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PRESENTATION

Operator

Welcome to the Third Quarter 2018 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 Lange ***Stanley Black & Decker, Inc. - VP of IR***

Thank you, Shannon. Good morning, everyone, and thanks for joining us for Stanley Black & Decker's Third Quarter 2018 Conference Call.

On the call, and in addition to myself, is Jim Loree, President and CEO; Don Allan, Executive Vice President and CFO; and Jeff Ansell, Executive Vice President and President of Global Tools & Storage.

Our earnings release, which was issued earlier this morning and the supplemental presentation, which we will refer to during the call, are available on the IR section of our website. A replay of this morning's call will also be available beginning at 11:30 a.m. today. The replay number and the access code are in our press release.

This morning, Jim, Don and Jeff will review our third quarter 2018 results and other various matters, followed by a Q&A session. Consistent with prior calls, we are going to be sticking with just one question per caller.

And as we normally do, we will be making some forward-looking statements during the call. Such statements are based on assumptions of future events that may not prove to be accurate, and as such, they involve risk and uncertainty. It's, therefore, possible that the actual results may materially differ from any forward-looking statements that we may make today.

We direct you to the cautionary statements in the 8-K that we filed with our press release and our most recent '34 Act filing.

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

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

Okay. Thank you, Dennis, and good morning, everyone. Thank you for joining us. As you saw in our release, we delivered a strong third quarter in the face of some very difficult external headwinds. The company posted above-market organic revenue growth and 6% EPS expansion, overcoming approximately $135 million of currency commodity and tariff-related pressures.

Revenues were $3.5 billion, up 4%, with organic growth of 4% and acquisitions adding 2 points of growth, which was offset by a 2-point currency headwind.

Tools & Storage was the vanguard, pressing ahead with all major geographies and business units, contributing to a robust 6% organic growth. Tools leveraged our strong portfolio of organic catalysts to deliver this above-market growth.

Price added 1 point to the growth and realization expanded 50 basis points sequentially, reflecting benefit from our third quarter list price increases, and Don Allan will provide some more color on this in his remarks.

Industrial delivered 10% total growth with the Nelson Fastener acquisition contributing 11 points, partially offset by 1 point of unfavorable currency.

Organic growth was flat, as solid performances within Engineered Fastening and hydraulics were offset by expected declines in Oil & Gas.

Engineered Fastening delivered strong fastener penetration within automotive and industrial, which more than offset the expected volume declines in Engineered Fastening's automotive systems.

It is important to note that, that systems volume is highly correlated to new car platforms. In 2018, as expected, it has been unusually light for these platforms.

With that being said, our win rate on new vehicle production lines is very high, so this weakness will take care of itself from 2019 and beyond.

Security delivered total growth of 1%, as bolt-on acquisitions and price offset currency and modest volume declines. The security team is fully engaged now in executing its transformational plan, and we are encouraged by the clarity of the vision and the sense of urgency. We believe we are making sustainable changes that will position this business for consistent revenue growth and margin expansion.

EPS for the quarter was $2.08, up 6%, as price, cost control and volume leverage offset the significant impact from commodity inflation, currency and tariffs.

Consistent with our long-term capital allocation strategy, we completed a $300 million share repurchase during the quarter and announced the IES Attachments and MTD Products transactions.

This reflects our balanced approach to capital deployment by executing strategic M&A opportunities, adding growth catalysts to the portfolio, while concurrently repurchasing shares.

And as we look ahead to 2019, our view now contemplates a significant carryover impact from these external headwinds, including commodity, inflation, currency and tariffs as well as a somewhat slower U.S. residential housing and automotive markets related to continued upward pressure on U.S. short-term interest rates.

And as such, we will be executing a cost-reduction program to deliver approximately $250 million of pretax savings in 2019.

Our seasoned capable management team will continue to address these external issues with price recovery actions and adjustments to our supply chain. In addition, we believe that additional cost measures are -- these additional cost measures are required to preserve our ability to deliver respectable earnings growth and cash flow next year.

Our company has been on and continues to enjoy an excellent growth trajectory. And we will not allow these external impacts to erode the financial benefits from these catalysts nor cast a cloud over this outstanding growth story.

And while the short-term external environment has become more difficult, our long-term strategy and approach to capital allocation remains intact. We are well-positioned with multiple company-specific growth drivers, which will buffer the revenue impact from slower end markets and provide for relative outperformance.

Craftsman is a compelling growth program that has begun its rollout at Lowe's. The exciting news today is that we now expect to achieve our $1 billion Craftsman growth target by 2021, 6 years ahead of our prior expectations.

That means this $1 billion target within 4 years is about 60% sooner than the 10 years originally anticipated.

In another piece of great news today, we announced an exclusive partnership for the Stanley and the Stanley FatMax brands, jointly with The Home Depot.

This important win represents an exciting growth opportunity that will begin next year. These announcements underscore the very healthy commercial relationships that we share with both of our tremendous U.S. home center partners as well as all of our retail partners around the globe. They also highlight the inherent strategic advantages associated with our powerful brand portfolio, more on that when Jeff speaks in a few minutes.

Across both emerging markets and developed markets, e-commerce remains a key commercial driver, which this year, represents a $1 billion high-growth business for us, up from almost nothing in 2010. We are the global industry leader in this channel, which is an excellent source of high double-digit growth and will continue for years to come.

