Stanley Black & Decker Inc at Bank of America Global Industrials Conference (Virtual)

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PRESENTATION

Ross Paul Gilardi, BofA Securities, Research Division - Director

Okay. Hello, everybody. This is Ross Gilardi. I'm the senior machinery analyst at Bank of America Merrill Lynch. Welcome back. I hope you all had an opportunity to take a quick break and grab some lunch if you're on East Coast time. But thank you to everybody for joining us today.

We are very privileged to welcome Stanley Black & Decker to the BofA Global Industrials Conference for the very first time today. With Stanley Black & Decker, we're privileged to host President and CFO, Don Allan; and also on the call are Lee McChesney, VP of Corporate Finance and CFO of Tools & Storage; and Dennis Lange, who heads up the Investor Relations function, who I'm sure many of you speak to quite frequently. But gentlemen, thank you so much for taking the time to be here today. We really appreciate it.

Don, I was going to hand it over to you. I think you were going to go through a few overview slides to kick it off.

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

Great. Thank you, Ross. And good afternoon to everybody or good morning or even evening depending on where you are. And so I appreciate the opportunity to -- I'm going to present about 3 pages for about 10, 12 minutes just as a bit of a refresher on Stanley Black & Decker.

And so if we start with the first page or Page 2, if we move to that. Just a little refresher, as I said, on the structure of the company. Obviously, we have 3 segments across our company, 30 -- almost $31 billion market cap at this point. Revenue ended the year just right around $14.5 billion and trending towards $15 billion and above this year, hopefully. And we continue to have a good cash dividend yield for our company of 1.5%. But as our earnings continue to grow, our dividend will have to grow along with it to make sure that yield trends the way we want it to.

Our 3 business, very heavily weighted initially to Tools & Storage, which, as you can see, a significant part of that almost $15 billion in revenue at slightly above $10 billion. The other 2 components of the company, Industrial, which are made up of really 1 large business and then a medium-sized business, the large business being Stanley Engineered Fasteners, which is a really value-differentiated business where we can work with our customers using application engineering techniques to be able to provide solutions to them that improve their productivity and their manufacturing process.

Then there's our Infrastructure business, which is heavily weighted to infrastructure tools. That continues to grow both organically and through inorganic opportunities that we pursued over the last few years and are pleased with the trajectory that we're seeing with that business coming out of the pandemic of last year. Then there's our Security business, which 2 businesses in there, heavily weighted to commercial electronic security, so providing those types of solutions to commercial customers within their office buildings, retail outlets, restaurants, health care institutions, financial institutions, et cetera.

And then there's our automatic door business, which has been a big part of our legacy for many decades and continues to be an area that allows us to drive innovation, especially in this environment where more people are looking for health and safety solutions.

So our vision as a company has been, in the last 3 to 4 years, to be known for our innovation, which we feel like we've had a track record within the various industries we serve as a company that is heavily focused on innovation, but how do we become known for innovation even outside these industries, continuing our top quartile performance as we've had a really strong track record with our TSR performance, and then along the way, making sure we are socially responsible as a company and doing things in a balanced, constructive way that has the right ESG focus as we continue to grow our business and improve the profitability and the cash flow of the company.

So if we move to the next slide, which is what we call our value creation model. If you take, in that upper left-hand corner, kind of the attributes or the characteristics of the businesses I just described, which have world-class brands, attractive growth platforms, scalable and defensible franchises, and then they all find a way to differentiate through innovation, as I described, and then you applied them to our operating model, which has 5 different pillars to it: extreme innovation; extraordinary customer experience; performance resiliency, making sure we're resilient responding to difficult challenges or shifts in the marketplace that are both positive and challenging; and then our operations excellence is our fourth model as we continue to transform our operations footprint across our entire business portfolio; and then the fifth is in the center of all those 4 pillars, is people and technology and how do you combine the great talent we have in our company with the best technological solutions so we can drive the optimal performance in those 4 pillars, which ultimately, we believe, results in outsized capital-efficient organic growth, attractive expandable profitability rates and that converts into outstanding free cash flow conversion.

