Q1 2020 Stanley Black & Decker Inc Earnings Call

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PRESENTATION

Operator

Welcome to the First Quarter 2020 Stanley Black & Decker Earnings Conference Call. My name is Shannon, and I will be your operator for today's call. (Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to the Vice President of Investor Relations, Dennis Lange. Mr. Lange, you may begin.

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

Thank you, Shannon. Good morning, everyone, and thanks for joining us for Stanley Black & Decker's 2020 First Quarter Conference Call.

On the call, in addition to myself, is Jim Loree, President and CEO, and Don Allan, Executive Vice President and CFO.

Our earnings release, which was issued earlier this morning and a supplemental presentation, which we will refer to during the call are available on the IR section of our website.

A replay of this morning's call will also be available beginning at 11:00 a.m. today. The replay number and the access code are in our press release.

This morning, Jim and Don will review our 2020 first quarter results and various other matters followed by a Q&A session. Consistent with prior calls, we're 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 based on our current views. Such statements are based on assumptions of future events that may not prove to be accurate, and as such, they involve risk and uncertainty. It's therefore possible that the actual results may materially differ from any forward-looking statements that we might make today. We direct you to the cautionary statements in our 8-K that we filed with our press release and in our most recent '34 Act filing.

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

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

Thanks, Dennis, and good morning, everyone.

I'd like to begin with a short passage from our most recent shareholder letter, and I quote, "The new decade is upon us and with it comes a host of new challenges, with the most significant one of them all being something called VUCA, a term which emanated from a military college in the U.S. in response to the onset of the post-Cold War era. VUCA stands for volatility, uncertainty, complexity and ambiguity. And while back in that period, VUCA described the backdrop for the formation of a new world order, this time, I believe it describes what leaders of all institutions will have to consider as we devise strategies and tactics to thrive in what can now be called the new world disorder of the 2020s. It's an exciting world full of disruptive risks and opportunities, with the accelerating pace of technological change, always pushing the limits of what individuals and institutions can absorb. In 2019, we put much thought into what it will take to win in this environment, and we were perhaps blessed by having to deal with the unusually volatile conditions we faced in 2018 and 2019. For structural reasons, our recent external challenges may have been more pronounced than encountered by most diversified global industrials. Ironically, we feel blessed that we have experienced them and endured through them and have now emerged with the fitness and mindset to take on the challenges of the 2020s."

I put the finishing touches on that shareholder letter on February 9, several weeks before the devastating impact of COVID-19 began to unfold in real time across the globe. It struck suddenly and jarringly, and while no one could fully understand what to expect next and exactly how it would impact public health policy, consumer behavior, the global economy, our markets, et cetera, our management team truly did have the fitness and mindset to tackle the first great challenge of the 2020s, COVID-19.

The VUCA world had arrived earlier and more forcefully than could ever have been imagined. We acted swiftly and decisively to establish key priorities including: one, ensuring the health and safety of our employees and supply chain partners; two, maintaining business continuity and financial strength and stability; three, serving our customers who provide essential products and services to the world; and four, doing our part to help mitigate the impact of the virus across the globe.

These priorities create clarity for our people and our stakeholders in a time of crisis. Through that framework, we empowered our leaders to take the necessary actions to protect our people, our company, our customers and our communities.

First and most important is the health and safety of our employees and our supply chain partners. As a provider of essential products and services to the world, we have been permitted to continuously manufacture products and to provide services in most locations around the globe since the inception of the lockdown.

It began in China with our 10 plants there, operating continuously after returning from Chinese New Year in early February. We took extreme measures to protect our 8,000 workers there, including temperature screening, mandatory use of masks and other PPE, social distancing, frequent hand sanitizing and automatic quarantine -- quarantining of anyone exposed to international travel or other high-risk situations.

In addition, all Chinese employees who were able to work virtually were required to do so. These precautions were so effective that to date, we have had only 1 known instance of an employee in China testing positive for COVID-19, and she has recovered.

That early learning in China proved critically useful to managing safety in our global operations as it enabled us to establish a standardized safety protocol based on applying our China practices as the virus worked its way around the world.

Among approximately 25,000 manufacturing and distribution workers globally, we have had fewer than 50 test positive to date. We track each employee case continuously as it develops. We've had only a few locations out of our 100-plus factories and DCs with any notable spread, although we have had 1 where 9 cases were detected within a 12-day period. We immediately and voluntarily effected a temporary shutdown of that facility for sanitizing and sent the majority of employees home for a mandatory 14-day quarantine.

For the total company, comprising approximately 58,000 associates, we've had less than 100 employees test positive for COVID-19, a testament to our safety culture and the importance we place on protecting our people.

And while we recognize that the situation can change quickly with respect to this virus, our safety measures are largely working. That health and safety commitment and execution has enabled us to maintain a supply chain that has functioned at a high level thus far during the crisis, providing business continuity with few and only relatively minor supply disruptions. This is a day-to-day management process. However, we can say at this point, so far, so good.

And as for the company, we were in a strong financial position coming into the crisis, and we remain strong today. Not surprisingly, we are anticipating that COVID-19-driven demand disruptions will negatively impact our full year revenue outlook, and therefore, overall financial results in 2020.

And here's what we've seen relative to demand. Overall demand in January and February was consistent with our now withdrawn guidance that was issued in January. Into March, as the lockdown unfolded in Asia, Europe and then the U.S., sell-in volume fell into deep negative territory at levels in the aggregate even deeper than '08, '09. The automotive industry in Europe and North America essentially shut down. Commercial aerospace experienced similar dynamics. General industrial orders dried up as plants not providing essential products and services were closed around the globe. And major European countries, such as Italy, France and Spain as well as many in emerging markets basically shut down their discretionary and nonessential economies. Most states in the U.S. followed suit after California's March 19 stay-at-home order. And North American retail was a bright spot as homebound DIYers flocked to home centers and e-commerce to stock up on tools and other project supplies, driving positive POS. Retailers generally took that opportunity to trim inventories, however, creating a large gap between sell-out and sell-in, which has continued into April.

As a result, we recently withdrew our previously announced guidance for the year. And today, we'll be detailing a comprehensive cost reduction and efficiency program that will deliver $500 million of savings in 2020, above and beyond variable cost reductions and $1 billion over the next 12 months. The primary focus is to: one, adjust our supply chain and manufacturing labor base to match the current demand environment; secondly, substantially reduce indirect spending; third, reduce staffing in a manner that ensures we prepare for a demand recovery at the appropriate time; and fourth, capture the significant raw material deflation opportunity that has emerged as the economy has weakened.

