brand strategy wise?

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

Well, I always chuckle when I hear this line of reasoning because it's absolutely counterintuitive to me to say that having fewer strong brands is better than having more strong brands. And so we have DEWALT, which is rock solid, largest professional brand, power tool brand in the world. And that is a $5 billion-plus brand, okay? And we leverage the heck out of DEWALT battery technology and scale and innovation and the most innovative battery system in the world.

And so then we have these other systems, and we do some leveraging across them, for instance, Craftsman and Stanley FatMax are the same platform and so forth. But there's nothing lost in having the multiple brands. The brands and tools have, in almost all cases, have long histories of specialization in certain areas. DEWALT being, as I said, the professional kind of aspirational brand for DIYers and for tradesmen and construction professionals and Black & Decker being the lifestyle brand and Stanley being famous hand tools brand and Craftsman being a legendary brand in the U.S. and covering all 4 markets: construction, DIY, industrial, automotive repair. All 4 markets, only brand in the world that can do that in any major market.

So we love the versatility of our brands. And frankly, the way the world is going with the channels where customer A doesn't want to have the same offering as customer B. They want to have a differentiated offering. Having that brand flexibility is an enormous advantage. And I think that's borne out by the fact that we have a much more diverse channel strategy than the person or the company that talks about why it's a disadvantage to have such strong brands.

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

Got it. Okay. And maybe let me link to the overall kind of market position that you guys are in with those brands, right? Because if I look at the overall market, it's still incredibly fragmented, right? I mean I think the top 9 brands have less than 60% of the market, if my memory is right. So there's this long tail of smaller competitors. And is there anything that -- a couple of questions here. One is, is there anything that can change this fragmentation, like is online going to change that?

And then maybe another follow-up question there is we keep talking about Stanley's market share versus your big Asian competitor. Is that the right discussion? Or are the market share shifts more between the big guys and the small guys? How should we think about that?

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

Yes. If you take #1 and #2 in the marketplace, #2 has gained some share in the last 5 years. #1 has gained the same amount of share in the last 5 years. So #2 likes to point to #1 and say, "Oh, we're beating the heck out of #1," when in reality, they're not and that's just misinformation.

So yes, there was a first half of 2020 when there actually was some share gain in our expense, largely a result of the fact that they had a lot of inventory in the channel at that point in time. And they got lucky when the market started rebounding really fast in the second quarter of last year and inventory was in the channel. We had a much thinner inventory position at that point in time. And so people went where they could get product.

And so in the first half, we did lose some share. Let's look at the second half and the first quarter of this year. We have grown the tool business $1.8 billion during those 3 quarters. And the estimate for the second quarter means it's going to be another, whatever, close to probably, I don't know exactly what the number would be, but upwards of $1 billion.

And so it's hard for me to entertain anybody saying that we're losing share during this time frame. Yes, there was a period in the first quarter. But we did make a bet in May of last year to build $600 million of inventory that did not have any connection to customer orders, but it did have a connection to the point of sale, which was increasing at a very high rate in the May time frame and then going into the third quarter and stayed strong ever since.

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

Got it. Okay. No, that helps. And then if I think again sort of like big brands versus the small long tail, what I'm wondering about is on the battery technology side, right, is there something like network effects going forward that we should think about? Because if I have 3, I don't know, Black & Decker tools at home, do I buy the fourth one from the same brand because I have 3 batteries at home already? Is there something like that, that you start to see? Or is this too early to tell?

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

No, no. There's always -- in this industry, always network effects. It's an installed based Power tools is an installed base game. And it's another reason why you're not bad to have multiple brands because you have multiple battery systems and people get married to the battery system.

So think of it as an installed base. And so #1 and #2 gaining share in this time frame, there is a network effect associated with that. And #1 and #2 have done a great job with their supply chains during this time frame. And not all the others have. And #1 and #2 have access to, strategic access to battery cells, which are challenging for subscale players because the auto industry is gradually impinging upon the supply of battery cells in the world. And so we have to secure and we have the scale to secure access to those battery cells going forward as well as semiconductors and other supply chain aspects.

So I think, yes, network effects for sure. I think the other thing is that when you look at the fragmentation of the market, it derives from several different things. It derives from geographic brands that have evolved from -- in different parts of the world over time. So there are some nationalistic brands. It seems like every emerging market of any size has a local -- a series of local brands and then some international brands. And then there's fragmentation by product line.

So there's a handful of players and then there's players that specialize in screwdrivers and pliers. So there is this consolidation dynamic that we've taken advantage of now for as long as I've been with the company. And that will continue on into the future as we go forward because they're small subscale folks, nationalistic or not, are going to decide at some point in time that there's a better thing to do with their capital than to kind of to continuously lose shares.