And you can see in the upper right, the kind of middle right of this page, what our long-term financial objectives are, and they're laid out fairly clearly and we've had those in place for quite some time. But you can also see slightly above that what our performance has been in different time frames as you look at some of those measurements. So I'll just focus on 1 line, the 5-year performance where our revenue -- organic revenue CAGR has been 5%, EPS CAGR almost 10% at 9%, free cash flow, 14% and TSR 12%. So we believe our model continues to drive significant value back to our shareholders. And that's why this operating model, combined with the characteristics of our businesses within our portfolio of companies, achieves those types of financial goals and objectives.

The last thing I'd say on this page is that when you generate that strong free cash flow, you have to decide how you're going to allocate that capital. And we've had a model in place for quite some time, which has been a 50% split between reinvesting half of that back into the portfolio of businesses through M&A, so continuing to build them out inorganically as we grow them organically as well. But then the other half of the capital, over the long term, we want to go back to our shareholders through dividends and the occasional opportunistic share repurchase.

And if you look at the last 20 years or so, that's pretty much what the capital allocation actually has been very much aligned with that strategy. We believe we have world-class branded franchises that have really sustainable strategic characteristics that ultimately create significant shareholder value because of this value creation model I just described.

So the last thing I'd like to touch on before I turn it back to Ross with the Q&A is on Page 4 here, if you move to that page which is we think there's really some outstanding organic growth catalysts that are in front of us for many, if not all, of our businesses. And that doesn't include some of the inorganic things that we can do, which a few of them are on the page here, as you can see, MTD is an example. But many of these are organic opportunities.

I'll start first with e-commerce. We are -- in our Tools business, we are the leading e-commerce player among tool companies. In a substantial way, we significantly outpace any of our competitors and we continue to see this a wonderful growth opportunity not just in the United States but globally. When we look at different markets outside the U.S., Europe, emerging markets, in particular, many of them are evolving faster and faster to an e-commerce platform. So we want to continue to stay focused on that opportunity and drive that across our business, in particular, Tools & Storage.

Then there's this whole reconnection of the home and the garden that has come through the pandemic that we actually think is going to continue for some period of time over the next year or 2, maybe even 3 years as people will continue to have a very high focus on their home. And why do we feel that way? Because I think many of us have recognized that as we come out of the pandemic and more people are vaccinated and we get to herd immunity, we still all will be working in some type of hybrid environment because many of our companies have made the decision to do something where you're working home partially and you're working in an office setting or a collaboration center. We think that positions our company very well for Tools & Storage to continue to feel the strength of a housing industry that will continue to grow over the next 2 or 3 years.

The third area is electrification. You have electrification not only in what we're trying to do in our Power Tool business and we've done for many decades, but now we're also doing that with the partnership that we have with MTD and the outdoor product space as well. MTD has made a significant amount of investment around electrification over the last 3 or 4 years. And we -- once we bought our minority stake, we have basically formed a joint committee that would work on this together to continue to drive innovative solutions in their products around electrification. So a lot of progress has been made there and the opportunity continues to be quite significant going forward.

There is also the electrification opportunity for Engineered Fastening. Engineered Fastening, as many of you know, serves the auto industry and the auto producers in a very significant way. But the business, in the last decade, has done a great job of becoming embedded in the companies that are producing electronic versions of cars. And actually, the content that we put in the electronic car is much higher, anywhere from 2 to 3 to 4x higher than what we see in a gas engine-driven car. And so we think we've positioned this business very well as that shift in the auto industry continues to accelerate over the next 3 to 5 years and beyond.

And then the last area for growth catalyst, I mentioned it briefly earlier, is our electronic security business and the whole area of health and safety. And whether that's touchless doors with inside a commercial office building or a restaurant or a retail outlet, where people are avoiding touching any of the handles of any door, not only the front entrants but also when you're within one of those buildings, to more sophisticated solutions that track movement of employees within a building or a campus and monitors proximity tracing, also looks at social distancing, ensuring not too many people get in a specific conference room at any given time. And it also interacts with the physical security that we've implemented within many of our customers because we have such a significant installed base here.