I recognize that this is a difficult time to make reduced work decisions that impact employees, but these actions are necessary given the decline in demand we are seeing. And with that said, we are being thoughtful in executing these actions with compassion as well as consideration to position the company to capitalize on a recovery as the crisis subsides.

And subside, it will. We are already seeing green shoots suggesting that economies and industries around the world are either rebooting or preparing to reboot in the coming weeks. Home center POS in North America is remarkably positive as we speak. E-commerce volumes are up in double digits. European and U.S. auto is preparing to resume production. Governments are beginning to permit nonessential manufacturing to resume, et cetera. All of this suggests that as we see it today, second quarter will likely be the trough in 2020, albeit a deep one at that.

We believe we have sufficient flexibility to navigate through this volatile period and emerge even stronger on the other side. We have stress tested our business for a wide variety of demand scenarios and have initiated the necessary actions and contingency plans to maintain a solid financial and operational foundation during this unpredictable period. Don will provide more color and detail on these in a few minutes.

Also important in this crisis is our mission to assist our governments and communities in mitigating the spread and impact of the virus around the globe. In the face of today's challenges, we are seeing the best of humankind. People, businesses, governments, NGOs are coming together. And as an organization, we are taking steps around the globe to do our part. Now is the time for corporations like ours to demonstrate how we can align our resources to help deliver the innovative solutions and positive societal impact the world needs right now.

We are participating in a number of ways using our expertise and innovation and our financial and operational resources to be a force for good and make a difference in our communities.

To start, we are contributing to COVID-19 relief funds in the U.S. and globally in support of those who have been catastrophically impacted by the virus. As part of this program, we are matching all employee donations globally 2-for-1 to help our colleagues make an impact in their local communities.

In addition, we are setting up a relief fund for our own employees and their families to help those who have been severely impacted by the virus and are in need of temporary financial assistance.

We are looking at ways to use our supply chain scale to help acquire critical PPE and other medical equipment that is needed. For instance, we purchased 3 million face masks for philanthropic distribution to vulnerable adult living facility, frontline workers and residents who desperately need protection.

And we have created COVID-19 Response Task Force comprised of cross-functional leaders throughout our organization that are focused on leveraging their expertise to develop solutions to help combat the virus. Our teams are working on 3D printing face shields for health care workers and have partnered with other companies to develop emergency hand sanitizer supplies as well as a DEWALT-powered portable battery respirator.

Our teams are supporting those who make the world, especially the frontline caregivers and first responders, the workers in our customers' factories, construction workers and many others. They are each giving it their all to help keep us safe, healthy and functioning well. Their work contributes to society in so many ways, and our products and services are helping them to do their jobs every day, the people that make the world.

Now I'll turn briefly to first quarter results. Revenues were $3.1 billion, down 6% versus prior year driven by a 7% organic decline, primarily related to the impacts we experienced due to the COVID-19 pandemic.

Adjusted EPS for the quarter was $1.20, which was better than otherwise could be expected considering the demand headwinds that emerged in March. And our business teams are focused on cost control and supply-demand balancing and are realizing the benefits we anticipated with the margin resiliency program. This strong execution, however, was not enough to overcome the impact from the coronavirus-related volume declines and approximately $60 million of carryover headwinds related to tariffs and currency.

And I will now turn it over to Don Allan to provide the business details for 1Q and a deeper dive into our scenario planning, cost response, capital allocation posture and liquidity picture. Don?

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

Thank you, Jim, and good morning, everyone. I hope you are all staying safe and healthy. Before I take a deeper dive into Q1 results, I just want to share my deep appreciation for all our Stanley Black & Decker employees around the globe, who have been working night and day to keep one another safe, operate our business in this challenging environment and still give back to our communities. Thank you very much.

So let's move on to Q1. Tools & Storage revenue declined 10%, with volume down 9% and currency contributing an additional 2 points of pressure. Price was a positive 1 point, driven by the benefits from our actions in response to continued tariff and currency headwinds. The challenging revenue environment as a result of the COVID crisis emerging in Q1 has impacted all Tools & Storage regions and SBUs. The operating margin rate for the segment was 11.5%, down from the prior year as the benefits from cost control, margin resiliency and price were more than offset by lower volumes due to the virus, tariffs and unfavorable currency.

As the quarter unfolded, we saw the humanitarian crisis from COVID-19 evolve quickly into an economic crisis and started to experience demand impacts in virtually all global markets we serve. First in Asia, then in Europe and finally in North America and the emerging markets. Our planned organic growth for the quarter was relatively flat to a slight decline.

As we detailed in January, we anticipated a difficult comp due to the significant load-in of Craftsman in early 2019 as well as softer industrial channels and emerging markets in our guidance at the time. The entirety of the miss versus our plan can be attributed to the impact from the virus. However, our proactive cost control and margin resiliency initiatives, were able to significantly mitigate the net operating margin impact from lower volumes.

On a geographic basis, Europe was down 7% as France and Southern Europe led the decline while the North fared somewhat better, with low single-digit declines as the lockdown started later.

Growth in the European region in the month of February and first 2 weeks of March was positive, illustrating how quickly trends changed during the second half of March.

Emerging markets declined 13%. Asia was hardest hit down 25%, with Latin America down 12%. All countries in these geographies were down for the quarter, except for Russia, Turkey, Colombia and Chile, which were all up low double digits.

North America was down 8%, with all channels experiencing declines. However, Canada was relatively flat for the quarter. Similar to the overall segment, we expected North America to be relatively flat due to the Craftsman load-in dynamic. So the decline for the quarter was largely driven by the virus impact.

From an underlying demand standpoint, retail POS extended the strong double-digit trend from 2019 through much of the quarter. We started to see demand deviations versus our plan around the second week of March as more broad-based shelter in-place orders went into effect, and the month of March POS was relatively flat by the end of the month.

Now looking at the SBUs. Power Tools & Equipment declined 3% as early momentum behind commercial execution and new product introductions were more than offset by the later quarter impact from the pandemic. Contrary to what you would think, the less cyclical hand tools, accessories and storage SBU declined 14%, more extreme because this SBU had a larger benefit in 2019 from the Craftsman rollout.