In the emerging markets, we continue to enjoy double-digit growth and share gain. We are leveraging the strength of our brands, business model and coordinated product offerings across the developing markets, including Stanley-branded mid-price point corded and cordless power tools as well as hand tool products.

We continue to enjoy success growing at 2 to 3x market growth rates. And as for the Newell Tools acquisitions, we expect to deliver $100 million to $150 million of organic growth from revenue synergies, as we broaden the distribution of these products around the world.

Our innovation machine continues to be alive and well. We are seeing continued revenue benefits from FLEXVOLT, and expect to generate growth from other new innovations as our past investments are bearing fruit.

Finally, we expect to generate inorganic growth from the IES acquisition in 2019, and we are excited about the future benefits from our transaction with MTD, which gives us an option to buy the remaining 80% of the greater than $2 billion Lawn & Garden company in 2021 and beyond.

These catalysts will continue to support share gain in the markets we serve as we continue to work to generate new catalysts, leveraging the SFS 2.0 operating system and through future capital deployment.

So in summary, there's a lot to be excited about with this powerful growth story, even as we make some very prudent supply chain and cost structure adjustments to ensure the benefit of all these revenue growth makes its way into operating margin and EPS.

And now I will turn it over to Don Allan, who will walk you through more detail on segment performance, overall financial results and 2018 guidance. Don?

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

Thank you, Jim, and good morning, everyone. I will now take a deeper dive into our business segment results for the third quarter.

Tools & Storage delivered 3% revenue growth, with a strong 6% organic growth, which is offset by 3 points of currency. Organic growth comprised the volume of slightly less than 5 points, while price was just above 1 point.

More specifically, price realization actions taken in response to external headwinds contributed 1.3 points of organic growth, expanding 50 basis points from the second quarter.

We continue to execute and realize our list price actions in accordance with our prior expectations, and we expect that this list price contribution will grow again in the fourth quarter.

We should keep in mind that overall pricing impact is not a science and it requires judgment as the team balances many factors such as buying behavior, mix of products, one in where the purchase occurs or if it is purchased on promotion.

Our Tools & Storage business continues to operate with a dual objective to deliver above-market share volume growth and strive to protect our margin rate.

If you look at the margin rate results for Tools & Storage in the third quarter, the net effect of this was slightly better than expectations, showing the team is managing this dynamic very effectively.

With that said, the operating margin rate for Tools & Storage was 16.6% versus 17.3% in the third quarter of 2017, as benefits of volume leverage, pricing, and cost control were more than offset by the impacts from these headwinds we described of currency, commodity inflation and tariffs.

The strong organic growth and related share gains were experienced across each Tools & Storage region and SBU. On a geographic basis, North America was up 6% organically, with growth across all channels.

U.S. retail generated mid-single-digit growth, U.S. commercial markets posted high single-digit growth, and our industrial and automotive repair markets generated mid-single-digit growth.

North America's growth continued to be fueled by new product innovations, including FLEXVOLT, the Craftsman brand rollout and price realization. We did see some higher-than-expected negative volume impacts from our Craftsman brand transition, specifically related to our legacy brands.

This being said, Craftsman was still a major growth driver for the quarter, and net of this transition impact and will continue to deliver growth for the foreseeable future.

Europe delivered 3% organic growth in the quarter. 8 of the 10 markets grew organically, with above-average contributions from France, Central Europe, Greece and Iberia.

In the U.K., we did experience some market pressure, which we believe is related to Brexit uncertainty and negative volume impacts related to targeted customer transitions within the U.K.

This contributed approximately 3 points of pressure versus our expectation for this region. Overall, the team continues to deliver new product innovations and expand retail relationships to produce above-market organic growth.

Finally, emerging markets continue their trend of outstanding organic growth, up 10%, with all regions contributing.

Diligent pricing actions to offset increased currency headwinds and continued focus on e-commerce and the ongoing MPP launch continued to support this growth.

Geographically, Latin America was very strong, headlined by mid-teen organic growth within Argentina, Brazil, Colombia, Ecuador and Mexico, leading with high single-digit or double-digit organic performance.

With regard to other emerging markets outside of Latin America, we posted double-digit growth in Russia, Korea, Taiwan and India.

Now let's turn to the performance of Tools & Storage SBUs, starting with Power Tools & Equipment, which delivered 8% organic growth.

Power Tools & Equipment benefited from new product introductions, and FLEXVOLT delivered robust growth once again and is now tracking at mid-teens growth year-to-date.

FLEXVOLT growth continues to be led by increased penetration of the system and the new product launches within that category.

Hand Tools, Accessories & Storage delivered 4% organic growth, as new product introductions, solid performances within the construction and industrial-focused product lines as well as the contribution from Lenox and Irwin revenue synergies.

So in summary, a strong quarter for the Tools & Storage organization, with growth in every region as the team executes on the exciting portfolio of growth initiatives that Jim covered earlier.

Margins remained solid at 16.6%, as the team pursued growth, cost control and price increases to recover the headwinds from currency, cost inflation and tariffs.

While the external environment remains volatile, this team continues to act with agility and is focused on positioning the business for further growth.

Now turning to Industrial. This segment delivered 10% total revenue growth, with the Nelson Fastener acquisition contributing 11 points, offset by 1 point of currency.

Organic growth was flat but in line with expectations. Operating margin rate declined year-over-year to 16.8%, as productivity gains and cost control were more than offset by commodity inflation and the modestly diluted impact from the acquisition of Nelson Fasteners.