There's a lot of fantastic solutions that we've developed in the last 3 years around health and safety that I really think the pandemic is going to allow us to generate significant growth across this particular platform as a result. So we feel like we're really well positioned for significant share gain across all our portfolio of businesses. But at the same time, there's great margin expansion opportunities as not only we get operating leverage but as we execute on our various performance resiliency initiatives as well. So with that, that kind of concludes my opening comments, and I'll pass it back to you, Ross.

QUESTIONS AND ANSWERS

Answer – Ross Paul Gilardi: All right, great. Thanks, Don, for the overview. As you just talked about, Stanley is obviously renowned for its Tools & Storage business, I think, over probably everything else. I mean, you've obviously got the Industrial segment and the Security business, and you talked about several of the really interesting growth opportunities there. But I would just love to get some of your high-level just general thoughts on having 3 legs to the stool versus being a pure-play tool and storage company. And ultimately, how does shareholders get rewarded in a more diversified structure?

Answer – Donald Allan: Yes. Thanks for that question, Ross. I would say that when we look at our portfolio of businesses, we're always evaluating whether they earned the right to continue to be as part of our portfolio. And we do that through various annual processes such as strategic reviews, business model changes that happen during the year, et cetera. And actually, we think right now that the 3 businesses are well positioned coming out of the pandemic for growth and for margin expansion.

Obviously, the Tools business has done a wonderful job in 2020 of getting back to really some significant organic growth coming out of the second quarter of last year. The profitability now is above 20% in the back half of last year. We think this year, it will be somewhere between 18% and 20% and then continue to improve towards that 20% over the next 2, 3, 4 years. Our Industrial business has done something similar where actually, they went down -- their volume went down dramatically in the pandemic, numbers like 30%, 40%, 50% in Q2. And now we're starting to see some acceleration of improvement in those -- many of those platforms. And they will demonstrate growth here in the first quarter. We'll see how much growth but I feel pretty good about the trends that we're seeing in that business. And they're going to demonstrate probably some pretty robust growth this year in 2021.

And because of what they did last year around their cost base and repositioning some of their costs, the profitability is going to improve significantly as well as the year goes on. And so I think we'll look at Industrial at the end of the year saying, Hey, this business really -- although it went down fast in that initial period of time, it really bounced back quickly and it's going to be a growth catalyst for us in 2021 and 2022, probably.

And then Security is in a bit of a similar situation, but they didn't experience as deep of a trough as you saw within Industrial, which is actually one of the stabilizing things that we like about that business because it demonstrates a different cyclical performance. All 3 are very different in that regard. I think Industrial and Tools are probably closer to each other in how they perform in the trough and how quickly they bounce out. But Security doesn't tend to have a deep trough. They tend to have a very shallow trough. It has a strong recurring revenue stream, which in a trough period, helps maintain and sustain certain levels of margin profitability.

And they've done something similar, as they grow this year, their profitability will continue to improve as well. And they have some great growth catalysts that I mentioned that could really result in some sustainable growth for them going forward. So when I look at the businesses together, I think they fit very well as far as the strategic characteristics of what we look for businesses, as I described those 4 things on the value creation model.

They have the opportunity to demonstrate some robust growth in the next few years coming out of this, whatever you want to call it, recession or pandemic, which will add a significant amount of value to our overall business going forward. But like I said, we will continue to evaluate these on a go-forward basis. Our view is that our businesses have to earn the right to be part of the portfolio. We've said that over and over again and we continue to live that and believe that. And right now, we like the trajectory of all 3 and believe that they're positioned for healthy to strong growth for the next 2 or 3 years and continued improvement on their profitability as well.

Answer – Ross Paul Gilardi: Great. I wanted to shift to the demand environment for Tools to the extent that you can provide any demand updates there, and just your view on sustainability of this boom in the DIY market and the recovery of the Pro. Anything you can say on point of sales, updates through most recently that you've seen in the markets would be great.

Answer – Donald Allan: Yes. So we -- as many of you know, we provided guidance back in January for kind of overall organic growth in Q1 of 21% to 26%, which meant Tools embedded in that was 30% to 40%. We communicated -- Jim communicated at a conference probably about 3 weeks ago now, maybe 2 weeks ago, that we felt that we were, at a minimum, at the high end of that range. And so -- and that continues to be the trend at this stage.