So that's why we've been on an acquisition role. We are the consolidator of choice, in my view, for the tool industry, have proven that over 2 decades. And I think there's much opportunity ahead in that regard.

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

Okay. Very, very clear. So maybe if I can move to the short term here, just given also the number of questions I get from the audience here, please keep them going. It's great. So you had a very strong Q1 here. You kind of alluded to it. You said Q2 continues to be very strong. How should we think about this? Your fourth quarter last year was about $200 million higher, if I think in dollar terms, right, than Q1. So at some point, is there a capacity limit? Is that sort of like where Q4 was last year, $3.2 billion, $3.3 billion? Like how should we think about that at the moment, given all the supply constraints, et cetera?

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

Well, we have been working hard on making sure that we have the capacity from a supply components point of view to be -- to serve what could be -- we don't know what it could be. But we have capacity now to have a $7 billion second half if we had the demand to do that. That is a big step function change from -- and that includes batteries and semiconductors and plant capacity and everything. That's a big step function change from what we were looking at just a year ago.

So we're in a great position to serve if the demand is there. And right now, the demand is there. Now I don't know -- this is not guidance, it's just a speculation, but I don't know whether the demand is going to continue. But we're sitting here in June, and it looks like it's going to continue into the third quarter anyway. And then we've got an inventory rebuild to do.

So we will not stress our supply chain during this time frame, largely because a lot of hard work done by people in the last 90 days to 120 days to make sure that with all this growth that we're actually able to serve it.

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

So that's interesting. So just to make sure I understood this right. So you have capacity for -- in theory, for $7 billion in the second half. The restocking hasn't happened yet, it sounds like, right? So I think it is real...

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

Right.

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

Okay, interesting. And I think last time we spoke, you said the channel is about 4, 5 weeks short on inventory. Is that still the right way to think about it?

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

Yes.

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

Okay. Okay. Interesting. Maybe one last thing on sort of Q2. Just pro versus DIY. It sounds like both still strong or -- and pro is coming back strongly, if I read between the lines. Or is -- how should we think about that?

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

Yes, absolutely, Markus. So on the do-it-yourself side, obviously, it started to really come back in May of last year, started, I'll say, a couple of regions of world, really broad-based -- the dollars are maintaining themselves. So to Jim's point earlier, you'll see some different (inaudible), but we're very encouraged with what's going on there. And then the pro did come back. I would say mostly last 4 months of last year, and it's only continued to elevate through this year. So the pro is very strong right now.

If you think about it from a COVID perspective, some of those projects were, I'll say, shut down, delayed, whatever the case would be. That's all kind of turned back on. And I've got a question in the past, are people trying to get ahead? They do trying to keep up right now because there's so much demand out there. So that is also another reason for optimism as they start getting to the second half of the year is that pro is going to carry through in the tools business. And even if the do it yourself was to slow down a bit, but again, we're not seeing that today. And then you mix in things like our industrial business, which should have an easier comp. That should be a nice positive. And then we're seeing really good momentum in security as well. All these are all the reasons as part of the kind of back half optimism we have.

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

Got it. Okay. No, very clear. So then on 2022, Jim, you mentioned a little bit on this in your opening remarks, right? And let me do a bit of mental math here again. If I look at the midpoint of your current second half guide, right, and I'm speaking tools and storage only at the moment, it means it's up 14% compared to the second half of 2019. And then if I look at your pre-COVID growth rates, and I look at sort of like, call it, '14 to '19 5-year stretch on average on an annualized basis, 7% organic, roughly, right?

So on a 2-year stack, that doesn't seem to me that we can exit 2021 at a massively above trend level, right? So if I think about the jumping off point into 2022, right, considering some of these kind of growth initiatives you mentioned, online, on a 2-year stack, it doesn't seem very difficult in a way, although it's not the right way to think about it. Or am I getting something wrong here in the...

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

The only thing that I would say might be slightly wrong is it's not too difficult because it's been really difficult to manage the volatility of this last year and a half or so. But with that said, your analysis, I think, is right, that there's been some slightly above trend growth on a 2-year basis, but it's not like we -- there's going to be some collapse in demand as we go forward because finally, the pandemic's over.

And I mean the thing about some of the different trends going on here, you do have this, as I mentioned in the opening remarks, you do have this kind of reuniting the consumer or the society with their homes and with their gardens and people are just spending more time. And I think they will spend more time in their homes and gardens. So probably travel too and do all those sorts of things that people like to do.