As we watch the trends in the quarter, e-commerce globally and DIY in many developed markets, showed signs of acceleration. As you can imagine, with more people spending extended times in their homes, maintenance and repair work that may have been put off for some time, has taken a new priority in the lives of our end users. Our global position in e-commerce and the reestablishment of Craftsman in the marketplace have benefited us in this particular environment.

Turning to Industrial. The segment delivered 6% revenue growth, which included 15 points from IES Attachments and CAM, both of those acquisitions.

Additionally, it had an 8% organic decline and a negative 1 point from currency. Operating margin rate was down year-over-year to 13.2% as margin resiliency and cost controls were more than offset by the impact from lower volume and currency.

Engineered Fastening organic revenues were down 9%. As you would expect, Asia led the declines with auto being more impacted than general industrial customers. We have seen this dynamic emerge in other geographies we compete in as well. The automotive manufacturers were forced to make tough decisions to close their plants and began shutting them down in Q1, as humanitarian and economic crisis moved across the globe, leading to North American shutdowns late in March.

On a positive front, many of the Chinese auto plants have reopened, albeit at significantly lower volumes. And most of the other auto manufacturers are planning to reopen North American and European plants within the next several weeks. The commercial model in Engineered Fastening is sound. We continue to partner with our customers on new content, which we believe will provide a pathway for share gains as production levels improve. We are prepared to ramp up once our automotive customers solidify their new production dates across Europe and North America.

The Infrastructure businesses declined 6% as low single-digit growth in Oil & Gas was more than offset by lower Attachment Tools volume. Oil & Gas benefited from continued growth in inspections, while Attachment Tools declined in the mid-teens, a relatively similar performance to what we experienced in the fourth quarter.

Through mid-March, Security's organic growth was close to 3% quarter to date. By quarter end, however, the Security segment had declined 4% as organic growth shifted to a negative 2% for the full quarter, a 5-point swing in 2 weeks as the world shut down and customers were cautious in allowing technicians on-site as they postpone projects. Embedded in that organic growth performance is a 2-point negative impact from divestitures. Security additionally experienced a 2% decline in revenue from currency.

North American Security organic growth was up 2% as higher volumes in automatic doors and health care were partially offset by lower installation and service revenue in the commercial electronic security business.

Obviously, we are seeing customer accessibility limitations impacting our ability to complete installation orders in this environment.

Europe was down 1% organically due to customer restrictions in France and U.K., which more than offset solid growth in Sweden. The commercial momentum continued with strong order intake and a backlog that is up 20% versus last year. As the restrictions lift in North America and Europe, we are in a good position to continue the organic growth momentum in Security.

In terms of profitability, the segment operating margin was down 290 basis points to 7.4% as price and cost control were more than offset by lower volume in electronic security, investments to support growth and the impact from the Sargent & Greenleaf divestiture. The volume lost in late March were customer installations with significant above-line average profitability.

So that is the view of Q1. But now I would like to share our view on the near-term prospects for our businesses. So as we move to Slide 9, today's environment is changing on a daily basis, and we are doing everything we can to keep our employees safe and healthy and serve our customers while we continue to evaluate and prepare for a wide variety of demand scenarios that could occur in 2020 and beyond.

I will start with the left side of the page, which depicts how we expect COVID to initially impact demand. The chart is a range from the most impacted businesses at the top to what we believe to be the least impacted businesses as we move down to the bottom of the table on this page.

We are seeing that the hardest-hit businesses will be automotive and aerospace. Both have seen OEMs shut down production. In the case of auto, these end markets were seeing negative trends for much of '18 and '19, so this environment has deepened this decline globally. Our customers are at varied stages of restarting in Europe and the United States.

As a reminder, our auto fastening business is 25% CapEx-driven, with the remainder based on production.

As it relates to our aerospace exposure is close to 90% commercial, with the vast majority of that tied to new-builds.

Finally, we expect general industrial portion of fasteners to be somewhat less impacted as the customer base is diverse, and we serve some essential industries that have remained operational during this time.

Turning to Tools & Storage. Market demand is most closely correlated with global GDP and consumer confidence in the served geography. Approximately 85% of our tools are construction oriented with the remaining 15% serving industrial customers and automotive aftermarket. As broad-based global shelter in-place orders were issued, the impact to North American independent construction channels and industrial customers as well as geographies outside of North America, has been very significant.

On the contrary, our major North American retail customers were qualified as essential, which enabled us to continue to serve demand. And we are seeing demand acceleration in DIY in the region and e-commerce globally, supporting these trends in North America retail POS for the first 4 weeks of the fiscal month of April, which was up low double digits. However, since about 70% of our products serve the professional, declines in construction and repair activity levels and industrial production are expected to impact demand while shutdowns remain in place.

Additionally, we are experiencing some inventory corrections in our North American retail partners as they utilize this crisis to reset store inventory levels by the end of Q2.

Our Infrastructure businesses have less -- have been less impacted to date by shutdowns as large construction projects have been able to safely continue. Attachment tools are seeing an impact as OEMs adjust production and customers focus on only the most critical inventory. Less impacted today is Oil & Gas as they complete their planned backlog of projects. However, we are expecting a longer-term impact to this business related to the price of oil that would be negative.

Lastly, Security. Generally, this business is rather resilient during recessions because of the significant amount of recurring revenue. And in downturns, we typically see an increase in the demand for Security. The current crisis, however, is challenging this segment in new and different ways. Regional shutdowns are limiting our ability to enter our customers' facilities and complete installation and maintenance orders. As I referenced earlier, though, the team has been seen -- has seen strong order trends, which gives us confidence that this business will have significant backlog to convert when the environment improves.

Additionally, we believe new market needs in factories, offices, retail and consumer as well as the health care environment should create new revenue opportunities for this business to capitalize upon as we emerge from the crisis.

So accounting for all these factors, our plans assume a 35% to 45% decline in organic revenue for the second quarter.

As an added disclosure to provide some more transparency, an indication of our April month-to-date revenue trend in each of our businesses is denoted by the colored balls on the left side of the slide. You can see the actual data is very much in line with how I described the businesses earlier. Aggregate shipments for the company are tracking in line with the midpoint of our planning assumption or about a 40% decline.