Within Industrial, Engineered Fastening posted total growth of 15%, with the acquisition of Nelson Fasteners leading the way. Organic growth was 1% during the quarter, as strong industrial and automotive fasteners growth more than offset the expected declines in automotive systems due to lower model rollover activity from our customers.

The Nelson integration remains on track to plan and the business is demonstrating pro forma organic growth, supported by new applications in aerospace, defense and infrastructure. All in all, a solid quarter for Engineered Fastening.

The infrastructure business has posted an organic decline of 6% for the quarter, Hydraulic Tools posted low single-digit growth, as they continue to see the benefits from successful commercial actions.

Meanwhile, Oil & Gas posted high single-digit organic decline in the quarter, as expected, given the lower pipeline project activity versus the prior year.

And then finally, the Security segment demonstrated total growth of 1%, with flat organic growth in the third quarter. North America growth was down 1% organically, as higher automatic door volumes were more than offset by lower volume in commercial electronic security. Europe organic growth was flat, and strength in the Nordics was offset by the weakness in France and in the U.K.

In terms of profitability, the segment operating margin rate expanded to 11.1%, improving 110 basis points sequentially, but down 20 basis points year-over-year.

The security team is working diligently to optimize our cost to serve, while positioning the business to provide new and differentiated offerings to our large key account customers and our small- to medium-sized accounts.

We expect that these initiatives gain further traction as we head into 2019. It will set up the business for more consistent organic revenue growth with meaningful margin expansion.

It was promising this quarter to see the business stabilize the operating margin dollars versus the prior year and improve the rate sequentially.

I would now like to take a few minutes to provide an update on the potential impact of the Sears bankruptcy filing that occurred on Monday, October 15, as we've heard several questions from many of you.

In terms of commercial exposure, we sell approximately $50 million annually to Sears Holdings, so a small exposure for the company. As it relates to the Craftsman brand transaction, our future payment obligation associated with the purchase of the Craftsman brand remain unchanged.

One, we will make a one-time payment of $250 million in March of 2020. Two, beginning also in March of 2020, we will begin making quarterly royalty payments for all-new Stanley Black & Decker-generated Craftsman sales. Number three, the royalty-free license agreement that is currently in place allows Sears to develop and sell the Craftsman brand within Sears Holdings stores. And then four, as we said in the past, we will honor valid warranty claims for Craftsman products as it is an important aspect of the brand and the right thing to do.

On items 1 to 3, these arrangements, which currently remain in place and they are legally binding. Should Sears enter liquidation legal proceedings, the obligations under items 1 and 2 will remain. For items 3 and 4, there would be a net one-time non-cash gain recognized within our results when this occurs.

In other words, the deferred revenue liability recorded for the royalty-free license would be reversed into the P&L. And that would be partially offset by an increase to our warranty reserves, due to higher historical exposure we would now have.

As you look ahead, the most important aspect of all these is we believe the potential impacts from a smaller Sears clearly will be a positive for our ongoing Craftsman launch.

Now let's turn to the right side of the chart, so I'd like to comment briefly on tariffs. Now that List 3 of Section 301 tariffs is in effect, at a 10% rate currently and will increase to a 25% rate in January of 2019, the annual impact of Lists 1 through 3 would be approximately $250 million, which is a $200 million increase versus 2018.

Items carrying a tariff at this point represent approximately 2/3 of our imports from China. About 90% of this impact is composed of finished goods. Some key categories, including mechanics tools, power tool accessories, vacuums and some hand tools. We expect to continue to get pricing associated with tariffs and our price increases for List 3 will be implemented in January of 2019.

Should a List 4 be put into effect covering all remaining imported products from China, and again, assuming a 25% tariff, this would represent another $125 million to $150 million of additional annualized risk before mitigation.

It is important to note that if this situation occurs, we believe we are favorably positioned versus competition, as approximately 50% of our North American sales are supported by tools production from North American facilities.

From a tariff mitigation standpoint, we are acting first with price increases as well as using the exclusion process when available. We have had success already in mitigating some of this impact through leveraging our supply chain and receiving exemptions from the U.S. government. We now have become more aggressive in planning and executing supply chain moves to mitigate tariff impacts.

We have been preparing this plan since the tariff discussion hit the radar earlier this year. We continue to evaluate the capital requirements and the respective returns on these investments.

This dynamic environment creates the need for agility and also is an opportunity to more aggressively localize production and expand on our make where we sell strategy. We will begin aggressively accelerating this strategy as we move into 2019.

Now turning to an update on our 2018 guidance.

We are revising our 2018 adjusted earnings per share guidance of $8.10 up to $8.20, from the previous range of $8.30 to $8.50. This revised EPS midpoint represents an increase of approximately 9% versus prior year, while overcoming $370 million in external headwinds versus the prior year.

On a GAAP basis, we now expect an earnings per share range of $5.90 to $6.00, from the previous range of $7.00 to $7.20. The largest factor impacting the change in GAAP guidance is the restructuring charges associated with the cost-reduction program discussed by Jim earlier.

We are being proactive and focused on counteracting these external headwinds for 2019. Therefore, we are taking action to adjust our cost base and implementing a cost-reduction program to deliver $250 million in annual cost savings in 2019.

The pretax restructuring charge is expected to be approximately $125 million, and is anticipated to be booked in the fourth quarter of 2018.