But you've got this installed base, you've got people doing DIY projects that have never done in before. And then you've got people spending a lot of time in their gardens as well. And so you have that. That's going to perhaps abate somewhat, but not dramatically, I don't think. And then you have the repurposing of homes, which is taking some time as people use professionals and/or some DIY projects to repurpose their homes because we're now moving into a hybrid world for office workers. And then you have just crazy, strong home sales as this millennial generation finally decides to create a family formation. And then the urban axis, that's been going on, I don't think that's going to abate very, very soon. Connecticut just added 30,000 home steads in this state, which hasn't grown in 10 years. And so I think that's going to continue.

And then you have the commercial renovation going on associated with repurposing office facilities and then the e-commerce that you mentioned. And so I just think there's so many positive catalysts. I haven't seen anything like this in 20 years, and it's not just next quarter or the quarter after. We're talking probably several years.

And then on top of that, you have another way of coming, if this infrastructure bill gets passed in the U.S., whether it's $1 trillion or whatever it might be or $2 trillion, it's going to be significant. And by the way, I know we have -- always have a tendency to talk a lot about North America, but the European numbers were up well over 30% in the first quarter and continue to be strong. Asia was up over 60%. Latin America was up 77%. So this is not just North America. So it's all over the world.

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

And then you get the -- I think you even mentioned maybe an acquisition of MTD on top of all that organic growth...

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

No, it's not recently. but I'd take it. Yes, there's a whole lot (inaudible) with that, too.

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

I'll come to MTD in a second. No call without MTD. But before that, you mentioned industrials and kind of infrastructure bill, whatever way, shape that takes. But maybe Industrials and Security, how are those trending maybe more near term, right? And I get the longer-term opportunity on EV, lightweighting, et cetera. But also just on a year-over-year basis, how should we think about those?

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

I'll turn it to Lee in just a second, but I just want to say about Security that in the second quarter guidance, we had significant double-digit growth through security baked in. I think there is a high probability they will achieve that in the second quarter, which, I mean, goes to say that this trend that they were on pre-pandemic where they -- the transformations appear to be taking hold and then got set back because the technicians couldn't get into the facilities and so forth.

I think -- and that trend now looks like it's kind of reconnected to the growth trajectory that it was on. So -- and even maybe a little bit more. So we've been very excited about the progress they've made because that's been a discussion for a long time. Why are they flat? Why are they down 2% or up 2% or whatever? But Lee talk about the other...

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

Sure. Let me just -- I'll just take the theme of Security. So we did kind of say 11% to 15%, Markus. We're definitely trending towards the high end of that in the second quarter. And underneath all that is, to Jim's point, we did have some good momentum. COVID interrupted it. We have record backlogs. So right now, it's not only a good trend for the second quarter, but going into the second half as well.

In the industrial segment, we talked about 15% to 20% growth in the second quarter. We certainly (inaudible) on the higher end of that as well as we stand today. And then as we look towards the back half, the one thing we are watching is the automotive business. It's up significantly, but we're all suffering with certainly some of the supply chain disruption. So in this quarter, we saw some of that, but other pieces of the business have covered that up. So we'll watch that carefully in the back half of the year.

And then -- so the SEF business, both the Industrial and automotive, really good trends. Our infrastructure business, really good trends to get -- these are double-digit trends we've talked about. Our Oil & Gas business, that is a challenged business right now. So that is taking a little bit of the overall segment numbers down. But underneath the pieces that are -- that we highlighted in the larger segments are growing double digits, and that's certainly our outlook for the back half.

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

Okay. Very helpful, clear. Then let's move on to price/cost because you had guided, I think, $235 million headwind. Is that still sort of like where we are tracking? Or is there pressure on that number? Let's maybe start there.

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

Lee's afraid I'm going to answer this question. But go ahead, Lee.

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

All right. Well, Markus, you hit the right number. We -- in the last update, we said we're looking at $235 million for this year. And we -- Steven said for next year, you can certainly look at $150 million to $200 million of carryover. We also said that we have a margin resiliency program, which is $100 million of opportunity, programs that were active, we're going after that we did not bake into our guidance. So that if inflation crept up a bit more, we should still be in a good place.

And I would tell you, today's inflation hasn't gotten down since that call. It's probably -- it's trending a little bit more, but it's right within the margin contingency -- the margin resiliency opportunity we have. And I think still with additional opportunity where we can still invest more or see even more drop-through from the margin resiliency.

So it's something we're watching closely. There's also the supply side of just getting -- the logistics and getting everything around that we manage as well. So that's still in the same realm of challenge. That's something -- that both of those could be opportunities next year. But right now, we're assuming the inflation we're seeing is going to continue into next year.