We feel good about how things have trended through the first 2 months. The POS continues to be strong, in line with that type of performance of 40% or better within our Tools business. And it's likely that we will not build a lot of inventory in our stores during the first quarter because the POS demand has been so high. We're meeting that demand through our supply chain. And we're hopeful that we'll be able to increase a lot of the store inventory in the second quarter, maybe some of it trickling into the third quarter.

But overall, we're not experiencing stock-outs. We're able to meet the demand that's being driven by the POS and feel very pleased about how we're positioned from a supply chain perspective to achieve the objective I described for Q1 and also feel like we're positioned very well for a strong Q2.

The back half is something that we felt we were very prudent in making sure that we didn't get too far ahead of ourselves when we gave guidance back in January and indicated that our Tools business would probably be -- we're tracking, in the back half, somewhere between 7%, 10% range. And -- but I also said on the earnings call and I still believe this that, that's still a bit of an unknown. I mean, there's definitely a bull case that would indicate that we could actually maybe see some growth in the back half of this year.

We've positioned our supply chain and manufacturing operations to be able to support that if these trends continue. And I -- as each month goes by, I'm starting to feel more confident that these trends could continue in the back half of 2021. And it really goes to some of the comments I made in the presentation around that centering around the home. With people working in hybrid environments, they're going to want to have larger homes, they're going to want to remodel and restructure their homes to be able to accommodate both work and personal objectives within their home. And I think that's a significant tail that's going to continue.

And you've seen a big DIY impact from that, that will probably continue but slowly, over time, tail off. But the pro continues to ramp up and you're seeing more and more activity on new home constructions, renovation work in this environment as well. And then the last thing I'd say is that you definitely are seeing a shift in the younger generation who were on the sideline before the pandemic that really were not purchasing homes.

They were living in apartment settings. They preferred to not having that obligation of a home. They were living in cities. And with what happened in the pandemic, there was a fairly sizable migration of that generation of moving in the homes outside of cities or moving into the suburbs away from where apartment complexes are in smaller cities. And I think that trend is going to continue because interest rates continue to be low. It's a really good opportunity to create a starter home, midsized home for folks in that generation. And I think that's another strong tail that's going to make the housing industry continue to demonstrate strength over the next 2 or 3 years as a result of that trend as well as the other trends I mentioned.

So there's a -- we're not ready to tell the world that we're definitely going to experience growth in the back half of the year. But there is a bull case that would say it's a possibility, and I think as we get into the second quarter, we'll be able to provide more granularity as to whether that's becoming a reality or not.

Answer – Ross Paul Gilardi: Maybe you could just give a little more thoughts on your Tools margin. I mean, of course, you guys got to above 20% in the second half of the year, but just your thoughts on getting them above 20% on a full year basis in the coming years and keeping them there. How realistic and objective do you think that is?

Answer – Donald Allan: Yes. I think I feel good about getting to 20%. We'll see where we end up this year. We'll probably be close to 19% when the year is done but maybe 18.5% to 19% for this year. What's great about this business is that it really can get good operating leverage as it continues to grow.

Now as the business grows, we will add more capacity in our supply chain. And so -- but I think that's very manageable. It's not going to dramatically change the operating leverage dynamic I described. We've positioned our SG&A very well through the pandemic, and we feel like it's a great base starting point as the business continues to grow. And we'll make more investments in SG&A to stimulate more share gain opportunities as we see those emerge in the different areas I described.

So I feel very good about our ability to get to 20%. The other thing I didn't mention is we also have our performance resiliency program, which is a significant value driver for us that is about $100 million to $150 million per year. And it's centered on pricing disciplines and technology and advanced analytics and even artificial intelligence and making some of those decisions, Industry 4.0 and our operations manufacturing footprint and how we really elevate the level of automation and digital capabilities not only in our footprint but also in our supply base, especially our major suppliers over time.

And then there's a continued like back-office transformation that's happening in our company that impacts HR, IT, finance, in particular, that will be a productivity driver for SG&A as well. So those productivity drivers allow you to take some of that money every year and reinvest back in new growth opportunities, share gain opportunities, et cetera, to make sure that we get the right demand that we're looking for and we're stimulating growth and share gains along the way.