Now diving into a little more detail on our 2018 adjusted EPS outlook. You can see on the left-hand side of the chart, we expect higher input costs associated with tariffs, currency and commodities as well as slightly lower expected organic growth, which will decrease earnings per share by $0.25 and $0.15, respectively.

Partially offsetting these headwinds, we expect benefits from an anticipated lower tax rate and other below-the-line items to generate approximately $0.15 of EPS accretion.

Now turning to the segment outlook on the right side of the page. Organic growth expectation within Tools & Storage remains at high single digits in 2018. The team is focused on key initiatives, including the rollout of the Craftsman brand, FLEXVOLT, Lenox and Irwin revenue synergies, e-commerce and emerging markets and is delivering strong growth in 2018 as a result.

We expect the segment margin performance to be down year-over-year, given primarily due to the elevated currency, commodity and tariff headwinds, which were partially offset by list price increases and cost containment actions. As it relates to industrial and security, there's no change from our 2018 guidance view we provided in July.

Next, I would like to provide an update on our free cash flow performance and outlook. For the third quarter, free cash flow was $82 million, which brings our year-to-date performance to a use of cash of $287 million. The quarterly and year-to-date declines versus the prior year are explained by higher M&A-related restructuring and other payments as well as higher working capital pressure from our ongoing Craftsman launch.

We are confident that we will deliver strong cash flow generation in the fourth quarter, given our core SFS processes and principles, combined with reducing working capital levels in line with normal seasonal activity.

We are, however, revising our outlook to deliver a free cash flow conversion rate of approximately 90%. This recognizes our expectation to carry higher inventory due to continued growth in the business and the ongoing Craftsman rollout.

Also, we expect higher M&A related payments this year versus previous expectation in January.

The last comment I have related to this page is, as it relates to our view for 2019. This view now contemplates a significant carryover impact from external headwinds such as commodity inflation, currency and tariffs as well as the potentially slower U.S. residential housing and automotive market, related to the continued upward pressure in U.S. short-term interest rates.

As we said, we are being proactive and focused on counteracting these external headwinds for 2019, which, at this stage, will be similar in size to the $370 million headwind we are experiencing in 2018.

Therefore, we are taking action to adjust our cost base and implementing a cost-reduction program to deliver $250 million in annual cost savings in 2019.

This cost-reduction program, along with our continued focus on price realization, is expected to exceed these external headwinds so we can deliver a meaningful net positive heading into next year.

Therefore, we believe with the 2019 environment, which has a reasonable level of market growth, our earnings will grow high single digits versus 2018.

So in summary, we believe we are taking the appropriate actions to position the company to deliver a solid 6% organic growth, with 9% adjusted EPS expansion. Again, overcoming approximately $370 million in commodity inflation, tariffs and currency pressures.

This performance is quite impressive given the magnitude of these headwinds. The organization remains focused on free cash flow generation, price realization, productivity and cost management as well as acquisition integrations and the rollout of the Craftsman brand.

We are focused on executing our proactive cost reduction response, which will ensure the business is well-positioned to deliver sustained above-market organic growth, with earnings expansion in 2019.

With that, I would like to turn the call over to Jeff to say a few words about Craftsman and our exciting new commercial agreement with Home Depot.

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

Thank you, Don. I'd like to make a few key points related to the Craftsman rollout. And as Jim referenced earlier, announced a new partnership for our Stanley and Stanley FatMax brands.

We continue to generate share gains around the world, as evidenced by high single-digit organic growth demonstrated year-to-date, with growth in every strategic business unit and every geography. These are being delivered as we execute the biggest and most exciting Craftsman product launch in modern history.

Craftsman achieved strong growth in the quarter, following the successful launch of 1,200 new products, including many that are manufactured in the United States with global materials for the first time in decades. As planned, Lowe's and Ace have begun rolling out new Craftsman offerings, which will continue in Q4 through completion in 2019.

Amazon has built strong customer excitement for the launch of our metals storage range in Q4, with a broader rollout to continue throughout 2019.

Initial feedback from the Craftsman rollout shows that we are converting new users to the Craftsman brand, which is a share gain opportunity for both our retail partners and us. The end user feedback has been exceptionally positive with top quartile product review ratings. The end user and customer enthusiasm, coupled with the recent Sears bankruptcy announcement, gives us confidence that we can deliver $1 billion in Craftsman growth by 2021, as Jim said, 6 full years ahead of schedule.

I'll shift now to an exciting update on our partnership with The Home Depot. Today, we've announced that The Home Depot will be the exclusive home improvement retailer for the Stanley Hand Tools & Storage product portfolio, both in-store and online, beginning in 2019.

Also included in this exclusive offering is the Stanley FatMax product line, the world's leading tape measure brand known for innovation and durability.

This agreement represents one of the largest exclusivity partnerships in the Tools & Storage industry, enhancing our robust offering at Home Depot with existing exclusives in DEWALT flexible cordless tools and DEWALT hand tools. We're excited to expand our partnership and provide both Pro and DIY consumers with unparalleled access to the Stanley and Stanley FatMax portfolios.

This agreement is an example of our business' commitment to commercial excellence and a representation of the vision we have for our portfolio of iconic brands across the retail landscape.

Our strategic brand partnerships with industry-leading retailers are designed to best serve our customers and end users in the U.S. and across the globe.

Now, I'd turn it back to Jim to wrap today's presentation.

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

Jeff, thanks for sharing those exciting developments, regarding our partners and the Craftsman Stanley and Stanley FatMax brands.