One could have a view that the demand impact will be deepest in the month of April, as the government restrictions are currently very broad and restrictive. If this turns out to be an accurate view, then we would appear to be at the -- to be at or slightly below the 35% end of our range for Q2. However, we think it's too soon to draw definitive conclusions until we better understand the length of the shutdowns and what demand looks like once restrictions ease.

As we look ahead for the full year, we have modeled scenarios that result in a 15% to 30% organic decline in revenue. The key variables driving the range is the depth and the duration of the revenue decline as well as the timing and the magnitude of the bounce back in 2020.

The high end of the decline would look more like an L-shaped recovery and the shallow end would be representative of a V. Our base case plans for a U-shaped recovery with a few bumps likely along the way, which currently expects 2Q to carry the deepest decline with the revenue contraction moderating across both Q3 and Q4.

We have sized and structured our cost program to address this scenario, and it is relatively similar to the midpoint of these revenue ranges.

However, we've structured our cost program to provide us flexibility, depending on the shape of the recovery. Should we see a quicker V-shaped recovery, we can reverse some of these decisions as necessary to support the demand environment as it returns. However, should we see further deterioration or more elongated L-shaped recovery, we can choose to make some of the temporary actions permanent, resizing our cost base to reflect the new environment.

Now turning to more detail on our cost response. As Jim mentioned in his opening comments, we are targeting 4 areas of opportunity within our cost program: indirect spend, compensation and headcount, benefits modification and raw material deflation. This new program expands and incorporates the $100 million to $150 million 2020 margin resiliency opportunity I discussed on the January earnings call. However, these reductions are incremental to the headcount reduction program that we implemented in Q4 2019, and included in our guidance in January. We see this as a $1 billion savings opportunity over the next 12 months, with approximately $500 million benefiting this year.

Now I will dive deeper into each one of these opportunities. First, we are targeting to significantly reduce our $1.7 billion in indirect spend as we focus on professional services, MRO, T&E, marketing, et cetera. We are taking a clean sheet bottoms-up approach to assessing these spend categories and establish indirect spend control towers, with cost category owners who will be focused on reviewing all proposed spend. The mindset in this environment is to only approve expenditures that are essential to running our business.

Next, based on where commodity prices are in today's environment, combined with the initiatives we are executing within margin resiliency, we believe there's a significant opportunity to capture incremental raw material deflation across our roughly $6 billion of annual spend in finished goods, components, commodities and transportation. This can help offset some of the remaining tariff and currency pressure that we will face in 2020.

Together, these 2 categories represent about 60% of the $1 billion savings target, which means about 40% is compensation and benefits. Our approach in this area is to ensure that we are preserving our ability to reduce labor costs in a manner that allows us to treat our employees with compassion in these incredibly difficult times and to prepare us for a demand recovery at the appropriate time by making these actions as temporary as possible. The savings include salary reductions for senior leaders, temporary benefit reductions such as suspending 401(k) matching in the United States, a voluntary retirement program, furloughs, modified work weeks and finally, some reductions in force.

Today, about 70% of the actions are temporary, specifically the furloughs, pauses in benefits, sale reductions and the like.

As you think about modeling this $1 billion plan, we should start to see some benefit in Q2 related to these actions, and approximately $375 million of the $500 million will benefit the second half.

One other assumption related to this. We believe approximately 60% of the $1 billion in cost savings is classified as SG&A with the remainder in cost of sales.

So that is our plan to address the semi-fixed cost base in this environment. We also have addressed variable spending by adjusting our manufacturing and supply chain to align with the current demand environment. We are taking a similar cost reduction approach in this area, ensuring that we treat our employees with compassion and partnering with our suppliers to provide the right flexibility.

We also are protecting inventory of our highest-volume SKUs until we get a sense of the demand progression across the coming months and quarters. We will be leveraging the operations excellence principles in the SBD operating model to ensure we remain agile and efficient, carrying only the levels of working capital required.

As we think about scenario planning in various models, as a reminder, we historically have seen decremental margins around 40% prior to any cost-cutting actions across our businesses. This is a good starting assumption as you plan various demand scenarios.

As I said earlier, we are planning for a U-shaped recovery, with a few bumps likely. And with our cost actions, we believe we can limit the decremental margins to low to mid-20s this year, and better than that across the 12-month period. We currently believe Q2 will likely be the deepest decremental margin as we face steep revenue declines and the cost-cutting actions will not see a full quarter impact.

So I've given you quite a bit of detail on how we are tackling the next 12 months. Beyond that time frame by design, there will be a snapback in some of these costs if we are in a better demand environment. In fact, if we find out that we are in a V-shaped recovery in the coming quarters, we may choose to put some of the spending back in place. However, if we find ourselves in an L-shaped recovery, where volume stays depressed for a longer period of time, we will make these actions permanent.

We believe we are taking the appropriate actions given the current environment and trying to prepare ourselves for a range of outcomes that gives us the right level of flexibility to react to the recovery in whichever manner it comes.

So now we'll move to Slide 11 and talk about our past performance in previous recessions. In an effort to provide some additional context to our scenario planning, we want to share some information about how we performed in past recessions. I say we, as Jim, myself and many members of the management team were part of the senior leadership of the company during those time periods. Since we had a major acquisition coming out of the '08, '09 recession, we have included both SWK and BDK in these metrics.

I will focus my comments primarily on 2008 and 2009. So from a top line perspective, peak-to-trough pro forma organic sales declined 23%. Throughout the duration of the recessionary period, the average quarterly organic sales decline was 13%, with the deepest quarterly decline being 24%. To get a sense of how the business rebounded coming out of the housing-led recession, we looked at organic growth 2 quarters after the end of the recession, which returned with 12% growth.

Turning to profit. In both recessions presented on this page, entering the down cycle, decremental margins approximated 40% before cost cutting, which is consistent with what I laid out earlier. However, we did our best to proactively cut costs during both periods and limited peak-to-trough decrementals to low double digits at SWK in 2001 and to the high teens for the combined company in 2008 and 2009.

At this point, we have limited visibility to the potential length and the depth of the current environment. However, we are approaching this situation, drawing on the experience from the past and trying to replicate a track record of performance during downturns. We feel our approach has served us well to make sure we do what we can to remain agile and resilient as we manage the uncertainty and come out of this crisis stronger, prepared to find more organic and inorganic growth opportunities.