Answer – Ross Paul Gilardi: No question, Stanley has done a phenomenal job managing SG&A to offset a lot of the cost headwinds over the last several years. But do you feel like innovation has had to take a backseat at all in that journey? Love to get your view there.

Answer – Donald Allan: No, I don't. I really think that when I look at the level of innovation that has come out the last 3 years, but more importantly, the funnel that I see of what's coming out in the next 3 years, I see a lot of opportunity across our business portfolio. But if you just focus on Tools & Storage, there's a lot of innovation that's happening in the pipeline around our cordless products and they'll continue to play out here in 2021 and '22.

There's a really amazing technology that will be coming out, hopefully later this year, that we can't spend a lot of time talking about right now, but we're really pleased on how we're positioning ourselves in the Power Tool space for that. But there's other opportunities, too. I mean, we -- I mean, I think some folks think the Craftsman journey is over. The Craftsman journey has just started. And so when you look at the Craftsman portfolio of products, we've probably only got about 20% to 30% of the total products we want to put into the marketplace over the long term. And so there's plenty of innovation in the pipeline for the Craftsman product line as well to really expand out to different products in the cordless space and really build upon the $1 billion that we have on an annual basis for that brand already. And so I see that as evolving to a multibillion-dollar opportunity going forward.

And then the last area of significance is our outdoor business. Our outdoor business has done a phenomenal job on the handheld side of really driving innovation across Black & Decker brand, Craftsman and DEWALT. And so now DEWALT is moving into some of the MTD products not only on the gas side but also on the electrification side for walk-behind mowers, in particular. And that's going to be an area that we work -- continue to work with MTD on to drive more innovation. And there's a lot of innovation in the pipeline in that space as well.

So I feel like we've done a very good job managing through $1 billion of headwinds before the pandemic. Then we had the pandemic and had to manage through temporary cost actions, shifting to some permanent actions and still making sure that our innovation funnel was strong through that period of time. And when I see what's coming to the market in the next 2 or 3 years, it doesn't feel like we've missed a beat at all in that space.

Answer – Ross Paul Gilardi: So where should R&D be, Don? Because R&D to sales has -- is down to 1.5% of sales last year. I think it got up -- it was at 2% at 1 point. But absolute dollars hasn't -- you guys have been dealing with a lot of cost headwinds and I totally understand that. But absolute dollars has been fairly stagnant for a few years, even before the pandemic. So how should we think about R&D spend going forward and what the appropriate amount is for Stanley, given the innovation pipeline that you just discussed? And how do you look at it? Do you look at it as more of a fixed cost or variable cost? Should we look at it as a percentage of sales or kind of an absolute dollar amount that you think you'll gravitate towards in the next few years?

Answer – Donald Allan: Yes. I mean, if you look at R&D by itself, it's probably going to continue to be somewhere between 1.5% and 2%. It might be a little [about 2%] here and there. I mean, last year's number was muted by a fair amount of the kind of temporary cost actions we did last year such as furloughs and 4-day work weeks. And we did that in the engineer space because we didn't want to lose any of the engineers, so we did some temporary things. And so that lowered that percentage and absolute dollar number as a result just in the year 2020.

But I think the other thing we have to keep in mind is R&D is not the only metric to look at. There's other things to look at in the Tools business and our other businesses, where we have what we call product manager organizations that are really looking at the products and thinking about, okay, what are the products for the customer, the end user? And they're breaking down existing Stanley products as well as competitor products. And they're also refining innovation and passing that back to our engineering team who might refine 2 or 3 different things to drive improved functionality.

So there's another significant amount of spend that we don't necessarily capture in R&D that you could also look at and say, "Those are people that are dedicated to innovation as well." But the ultimate measure, Ross, is really looking at that pipeline. When I -- when Jim and I want to really understand what's going on with innovation, we'll go into a business and say, "All right, show us what you've done that's come out of your pipeline and then show us what's in your pipeline for the next 2 to 3 years. And what's your vitality?" And if your vitality is in the 30s, then you're definitely hitting the right metrics from our perspective.