It's encouraging to see how we are building upon our strong customer partnerships and realizing new opportunities for growth. It's also rewarding to be able to officially update our projection for Craftsman to deliver $1 billion of growth by 2021.

So moving to the third quarter, to summarize, we delivered a solid performance of 4% organic growth and 6% EPS expansion, overcoming $135 million in currency, commodity and tariff headwinds.

Our teams remained focused on price execution and cost control in response to the external pressures, which have now grown to $370 million for 2018, as Don mentioned. And despite these headwinds, we are expected to deliver strong financial performance with 6% organic growth and 9% EPS expansion for the full year 2018.

This is a testament to the speed and agility of our team and the strength of our SFS 2.0 operating system that we are in this position today.

And as you heard earlier, we are building into our planning, a continuation of this dynamic and volatile macro environment and announced the cost-reduction program targeted to deliver $250 million in annual savings for 2019.

This will prepare the business for a respectable earnings growth and cash flow next year in spite of the carryover headwinds. And as we look to close out 2018, we are focused on execution and operational excellence. This includes generating revenue growth with operating leverage, delivering on pricing productivity and cost actions and successfully integrating our recent acquisitions, while generating strong free cash flow.

I'm confident that we will be successful in navigating these near-term headwinds and remain optimistic about the outlook for our company-specific growth initiatives, which will buffer the revenue impact from slower end markets and provide for earnings growth and relative outperformance.

And just to reiterate, these catalysts include the accelerating Craftsman rollout, our new exclusive Stanley, Stanley FatMax partnership at Home Depot, our growing e-commerce share gains around the globe, a robust emerging market growth program, growing revenue synergies from the Lenox/Irwin acquisition, continued revenue benefits from FLEXVOLT and new innovations, and the recently announced IES transaction. Quite a robust list.

We also remained focused on our long-term strategy and our 22/22 vision When we announced 22/22, the base year was 2016, and we were $11 billion in revenue. We will be $14 billion this year, and we now have reasonable visibility to $22 billion by 2022 based on our growth pipeline and the transactions already announced plus another $1 billion to $2 billion in acquired revenue in the 2020 to 2022 timeframe. That is very exciting and encouraging in the face of all these near-term challenges.

Dennis, we are now ready for Q&A.

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

Great, thanks, Jim. Shannon, we can now open the call to Q&A, please. Thank you.

QUESTIONS AND ANSWERS

Operator

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

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

I apologize, this might be a little bit of a multipart question. But I just wanted to confirm what the headwind is for 2019? And it does sound like the restructuring action is just meant to counter the tariff-related headwinds, and therefore you're relying on price and other metrics to cover the balance. And I was wondering if you could elaborate a little bit just on the restructuring. We view this as a very lean, well-run, type of managed company, $250 million is a big number. Maybe you could give us a little bit of color of where that comes from? How you get it?

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

Sure. I'll start with the first part of your question. So yes, for 2019, we believe the headwinds of the 3 categories will be very similar to the 2018 level of $370 million at this stage. So about $200 million of that is related to tariffs, and then the remainder is split between commodity inflation and currency. So you can look at that and say $370 million. We're taking price actions on virtually all of those particular items. We've either done that this year or we will do it early next year related to List 3. In addition to that, we're also doing $250 million of cost takeout actions to be responsive to potentially more headwinds, potentially slower markets. And potentially managing our price dynamics that we put all this price into the market next year to ensure that we can have earnings growth next year. So we're trying to have different levers that we can pull associated with these headwinds, which allows us to grow our earnings, as I said, high single digits for next year versus 2018. On the cost reduction side, I mean, we will go through a process that we've done many times before as a company. We haven't done one of these in a while. However, the discipline and the structure on the process is very much focused on what are the types of cost that we can take out that would not impact growth initiatives within the short-term and the mid-term? How do we ensure that we don't slow momentum in some of these great growth catalysts that both Jeff and Jim talked about this morning? And so it will be very much targeted to activities that are removed from the customer, in that regard, removed from the innovation categories, et cetera, that really do impact growth in the time frame of the next 1 to 3 years.

Operator

Our next question comes from Julian Mitchell with Barclays.

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

I just wondered if you could give a bit more color on the top-line performance within U.S. Tools & Storage? Your U.S. retail sales slowed quite a lot in Q3, and that was before, I guess, further price increases that will come. So maybe talk a little bit about the cadence of the Tools & Storage business demand in the U.S. And also what type of price increases you think you can get in the future without driving volume demand destruction as the demand seems to be softening kind of even before another round of price increases?

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

Yes. So we -- in the U.S. market, in particular, we -- as I mentioned in my comments, the transition of Craftsman as far as getting Craftsman into the stores, in Lowe's stores, it's going very, very well. But as we look at the legacy brands that are being transitioned out, that impact has been a little bit more negative than we originally forecasted. So, therefore, that was one of the larger pressure points that we saw within the U.S. market. Our price expectation was a little bit higher than what actually occurred as well as in the U.S. market. And so that was probably the second category. But the first one was probably the larger impact that really drove that. We will continue to put price into the market related to the tariffs that are coming in January for List 3. And we will also continue to monitor the elasticity of how the volume responds to those price increases, and we will manage through that in a way that is balanced along the lines that I touched on earlier, where we have a dual objective. When we have market growth, we want to make sure that we outpace market growth at some level. So we're gaining share along the way through our innovation and our commercial excellence. At the same time, we want to manage our margin rate. We have to have that balanced approach between the 2. And so we'll be watching the price reaction very -- at a very focused level. We'll continue to monitor that. And therefore, we'll have to make adjustments along the way to ensure that we achieve that dual objective, which is another reason why we want to -- we're taking cost out of the system, because as we manage that dynamic, it allows us to have another level to ensure that we can grow our earnings.