Let's now move to Slide 12 and give an update on liquidity. So a quick update on our liquidity and balance sheet. At the end of Q1, we had approximately $1.7 billion of outstanding commercial paper. This is a line with normal seasonality we typically see this time of year.

We don't have any long-term maturities coming due until December of 2021, which is $400 million.

The next maturity is $754 million in 2022, with the remainder of our long-term maturities in 2026 and beyond.

Available liquidity starts with approximately $1 billion of cash on hand as of quarter end. Leveraging our strong investment-grade credit rating, we have had and continue to have uninterrupted access to the commercial paper market since the crisis began. We have about $1.3 billion of available capacity on our $3 billion CP program. Finally, with the successful remarketing of the 2017 preferred equity units in May, we have the opportunity for an additional $750 million of liquidity.

As you can see, we have significant flexibility from a liquidity standpoint, with a total potential of $3.1 billion all-in as of the end of the quarter.

Backing up our robust commercial paper program is $3 billion of revolving credit facilities, which are backed by well capitalized -- by a well-capitalized diversified banking group. You may have seen in our 8-K that we issued last night, announcing that we have modified the covenant on these facilities to now carry an EBITDA-to-interest ratio of greater than 2.5x, with certain onetime expenses excluded from the ratio through 2021. This proactive and prudent action preserves access to liquidity and gives us the flexibility in a period that will carry higher charges related to our cost program.

From a capital deployment perspective, the priority is debt repayment and in turn, achieving our leverage targets. To ensure we maintain our strong liquidity position and deliver on our capital allocation priorities, we've initiated additional capital conservation actions which includes significant reductions in 2020, capital expenditures and a temporary suspension of M&A and share repurchase activity.

So as we move to Slide 13 to summarize all this information. We just covered a lot of ground here, so I'll spend a moment to summarizing a few key points for 2020. We are continuing to suspend our guidance for now and are experiencing substantial revenue declines early in the second quarter, as I mentioned, which we currently expect will represent the trough quarter for the year.

From a revenue perspective, our planning models assume the potential for a 35% to 45% second quarter revenue decline, with the month-to-date April results tracking in that neighborhood. The future is dependent on countries getting control of the health crisis as all of us know. We have modeled multiple scenarios and currently assume sequential improvement as we move through the year with a full year range of 15% to 30% revenue decline, depending on the shape and the timing of the recovery, as I discussed. Decremental margins, pre cost-cutting should be 40%, and our cost reductions will attempt to minimize that impact down to the low to mid-20s.

From a cost structure perspective, we had $180 million of savings included in our Q4 '19 cost reduction and are adding an additional $500 million to that in 2020.

Tariffs and FX are currently expected to be $150 million headwind, with $60 million of that behind us in the first quarter.

From a cash perspective, our focus is capital conservation and deleveraging, as I mentioned. With that comes capital expenditure reductions and temporary suspension of M&A and share purchase -- repurchase activity.

Finally, expect us to target expanding working capital turns versus the prior year. The demand environment will dictate if we see a cash flow positive from working capital liquidation. But as of now, we want to preserve sufficient working capital levels to capitalize on recovery when it presents itself.

As you can see, it's a complex situation. We've never seen this type of humanitarian crisis in our lifetime. But we can draw on our vast experiences where we have successfully navigated this company through 177 years of ups and downs. Our team is actively engaged in managing everything within our control, while also contributing where we can to helping mitigate the spread of this terrible pandemic.

Thank you, and I will now turn it back to Jim.

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

Thanks, Don. It would be easy to lose sight of the opportunities that arise during moments like this, given all the detail and difficult actions that we're taking, will continue to take. But I also want to emphasize that we continue to execute on a number of outstanding growth catalysts that we believe will position us to perform in this difficult market environment and beyond. The iconic Craftsman brand rollout continues to have a strong customer response, excellent growth, and we remain well on our path towards the $1 billion marker. This brand is well positioned to capture the DIY and value-oriented professional growing market in North America.

Our innovation machine is a strategic differentiator and enables us to generate share gain with a steady stream of innovation that we bring to the marketplace across our businesses. More specifically, our recent series of DEWALT product breakthroughs, including FLEXVOLT, ATOMIC and XTREME, have been well received by end users and now account for more than $0.5 billion of revenue, with a healthy growth rate at least pre-COVID-19.

And then lastly, we are the tools industry leader in e-commerce with 2019 online revenues of $1.3 billion. And this global opportunity has outstanding potential for rapid growth in today's environment and in the years to come. And during the last couple of years, we very methodically expanded this program from a North American-focused e-commerce platform to a globally focused platform with strength in many, many markets around the world. It's going to be a huge advantage for us going forward.

And then of course, during 2019, we closed on that 20% stake in MTD, a leading outdoor power equipment manufacturer based in Ohio. This is an exciting opportunity for us to increase our presence in both the gas and electric outdoor power equipment market.

So there's a lot to be excited about, and our growth teams are not sitting still. We know that when -- this crisis has the potential to create sweeping changes in consumer behavior, end user needs and business model requirements. Multiple new growth opportunities will arise from this, and we are prioritizing resources to ensure that we're in a position to capitalize on them.

So in closing, COVID-19 has presented us with the first great challenge of the 2020s. And within this uncertain environment, we've aligned our organization around key priorities: health and safety of our employees and supply chain partners being #1; business continuity and financial strength; serving our customers and doing our part to help mitigate the impact of the virus. We were in a strong position going into the crisis and are taking the necessary actions to stay strong during the crisis and to emerge from it even stronger.

Our commitment to safety is rock solid. Our businesses have operated continuously since the inception of the crisis. Our financial strength and liquidity is in great shape, and our $1 billion cost reduction and efficiency program has been carefully designed to support financial stability and performance in whatever demand scenario emerges. The vast majority of our customers are either open for business or planning to reopen in the coming weeks. Our growth catalysts are alive and well, and we are doing what we can to support our people and our communities around the globe.

So it is with both realism about the present and cautious optimism about the future that we have the resources, the experience, the strength and the mindset to take on the first great challenge of the 2020s. And we're now ready for Q&A, Dennis.

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

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

QUESTIONS AND ANSWERS

Answer – Operator: (Operator Instructions)

Our first question comes from Nigel Coe with Wolfe Research.