The second thing is, are you driving breakthrough innovation? So our Tools business has had a couple of examples of breakthrough innovation that in particular, Flexible, obviously, was the biggest thing that we've seen. But now we've seen some things like DEWALT ATOMIC, DEWALT XTREME, which are smaller tools that the tradesmen uses versus maybe not as much the construction-oriented professional has been -- performed fantastically in that [12-volt] space in particular. So we continue to see those types of things come out of our pipeline and we'll continue to see more. (inaudible) along the lines I described. (inaudible)

Answer – Ross Paul Gilardi: Great. Thanks, Don. I'd love to just switch if we can. And maybe you can just step back a bit and remind us of really the Industrial logic of the transaction. What are the biggest priorities for the asset in the next couple of months? Except not couple of months, next couple of years, assuming you move forward and buy it out. And with respect to the timing, is the main debate now is basically second half '21 versus January 1, 2022 or how should we think about that?

Answer – Donald Allan: Yes. I mean, right now, it is centering around that timing. I mean, it's definitely probably something that happens late this year, early next year. I think some of it's just dependent on the process. I mean, we can't really execute the option until some point in July of this year for the first time. When you got to go through the process of final checks and diligence, final kind of submission through the antitrust authorities, and you never know exactly how quickly that's going to go. And so it could drag it out to later stages of the year into early next year, we'll see.

But when we look at this business, we're very attracted to it because it has the opportunity to really create a very significant outdoor product portfolio. And some folks might look at it and say, "Well, why are you getting into the gas space? Why would you want to get into gas?" Well, the reason we want to get into gas is that not because we think gas is the future, but what we recognize is that there is a big transition going on here. And we could be a leader in this transition to electrification with MTD.

MTD has done a lot of things in their product offering already to have walk-behind mowers that are electrified, ride-on mowers that are electrified. And then they're also working on what I would call kind of rider-mowers plus, which is the pro landscape of rider-mower that goes to the dealer network and they're working on electrified solutions in that space as well. The walk-behind will definitely change to electrification over the next 3, 4 years. The cost of those products continue to go down. The effectiveness of those products continue to go up. And over time, they will dominate that space. And we feel like with MTD, we have outstanding products that are either in market or will be coming to the market in the short term.

And that's -- that will be probably the first shift that we'll see in that particular space. But like anything like this, it takes time. And so you'll be supporting both parts of the business, both gas and electrification. Eventually, you'll just flip over similar to what you saw with corded and cordless power tools 20-plus years ago. It was a slow transition and then you suddenly got to a pivot point where it went very fast. And we want to make sure we're well positioned for that pivot point. So it has -- it turns out to be a growth opportunity versus you're just trying to replace existing revenue.

The other thing is, as you move up that value chain and bigger products, we want to make sure we're positioned both in ride-on and the pro side. And we think that with our brands, combined with their products because their brands are good, Cub Cadet and Troy-Bilt are good brands, but they're not like powerful brands like a DEWALT or a Craftsman for that matter. So we think we have 3 brands that -- clearly, 2 of them definitely are perfect for the consumer side, which is -- and trading side, which is Black & Decker and Craftsman. And then on the pro side, Craftsman can drift up a little bit on the pro side but then there's definitely DEWALT, which we think resonates very well.

And we're seeing that in the retail space as we've had handheld DEWALT products in the marketplace for quite some time now. We now have a whole new line of DEWALT mowers that are hitting the Home Depot that are just really outstanding as far as quality and performance. And so we really feel like with that brand combination with their track record of innovation is an outstanding kind of marriage together that will allow us to create a significant platform in the outdoor space.

Answer – Ross Paul Gilardi: Great. Do you guys still see me okay?

Answer – Donald Allan: Yes, sure can.

Answer – Ross Paul Gilardi: All right. Sorry, my -- I think the plan in the (inaudible) still a fair amount of room to go. And it sounds like you've got lots of projects in the hopper to get that margin at 10%. But your ability to actually do that, at least for 2022, how does that influence the timing of buying it out? Like in other words, would you buy it out if you were, say, at 8% on a fully annualized run rate?