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

I also want to say -- this is Jim. I also want to say that the U.S. consumer is alive and well. So this is not a doom and gloom story. This is -- the wage rates are up, and people are spending, consumer confidence is off the charts, new records. So I think the retail sales may have slowed slightly, but it's not like, all of a sudden, we have a vacuum in the demand. Now that could come, to your point, the elasticity of demand, all these price increases that companies are taking with respect to these tariffs, elasticity of demand surely will bring some lower level of demand at some point in the future. But I want to make it very clear that it's not a doom and gloom story right now, and we don't expect it to be in the fourth quarter, because the bulk of the tariff increases really don't hit until January 1.

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

And one point to add on to that -- to what Jim and Don said, Julian, was that, through the course of 2018, we have high confidence. We'll grow in the high single-digit range, which will be 2x the market, even as we launch 1,200 new Craftsman products to bring down the other brands to move them across the retail segments. So a lot of moving pieces, but we are very confident our growth will outpace the market.

Operator

Our next question comes from Rich Kwas with Wells Fargo Securities.

Richard Michael Kwas ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst***

Just a couple for me. I -- so on the $1 billion, first of all, is that net of cannibalization? And it sounds like there is some cannibalization here in Q4 or so -- or Q3, I should say. And so what would be that near term in terms of the impact, how we should be thinking about that and this clarity on that $1 billion? And then secondly, what is the price assumption now for the year, for 2018? It was $190 million. I just want to get an update there.

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

Yes. So the $1 billion clearly includes some cannibalization. However, if you think about what Jeff and Jim talked about related to Home Depot, we would like to think that as we roll that out in The Home Depot for Stanley and Stanley FatMax, that we can have a mitigating effect on some of the cannibalization that we're experiencing this year and into part of next year or a large portion of next year. So if you look at over the 4-year time horizon that the $1 billion will evolve, our hope is, is that the cannibalization component of that is not very significant. But we'll see how that plays out over time. But we'll continue to see some cannibalization impact as we exit this year, and we go into next year. But we do believe that cannibalization impact will be a little less in the fourth quarter and begin to mitigate itself a little bit more throughout 2019.

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

And it's also going to be affected by the Sears financial situation. So that business has to go somewhere. And we only had a very small amount of business with Sears, I think it was running around $50 million annually. So we feel like that is a very, very positive development from a revenue point of view for us.

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

As far as price this year, to your second question. It will be lower than the previous communicated $190 million, probably by about $30 million to $40 million. That's kind of a rough magnitude of where it will be. A large chunk of that happened in the Q3, and a little bit more will happen in Q4.

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

We will also say that the peak of the cannibalization really occurred in Q3. I mean that's when we started most of this process. So the cannibalization rate will be less in Q4, and it would dissipate as we roll through 2019.

Operator

Our next question comes from Steven Winoker with UBS.

Steven Eric Winoker ***UBS Investment Bank, Research Division - MD & Industrials Analyst***

I also have a multipart question here. So the first one is, that $125 million expense is what I see for the $250 million of savings. Is that correct or what else have you got going in there to get the $250 million? And then secondly, I just want to come back to this pricing point that was just raised, a little more feeling for why you are $30 million to $40 million short, how that affects your timing and thinking of what will be really much more concerned that I've got around 2019 versus '18 as opposed to sort of the rest of this year. And I know you mentioned the demand part, but that -- a bit better sense for how you are kind of digging in and really getting a higher comfort level that you can hold that given maybe your prior experiences with soft demand.

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

So part one, the answer is yes. $125 million and $250 million, that's all of it. The second thing is, it's early days, and for anyone to speculate that they understand what the elasticity of demand is for all these SKUs in a time frame when there is really no precedent for these types of price increases in the United States. On the other hand, we have a fair amount of experience on the emerging markets, with pretty dramatic price increases. When the currencies are weakened, we frequently find ourselves raising prices to offset those currency impacts. And you see continued solid growth in all those markets. We have double-digit growth in the emerging markets. Sometimes, you end up with a shift from a volume-driven organic growth to more price-driven organic growth, but in the end, you've got the organic growth and you protect the margins. And that's kind of our approach. So we can't tell you how much price we're going to get next year right now. One of the reasons we did -- I think that I mentioned this, one of the reasons we did the cost reduction is because we want to have those levers. We want to be able to have the flexibility to manage our price volume and still drive earnings growth, and that will give us the opportunity to do that in 2019.

Operator

Our next question comes from Josh Pokrzywinski with Morgan Stanley.

Joshua Charles Pokrzywinski ***Morgan Stanley, Research Division - Equity Analyst***

Just want to dig in a little bit more in the Stanley and FatMax exclusivity announcement. You mentioned some disruption in the channel, called it cannibalization around some product line transitions. Could we see something similar with this, as those brands get consolidated into Home Depot? And can you maybe size what that looks like? I think we can all kind of look at what Craftsman has been historically in the market through Sears. But I think this is another middle-price point brand that seems like a kind of fair exchange offering for other channels. What's the size of that in the market today that will now be housed a little bit more exclusively inside Home Depot?