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

Question – Nigel Edward Coe: Thanks for all details. That's really helpful, and the context around what you expect for 2Q and the full year is very helpful, now all coming to doing that. So much appreciated. We'll take a lot of the details off-line with Dennis. But in terms of the cost savings, can you just confirm? I think the answer is yes, but this is additive to the cost savings in train right now. So this is $500-plus million, $200 million, so it's more like $700 million of cost reduction this year.

And then the second part of the question is, given it's $1 billion of Annualized savings, $500 million for the full year, that really this is second half and not much of this falls into 2Q.

Answer – Donald Allan: Yes. I'll provide a little clarity on that. So the $500 million in 2020 related to the $1 billion program is in addition to the actions that we took in Q4 of '19. So that's correct.

As it relates to the timing, what I said in my very long script was that $500 million for the year, we think $375 million of that will be in the back half. And so that obviously gets you about $125 million in the second quarter. And so that's kind of how it lays out.

Answer – Operator: Our next question comes from Jeff Sprague with Vertical Research.

Answer – Jeffrey Todd Sprague: I guess a multipart one for me also. Could you provide a little color on how the manufacturing footprint realignment plays into this, specifically thinking the shift out of China, the U.S.? And if I could squeeze a second part in. With sell-out so strong, how long do you think the home centers can actually draw down inventory before they actually have to kind of hit the reset button and start ordering on the other side?

Answer – James M. Loree: Okay. I'll take the second part of your questions first because I think a lot depends on the POS. I mean we're seeing some eye-popping numbers on a weekly basis in a couple of the places. And if that continues, there will be some replenishment that would be advisable no later than the third month of this quarter, June. So it's really their decision. They make those decisions and how they want to play their inventory, I can completely understand the challenge they have trying to balance the opportunity that might be out there, but not -- but they don't know for sure versus the risk of getting stuck with a significant inventory problem if the -- all of a sudden, those trends change. So it's just a balancing act, and it's a tight wire one at that.

As far as the manufacturing footprint, it's an interesting question because with virtually 98% of our salaried population stuck in their homes working virtually, it's hard to really execute on these types of projects, in addition to the fact that they can't travel. So there's a travel ban in place. Like most companies, we have a complete ban on travel that has very few, if any, exceptions.

So there will be some delays in the footprint program until we're able to travel and that sort of thing. But I think we're talking probably months in terms of delays, but there will also be an acceleration because the importance of the -- making the footprint happen even faster is amplified by the nature of the crisis. So you end up with a lot of planning going on right now virtually. And then when we get into the execution, we're going to try to accelerate. And the long story short, I think we're going to be looking at roughly the same kind of 2- to 3-year time frame for the moves to be complete.

Answer – Operator: Our next question from Tim Wojs with Baird.

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

Question – Timothy Ronald Wojs: Appreciate all the details that you've provided. I also have kind of a 2-part question. Just how can -- I guess, first, how are you balancing just R&D and innovation and growth investments? I guess specifically, is that something that's been preserved and protected if you kind of made these cost reductions?

And then second, how should we think about balancing just both production and working capital? I guess at this point, would you expect working capital to be more released than you thought prior to this? Or would you expect it to carry that working capital just given the uncertainty around retail stocking levels?

Answer – James M. Loree: I'll take the first part of your question. I'll give Don the second, even though I know the answer to it, but...

Answer – Donald Allan: I know the answer.

Answer – James M. Loree: But first -- fair enough, Don. We have largely protected any applied innovation. So there may be some theoretical innovation that we've cut back a little bit on, but not much, not much. Some of the programs that are still looking at 5 years out, 6 years, 7, 8, 9, 10 years out in terms of how some of these look like, the construction industry will change and what the impact on our tool business would be and how we're going to manage through all that. I mean that program, for example, is alive and well. And so we really -- when you think about the nature of the comp and ben reductions, so many of them are -- in this are temporary. 70% are temporary. So we -- instead of maybe working 5 days on a project, we're working 4, for a period of time. I think that's the way to think about it.

Answer – Donald Allan: Yes. On the operations side, I mean, we actually -- we gave a lot of thought to how we ramp down the labor force and manufacturing and distribution and in particular, in tools. I mean in Engineered Fastening, it was fairly straightforward because you had OEMs shutting down, and we basically would shut our plant down in a similar correlation, and then we'll ramp up a little bit in advance of them ramping up. So it's fairly straightforward from that perspective.

But on the tools side, it's a little more complex, especially in North America in that we have 2 major -- several major customers in retail that are continuing to perform. And as we talked about earlier, the POS is very strong through the first 4 weeks of April. So we did a planning assumption around our second quarter revenue decline, but we didn't reduce production to that level. We actually reduced production to a more modified view of that.

So if you look at the maybe tools being down somewhere 35% to 45% in Q2, like the company, we were probably somewhere between 0, and 35% to 40% is where we cut back production. And so we recognize the importance of continuing to serve those customers, but also making sure we're prepared as things start to accelerate maybe in June or in the third quarter, whatever the timing is, we're prepared for that. And given our supply chain with some of the lead times we have, we have to make sure that we strike that right balance, which we will carry a little higher level of inventory probably through Q2 into Q3 and maybe longer. But I think we're striking the right balance to ensure that we meet our customers' needs now and going forward, but also ensure that we get the right dollar value out of working capital performance in 2020.

Answer – Operator: Our next question comes from Michael Rehaut with JPMorgan.

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

Question – Michael Jason Rehaut: Congrats on all your efforts so far managing the challenging backdrop. First question -- or I guess my only question, but I do have a clarification question as well, if I could. But the core question is just also around some granularity on the cost reduction program. Just trying to understand that relative to the prior margin resiliency efforts, you had noted that is inclusive of the $100 million to $150 million that you were expecting to realize this year. I was curious if the next 2 years that would overall encompass the total number of $300 million to $500 million, if that remaining portions are also included in this $1 billion program. Or if that's still kind of years out.

And then in terms of the clarification, I was hoping -- there were a few different numbers in terms of the sell-in and the sell-out on North American retail. I was hoping if you could just kind of review for April and March -- March and April so far, what you've seen, just roughly what you had in terms of sell-in and sell-out.

Answer – Donald Allan: So for the sell-in, sell-out. So for March, the POS, as I mentioned in my script was flat, relatively flat. The POS in April is up low double digits, so it's very strong. And the sell-in that we're seeing in the month of April is consistent with what I showed on that chart, which for Tools & Storage is in that ballpark of the 2Q range I mentioned, probably trending towards the lower end of that range. So that gives you a sense of those aspects.