And just in terms of thinking about it next year, I mean, the industry will likely be coming off 2 blockbuster growth years with the pandemic. And as quite as you're showing with the potential comps in the tool business the second half of the year, if you were facing a stagnating demand outlook or perhaps even a down year next year, if that happened, like would that potentially influence your decision on when to actually buy it out?

Answer – Donald Allan: It could. I mean, if we got to a point in June, July of this year that we felt they might be retracting next year for various reasons, we might decide to delay it. That being said, I actually think, because of all the things I described around innovation and our ability to want to expand not only product lines but expand into other areas such as the dealers network as well, we think we have enough kind of growth areas to continue to stimulate demand to maybe avoid that retraction that could happen either later this year or next year some time.

So we'll continue to look at that and evaluate that, but we think there might be enough momentum to avoid that scenario on the top line. The other thing that's important is, if it -- let's say it's at 8% this year versus 10%, (inaudible) It doesn't require a massive shift into the dealer channel. And so it's really focused on 3 or 4 different areas. We think they could be much better at pricing by using some of the tools and technologies that we have in our company that uses advanced analytics and other things to make much better surgical pricing decisions.

We have a ton of tools around Industry 4.0, Lean Six Sigma or Lean Sigma and really streamlining the operations footprint to be even more efficient and effective than it currently is because they're pretty good manufacturers but we think we can actually make them even better. Procurement, we've always had a world-class track record around procurement and how we drive productivity every year with our supply base. We think they're okay at that but there's another opportunity there as well.

And then the last 1 would be just kind of the -- what I would say, the normal integration stuff with back office, their headquarters cost to just the opportunity to streamline that as well along similar lines to what we've done within the rest of Stanley Black & Decker in those particular areas. Those 4 things pretty much alone gets you to 15% if you're starting at 8% or 9%. And so we feel like we have a great track record, a great opportunity to get to that 15% based on that.

And then if you're very successful with this really driving to the dealer network where a lot of the profitability is, there's a mix-up opportunity there. And then there's also a European opportunity. When you look at the European market and say, "Okay, we, Stanley Black & Decker, have a great installed base and infrastructure on handheld products within that area." How do we leverage what MTD brings and those types of products and make sure that we drive growth opportunities there? Because they have worked.

Another example of innovation is they have autonomous mowers. And so that's very popular within the European market. And how do we use our channels to really get that to the end user in the future going forward. So we actually feel pretty good about our ability to get the profitability where we want to go.

Answer – Ross Paul Gilardi: All right, great. Tom, just maybe 1 more question and then we can wrap it up. I know you've got a busy schedule this afternoon. But just (inaudible) brand going from Home Depot to Lowe's and it becoming a bigger -- what does that mean for Stanley and the MTD brands?

Answer – Donald Allan: Well, I think obviously, Lowe's has a ton of Craftsman brands for the outdoor product. We're going to continue to build upon that with MTD and the innovation I described. I think you got to realize these big customers are always going to be looking for a #2 in that space. And so how do you make sure you stay #1 and continue to gain share? It's going to be through the powerful brands that we have and the innovation that I described in that space.

No different than Home Depot having Milwaukee and having DEWALT. They want to have 2 very strong brands that are always fighting for market share gain. And the same thing is true with Lowe's on occasion. And I think we look at that and say, okay, we get it. But guess what happened, because of that shift, it created a big outdoor opportunity for us at Home Depot with our DEWALT and so we're aggressively going after that. So we think net-net, it actually is it's a share gain positive for us when you combine those 2 customers together.

Answer – Ross Paul Gilardi: Okay, all right. Very good. Well, we're about out of time. But I wanted to thank you guys very much just for joining us today at the conference. Hope you've had a productive day so far with the other meetings in this afternoon. But I really appreciate you joining us and getting the rundown on what everything is Stanley and Black & Decker is up too. Thanks, everybody, in the line for joining us, and have a great rest of the day.

Answer – Donald Allan: Thanks, Ross. Take care. Bye-bye.

Answer – Dennis M. Lange: Thank you, Ross.

Answer – Ross Paul Gilardi: Thank you.