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

Well, I'll give as much clarity as I can. But obviously, this doesn't happen until 2019. So to speculate it all, that would be impossible. But to answer the question kind of thoroughly would be, the acquisition of the Craftsman brand, we felt like it was a great opportunity to convert share that had eluded us and every other tool company for generations. And I think that has proven to be very accurate, which is why we have now increased our number to $1 billion by year 4 rather than year 10. Concurrent with that, what we hope to do, but hadn't committed to until now, I guess, is that they -- with that, the advent of that Craftsman brand to our portfolio, it allowed us and will allow us to unlock other marquee brands in our stable of world-class brands to go exploit opportunities for share gain to customers that don't support Craftsman. So now you have a growth vehicle for Craftsman-based customers to go after share of Craftsman that has existed in Sears for many, many years and opportunities to use the other brands to go after share within those locations against competition. And the combination of those 2 things has given us opportunity to do that domestically and use brands like Irwin, Lenox, et cetera, to do the same thing globally. So it's an outstanding opportunity. I guess, to comment back on -- and that's -- to comment back on the question about The Home Depot, I would say this, we've experienced accelerated growth with the -- on the power tool side with DEWALT corded products, DEWALT power tool accessories, DEWALT cordless, DEWALT outdoor and DEWALT Flexvolt. This advent of Stanley and Stanley FatMax gives us the opportunity to replicate that type of incremental growth for us and for them, but on the Hand Tool & Storage side of the business. And it, obviously, represents share gains for them and for us or we wouldn't have taken the time to announce it today.

Operator

Our next question comes from Michael Rehaut with JP Morgan.

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

First question, I just wanted to circle back and just try -- and I apologize if you kind of hit on the elements of this in previous questions, but just trying to think about 2019 and the puts and takes there. And if I'm missing anything, or are there areas to elaborate on, I appreciate it. So you have, on the one hand, the $370 million additional headwind from the 3 buckets of commodity, currency and tariff. On the flip side, we are looking at the $250 million of cost savings. Just trying to get a sense of how you're thinking about the other positive drivers across volume growth, or sales growth, pricing and productivity. We can certainly -- within this year, you're lowering the growth by 1%, and maybe that's a little bit due to more cannibalization. But I would suspect, particularly on the growth side, that you're still looking at some type of mid-single-digit rate. And I was just curious if you can kind of help us frame thoughts around benefits from pricing as well as productivity.

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

Let me just clarify one thing. We're not providing guidance for 2019, but we are providing some insight and direction as to what we see based on the actions that we're taking as well as the headwinds that we have. So we want the people to understand that we have -- we believe we have a way to grow our earnings in a meaningful way in 2019. We have headwinds to deal with, as we've talked about, the $370 million. We will have price actions, that carryover related to that. We have new price actions that we will put into the market related to List 3 in January. Obviously, those will have a mitigating effect to those headwinds of some magnitude. We do expect to have some organic growth, obviously, in 2019 as well. And our objective is always to be within our 4% to 6% range. And we'll see as we get closer to January, whether that's still our view. But at this point, there's nothing that says we should change that at this stage. The biggest wild card would be the impact of price, and how we have to manage that along the lines that Jim was just describing, which leads us to why we're taking these cost actions. So we have levers to counter the potential impacts of price into the market, and therefore, we can ensure that we get to the end result of having meaningful earnings growth year-over-year. That's really about all we can say at this stage for 2019. And we will provide more color as we get closer or get to January. But at this stage, that's how we feel, and we feel like we're positioning ourselves and setting ourselves up so we can create that outcome for 2019.

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

And the one thing I would mention as well is that sometimes overlooked, as people do their analysis and they try to walk from 1 year to another, but sometimes overlooked is the variable cost productivity that we generate every year. And that will be in the neighborhood of 3% to 4% most years, and we see no reason why it shouldn't be in 2019. That would be additive productivity to the $250 million of cost savings. And so we have $9 billion of variable costs to work with for that 2 to 3 -- or 3% to 4%. And if you're trying to put the pieces of the puzzle together and the different scenarios that could occur, you -- make sure that you think through that as well.

Operator

Our next question comes from Nigel Coe with Wolfe Research.

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

There aren't too many companies talking about 2019 so really appreciate some of the moving pieces for next year, it's very helpful. I want to go back to Craftsman. So that's obviously a big component for next year. And I'm curious if you just bring us back to where your capacity is right now, where you see that moving in 2019? And If Sears does go to Chapter 7 liquidation, what can you do to accelerate that production ramp?

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

Very good question. We worked really hard since March of '17 to bring this 1,200 SKU product portfolio to life. And I'm very pleased that the initial rollout, in the first 90 days of the rollout, shipments are up, POS is up, representing share gain for us and our partners. But the other key component is our service levels on that product right now, almost 100%. And so we've capacitized ourselves. Before we would commit to $1 billion by 2021, we built capacity plans to support it. So we feel very good about our capability of supplying that accelerated demand through our existing 50, 60 manufacturing plant structure. Again, we make almost 90% of what we sell, so we have great control over those things, and we feel very confident we can support the accelerated demand created by Craftsman in whatever form it might be.

Operator

Our next question comes from Tim Wojs with Baird.

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

I guess just -- sorry to go back to price again, but I guess, in your conversations with the home centers just on tariffs, are they kind of thinking of tariffs as kind of normal inflation where you need to kind of show them the inflation and then you kind of get prices to lag? Or I mean, since these tariffs are kind of clearly out there, are you able to maybe line up price increases more in line with those tariff increases? Just trying to get a little bit more color on just the confidence on pricing in Q1 and then how that might impact the cadence of price costs in the first half of next year.