As far as the cost reduction goes, I mean, if we reflect back to the January earnings call, we talked about having $100 million and $150 million of margin resiliency initiatives that weren't in our guidance. They were just there as a contingency, things we were going to execute on as new headwinds came our way. So clearly, some big headwinds have come our way, much bigger than anyone anticipated for us and many in the rest of the world.

But when you think about what those opportunities were in margin resiliency, they were things around higher levels of procurement savings due to utilizing technology and certain tools to drive that value, using Industry 4.0 technologies around automation and data analytics, artificial intelligence that will drive more value to our manufacturing footprint and eventually into our supply base as well. Those things are not driving a lot of value in the $1 billion.

So those 2 buckets, in particular, were a large part of our margin resiliency program. There were other aspects around indirect and a few other things like functional transformation. Functional transformation will continue to move forward, and that will be part -- that will be a value driver for the next 2 to 4 years depending on the function. Indirect, yes, we're probably pushing a lot of that right now in the next 12 months. But what we need margin resiliency for is to help us sustain that savings going forward. Because right now, what we're doing is really good for us.

So that's a long-winded answer to your question, but I still think there's a very big opportunity for margin resiliency out there when you think about those different categories. And then there's a sustaining aspect around indirect. That really helps us keep that significant number that we're getting in the $1 billion program in our P&L, so it doesn't pop up in a very large way in the coming year or 2.

Answer – James M. Loree: And as you can imagine, we really haven't had the opportunity to get into a tremendous amount of detail ourselves as we work through this crisis on that particular question, really just trying to find every cost savings opportunity we could find, and we'll do the -- we'll go back and do the detailed analysis over the next couple of weeks. And probably in the next earnings call, we'll give you a little more granularity around the answer to that question. But as you can see from what Don said, it's partial, basically, partially included, partially not and more to come later.

Answer – Operator: Our next question comes from Julian Mitchell with Barclays.

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

Question – Julian C.H. Mitchell: My first question just really around the free cash flow. You spent a lot of time discussing the sales and earnings trends, and Slide 10 was very helpful in that regard for historical context. Just wondered what the historical context was around the free cash flow in downturns and how you think it might be similar or different in this current downturn.

And then my clarification would just be around you talked about decrementals all-in this time of, I think, low to mid-20s this year. That's a bit heavier than the last 2 downturns on Slide 10. Is that simply because of the tariff and currency costs? Or is it more about just the sort of starting point, i.e., the notion that this downturn could carry on into next year?

Answer – Donald Allan: Yes. Sure, Julian. It's really timing. And -- but I know I said a lot of things in my script, but as I went through that low kind of 20s for 2020, I said, what I also said is when we look at the full 12 months going into 2021, we actually think we'll get better than that. So hopefully, we get very close to the high teens number that we saw in the 2008 and 2009 period. What was the first question you had?

Answer – Dennis M. Lange: Free cash flow.

Answer – Donald Allan: Oh, free cash flow. Yes. So free cash flow and recession has actually, from a conversion point of view, performed very well. It can obviously gets impacted by the charges that you put through your net income, you tend to get a good working capital benefit in a recessionary period. Now this might be a little different. We're trying to manage that, as I mentioned in my presentation, with the right balance because we want to ensure we have enough inventory if the recovery is very quick. And we didn't face that type of challenge as we went through the recession because we didn't expect quick recoveries. We expected very slow recoveries.

This is a different scenario where you could see a V, or in our case, we've modeled the U, and that might be a scenario where stronger growth comes later versus in the short term. And so I think we have to strike that right balance to ensure that we don't go overboard in working capital. But overall, I would expect conversion to be strong given the historical dynamics we've seen.

Answer – Operator: Our next question comes from Josh Pokrzywinski with Morgan Stanley.

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

Question – Joshua Charles Pokrzywinski: I'll try to keep it to a mere 17-part question for mine. Just going back, Jim, to the point you made, or I think it might have been Don about not just the sell-in versus sell-out, but more that the pros aren't working right now. What do you think those job site closures are costing you? Because I guess New York City and Northern California, I think, are opening in real time right now for construction sites. So maybe some light at the end of the tunnel there, if you wouldn't mind sizing that. And that's all I had.

Answer – James M. Loree: Well, it's interesting to think about it because the pros do a fair amount of shopping at home centers. And so I think that we're probably seeing is this DIY phenomenon is probably a lot bigger than we suspect because there's a big negative, I suspect, coming from the pros. They're just not stopping in the contractor's desk as much as they used to right now because the projects aren't active. And so it's hard to pinpoint exactly what that difference could be because we don't really know how big the DIY impact is. But I think to ballpark it, it's probably in the single digits, for sure, but probably mid low single digits would be my -- negative impact would be my guess, but it's a guess.

Answer – Operator: Our next question comes from Markus Mittermaier with UBS.

Answer – Markus Mittermaier: Thanks for all the scenario announced, it's very helpful. One question quickly on your base case. You talked a lot about decrementals. What I'm wondering is on the other side, given that you, I think, mentioned in your prepared remarks, indirect cost and deflation is about 60% of the cost out. How does that compare to the past? And what would that mean for incrementals? Because if that is 60% of total cost out, incrementals should be quite interesting. Is that sort of like in a U-shaped base case recovery that you've outlined?

Answer – Donald Allan: Yes. I think it's -- you're right, it obviously depends on what type of recovery we see. If we see a very rapid V recovery in the back half of this year, then the incrementals will change because we will be adding that cost. We have 70% of our comp and benefits costs that we've kind of called temporary at this point, which is 40%

of our $1 billion. And we probably wouldn't add it all back, but we'll add some of that back because we have modified work weeks and furloughs and things like that, that are happening with the salaried part of our company. And so that would clearly have a governing impact on incrementals as we grow.

That being said, there's a lot of things we can do to continue to drive productivity. We touched on margin resiliency earlier in the question we had from Michael. And those are types of initiatives that have been on a little bit on hold for a period of time, but they are beginning to re-energize themselves going forward to create the value that we think is there. And so I actually think the incrementals will see a bit of a governing impact in that recovery. But I think it's something we can manage, too, so it's not too significant.