We have -- we also said we were going to really around about 30% to 50% offset to that initially. Obviously, the margin resiliency could take those percentage higher. I would tell you, we are deep into the communication process across the globe, across the different channels. Some of those actions are now in effect.

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

Price actions.

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

Price actions are in effect. And we're really hoping by early in the third quarter, really everything will be in effect tied to those recovery percentages.

It is an environment unlike, I think, really where we've seen in the past. It's affecting us, affecting our distribution partners, it's coming through all industries. So it's not -- we're not alone in having this conversation. So I think we're moving through the process at a good pace.

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

I mean if you look at general types of building products, lumber or whatever, it was like an outlier, but the building products in general have experienced a tremendous amount of inflation. And they have almost to a category outside of our tool business raised prices thus far and successfully raised prices. The demand has not abated and the price increases are sticking and so forth.

We held off on that for a period of time because we weren't sure whether the inflation was transitory, and we didn't want to put our market share and our customers in a place where we all didn't want to be. But at this point, we've said that inflation is -- it's big enough and it's pervasive enough in the market that we need to kind of get in there and get our share of price. And we expect to do -- like Lee was implying, but we expect to do better than the historic 30% to 50% this time around.

And it's always easier when the inflation numbers are bigger. This is what the market doesn't get sometimes. If you have relatively modest inflation, like $150 million, $100 million, $150 million that occurs in multiple different components, it's harder to justify price increases. When you're dealing with $235 million plus, everybody understands that, that's material and that needs to be dealt with and especially at a time when it's being accepted in the marketplace.

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

Great. Okay. Thanks for that color. It's particularly helpful I think to put that 30% to 50% price recovery in historic context. So that's helpful information. And then maybe we only have 5 minutes left, so I'll try to go to portfolio or maybe -- sorry, there's one last client question here on supply chain, sorry, around -- any concerns around further strains of U.S.-Chinese relations? I know this was a big topic throughout last year. How is that looking at the moment given the relocations that you're doing on the production side?

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

We have no company-specific issues, but we certainly are watching with bated breath here as these 800 pound gorillas kind of check each other out and try to figure out who's going to do what to whom. So the urgency of diversifying the supply chain and getting to the make where we sell is a big deal. We haven't made as much progress as we would like during the pandemic because we needed all the capacity. And we're opening up 3 plants this year, and they're going to be going gangbusters, 2 in Mexico, 1 in North America, and we still are manufacturing a lot in China pretty close to where we were before.

So we have not experienced any major problems, but we will start to gradually move away from so much reliance on China over time. And the good news is the supply chain has started to move and is in transformation and has figured that out during the pandemic that they need to get to Mexico and North America. And that is very helpful because that was always the one bottleneck that was very challenging in moving the production.

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

Got it. Okay. Great. Now looking at the calendar, we are 21 days away from July 1. So I'm wondering kind of as you think about that option on MTD becoming live, is there any sort of major reason that would stick against triggering that option relatively soon? Maybe that's question one.

And then more long term, how do you think about the portfolio, right? Once MTD is in the mix that thinking 2, 3 years out, how do you see the portfolio of both?

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

The only reason that we would not execute the MTD option on July 1 is we're still in the process of doing our diligence, and we need to get final Board approval. The Board will meet in late July. Diligence will be complete and the Board will opine. I'm quite confident that they will approve that and we will move forward with MTD. It's a key part of our growth strategy for the future. And so as I think about the portfolio -- and so we should get full year 2022 or maybe even a little bit in 2021.

And as I look to the portfolio going forward, we -- essentially, we'll have 4 elements. The tool business, industrial, security and outdoor power equipment. And over time, the -- we will question whether the security business is long for the ownership by Stanley Black & Decker, whether it would have a better owner somewhere else. But right now, there's no great call on capital that we can put forward with the cash flow of the company and a little bit of debt.

So we're really not in any hurry to deal with what do we do with security because, especially if the numbers start kind of generating the types of returns and growth that we're seeing in the second quarter, then what's the point of doing anything now? I mean you want to get -- if it ultimately does get monetized and it might or it might not, we certainly want to make sure we get the maximum shareholder value for the asset, if that's, in fact, the direction it goes. And certainly, waiting -- would be logical to wait until there was a long period of -- a long enough period of time to have that -- those sorts of performance in the history of the business.

Industrial, I think, is -- got great runway ahead. It's very consistent with the rest of the business. I mean at the end of the day, industrial is a conglomeration of tool business. They just tend to be different, bigger, they create value and productivity for our customers.

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

Great. Excellent. I think on that note, we are unfortunately at the end of time. Always a pleasure talking to you. Thanks so much for taking the time and enjoy the rest of the conference. Thank you.

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

Thank you, Markus.

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

Thanks, everybody.