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

Yes. I don't think anybody, except the home centers, can get in the minds of the home centers. But I will say that the home centers appear, and frankly, all the customers, appear to be in a position where they understand that their supply base cannot absorb onetime increases and cost of these magnitudes, 25%. And they understand that. They understand that they're not going to do it. And so in the end, this is all going to go to the consumer and whether it's tools or whether it's consumer products or whatever -- and other companies, other industries. And that I think is the way this is all going to play out and is playing out.

Operator

Our next question comes from Dennis McGill with Zelman.

Dennis Patrick McGill ***Zelman & Associates LLC - Director of Research and Principal***

Maybe another one for Jeff on the home centers. I guess for the HD exclusive, can you maybe just talk about what brought about that opportunity to have the exclusive conversation? And then when you look at the brands or the products that fall underneath, what will be exclusive? Can you just size the relative footprint today at Home Depot versus Lowe's?

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

I could do the first part of the question. I don't think I can provide the information on the second part of the question. It's just -- it's confidential information. But I would say this, that when we begin to build the architecture around the acquisition of Craftsman, Irwin and Lenox as well, we looked at all those brands and where they participated, and we were proactive in trying to manage the cannibalization that would occur across those brands if you allow them all to reside in the same place. And we're proactive in going across our retail landscape with partners to use those brands to accelerate growth and share gain in various places. You've seen like 4 or 5 really good examples of that to this point with Craftsman and now Stanley, Stanley FatMax. We also love all of our customers. So we wanted to have an opportunity to grow with each and every one of them. Growth with one at the expense of the other is a short-term solution and not ultimately very successful. So this took a lot of additional work. But it has taken us -- it will take us to a place where share gain in the future is incremental to any share gains in the past. So we feel real good about that. In terms of the size, probably the only thing that I can say is that we have been on an accelerated growth trajectory with The Home Depot over the last decade across our portfolio. This will allow us to do in Hand Tools & Storage what has been really cleared -- clearly done across power tools and power tool accessories. So it will give us a complete growth platform with a really important customer.

Operator

Our next question comes from Joe Ritchie with Goldman Sachs.

Joseph Alfred Ritchie ***Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst***

The -- so just -- maybe just a little bit more insight on the restructuring plan. Obviously, the payback at 2x looks pretty good. So maybe, can you give us a little bit more color around like the cadence of the benefits coming through for next year? And then also, if we do get level 4 tariffs, like -- is there -- how would you go about tackling the potential impact from level 4?

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

So yes, I'll give you a little bit of color as far as the restructuring. We're -- as we said in our press release, we will complete the vast majority of the actions associated with it by the end of '18. So therefore, we would expect some pretty even cadence across the 4 quarters of 2019. And so I think you can pretty much move that across the quarter. The bulk of the charge, obviously, will take place in the fourth quarter of 2018. The second question was around what? What was it on?

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

It was the....List 4 tariffs.

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

Yes. List 4 tariffs, we'll take the approach that I described when I went through that on the slides that the first step of actions will be price increases in the marketplace. The second step will be looking at, is there an exclusion process that we can go through with the U.S. government, because there are some disadvantages that we have in the marketplace as a result of the tariff and then the third will be looking at what we can do to our supply chain to change aspects of the supply chain as to where things are manufactured, whether it's bringing things to the U.S. to be -- along our strategy of make where we sell or is it moving into another country, because it makes more sense to do that, both from a market perspective and a financial perspective. So those will be like the 3 levels of steps that we would go through, very similar to what we're going through with List 3, and what we've gone through with the previous 2 lists related to the tariffs.

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

And wait, List 4 would actually -- not all tariffs are horrible for -- at this point. The tariff impact to some categories like boxes, metal boxes, have actually been positive for us. But wave 4 would also accelerate our advantage based on our domestic manufacturing footprint.

Operator

And our next question comes from Rob Wertheimer with Melius Research.

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

I wanted to talk about this -- operationally on Craftsman. As Sears goes through its process, do you need to spend more in advertising, et cetera, promotions to sort of pull those revenues to you, make sure they don't get lost in transition? And is there any risk from whatever actions they may take in 4Q to load and do massive sales or whatever to push stuff through their channel?

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

Well, you'll never know how they're going to behave when they're under protection. But I will say that it's been a fantastic execution. And the -- it's been a real partnership with our retail partner, Lowe's. The sales and marketing resources that they have brought to bear to make this program successful in conjunction with the sales and marketing resources that we've invested is like nothing has ever been done in our industry. So I think the answer to your question is that we've done everything that we need to do to pull those sales from Sears into Stanley Black & Decker and Lowe's. And maybe some will drift out into some of our other retail partners, but we got that well covered too as we talked about. So we're very pleased and very optimistic with the situation -- about the situation.

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

And we feel very well prepared for this. We've been preparing for this, the date -- all we didn't know was the date on when it would happen. So if Jim referenced the connection between us and Lowe's going forward, then it is exemplary and it is out in front. We're likewise aligned in the hardware channel with Ace, we're likewise aligned with Amazon in the e-commerce space, so we're prepared and whatever fashion that Craftsman customers want to find a product to make sure that we are front and center and ready to convert.

Operator

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

Dennis 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 further questions. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. And have a wonderful day.