In a longer period of recovery, where it's a U or even an L, we will be working to make that $1 billion as permanent as possible, which means we could take some of the temporary things and make them permanent or we could take alternative actions to replace some of those temporary things over time. Because if we see that type of recovery, where we have a bumpy performance for multiple quarters going into next year, then we're going to probably take the approach of how do we really make the vast majority of that permanent, which would not impact incrementals once we got into a growth mode.

Answer – Operator: Our next question comes from Nicole DeBlase with Deutsche Bank.

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

Question – Nicole Sheree DeBlase: So I just wanted to ask on pricing, how pricing trended through the end of the quarter into April. And if you're seeing more promotional activity from peers. And whether or not you guys are doing more promotional activity to drive POS in the North America retail channel.

Answer – James M. Loree: In this environment, promotional activity does not make a tremendous amount of sense. So all the price that you're seeing is pretty much coming from programmatic price, pretty largely from the margin resiliency program because we're not in there implementing across-the-board price increases in a deflationary environment.

And so we're also getting some carryover from pricing that we did from the earlier price increases on the tariff and other related inflation. But no new pricing actions other than maybe more surgical ones that are based on analytics and things like that, that are being utilized in the margin resiliency program.

Answer – Operator: Our next question comes from Joe Ritchie with Goldman Sachs.

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

Question – Joseph Alfred Ritchie: I hope you're all well, and echo everybody else's comments. Great detail on the call today. Just one question. Just going back to Slide 8 and the trends that you're expecting in 2Q. So I think the way to think through this, auto and aero probably already down more than that number for 2Q. And then the commentary around Tools & Storage, it is really interesting to hear point of sales up double digits. But the sell-in, if I heard Don's comments correctly, is the sell-in already at that 2Q number with an expectation that it will remain there unless point of sale becomes -- stays as strong as it is? Is that the right way to think about it?

Answer – James M. Loree: That's pretty much the right way to think about it.

Answer – Donald Allan: The right way to think about it. The sell-in is right in that range of Q2 right now for Tools North America.

Answer – Operator: Our next question comes from Rob Wertheimer with Melius Research.

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

Question – Robert Cameron Wertheimer: If I could just ask a related question to the last one. I know you've given a tremendous amount of detail both on how you're managing it on the short term. There's disruption in supply chains globally. If there is a call for more sell-in into the home centers, is there a chance that that's just disrupted, and therefore, you missed out on some sales? Or do you feel like you've had a handle on that? And then I just don't know -- again, you give more detail than normal, which is very helpful. What's the normal sell-in process? I don't know whether the up doubles and the down is just -- there's some seasonality to this, obviously, or whether all else equal, you'd be expecting a much stronger sell-in towards the end of the quarter.

Answer – James M. Loree: Yes. I mean we have a keen appreciation for the opportunity cost of not being prepared for a spike in orders from the home centers in particular. And there -- I would say there's -- supply chain approaches are somewhat different, but the general rhythm would be kind of monthly. We've gone to a weekly rhythm, and in some cases, a daily rhythm, monitoring the in and the out. And it is a very, very significant opportunity for us.

And so actually, as it turns out, we have -- and Don alluded to this, but we have actually programed the inventory side -- our inventory builds, if you will, to deal with the possibility that there could be an increase in sell-in in terms of orders later in the quarter. Normally, the -- there is probably substantially more orders in the second week -- second month of the quarter for shipping in the third month. However, it remains to be seen if that's going to occur this time around. But I think it's one of these things that we're just managing on a real-time basis. And we're in contact with the customers, and we're monitoring the sell-out. And at some point, those 2 things have to kind of equal each other.

Answer – Operator: Our next question comes from Ken Zener with KeyBanc.

Analyst: Kenneth Robinson Zener, KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst

Question – Kenneth Robinson Zener: The 2Q thoughts, I'm sure you've been working on the weekend here. I think you laid out 2Q pretty clear, but your base case growth rates for the second half. I'm interested, does the second half base case -- I mean, does that imply -- are you implying 4Q is up there? And I asked relative to your comments around the 40% leverage, a; and then, b, how that $375 million split, does it -- the majority of that fall into 3Q? Because if it's up -- I guess that's what I'm looking at, your base. Is that 4Q sales up? And is that $375 million savings split equally 3Q or 4Q?

Answer – Donald Allan: Yes. So the base case assumes, as you -- let's start with the cost, yes, $375 million, which would actually be a significant impact to moderating those decrementals of 40%. And that's how we get ourselves to the low 20s as we see that impact in the back half of the year. As far as the revenue performance goes, by the time we get to Q4 in our base case, we're kind of anywhere from flat to slightly down. And that's really where we are. And then you can do the math for what Q3 would be based on that.

We're not assuming growth right now in our base case in the fourth quarter because it is a U shape, but we'll see. There's still a lot to occur going forward, and we'll have certainly a lot more color as we get to July for our next earnings call, where we are, but we kind of planned a scenario that would be difficult, which is why we went after the $1 billion of cost. But we did it in a way that gave us the flexibility that both Jim and I have described over the last hour or so.

Answer – Operator: Our next question comes from Justin Speer with Zelman & Associates.

Answer – Justin A. Speer: Just a question on raw materials. I think you said $6 billion of materials and input flies above -- roughly 70% of your cost of goods sold are raw materials and inputs. I guess just trying to understand what percentage decline you're planning in that cost basket this year simply based on the collapse in commodities in your broader plan. And is there anything beyond that deflation that's in that cost savings bucket? And then secondly, how should we think about pricing integrity across the business for the year in this type of environment just looking beyond the near-term pricing dynamics?

Answer – Donald Allan: Yes. I think on the commodity front, we have a really nice opportunity to pursue as a result of the much lower global demand and deploy the prices of commodities have adjusted in the last month or so. And that opportunity is now. We were really trying to make that happen in the next 30 to 60 days with all our respective suppliers in those categories. When I think about the $1 billion opportunity and 60% of it is a combination of indirect and commodity deflation, probably a good way to think about that is it's going to be anywhere from 2/3 is indirect to maybe 55% indirect, and kind of in that range and the difference will be commodity deflation. That kind of sizes it for you for this year, and then we'll see how we progress throughout the remainder of the year.

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

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

Answer – Operator: Ladies and gentlemen, this concludes today's conference call. (inaudible) You may now disconnect.
