Stanley Black & Decker Inc at UBS Global Industrials and Transportation Conference (Virtual)

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PRESENTATION

Markus Mittermaier, UBS Investment Bank, Research Division - Co-Head of European Capital Goods Research for EMEA and Executive Director

Good afternoon. Thanks for joining us again here halfway through our second day at the UBS Global Industrials and Transportation Conference. We are very pleased to be welcoming back Stanley Black & Decker. This afternoon, we have Don Allan, the CFO, with us; as well as Dennis Lange, VP of Investor Relations. Great to have you both, guys, and thanks for taking time during these extraordinary times.

Don, I know that you have some prepared remarks for us. So over to you to kick us off here, and then we go into Q&A after that. Thank you.

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

Great. Thank you, Markus. So good afternoon to everybody. We -- I thought I'd give a little bit of an update on kind of trends that we're seeing in our company, and then I'll pass it over to Markus to focus on the Q&A. But as you may have seen, we filed an 8-K this morning, and we continue to see a positive performance in a few of our channels here in the second quarter.

And so if I kind of take you back to the beginning of the quarter, we gave a perspective of that. We were planning for the potential to be down 35% to 45% in our revenue across the entire company for the full quarter. And at that point in time, through the first 4 weeks of April, we were down about 40% in our shipments and revenue. We did indicate that there were some green shoots happening potentially in the U.S. retail space that it seemed like the POS was continuing to perform strong, but it was a little too early to really make that call for the full quarter. And then 2 weeks ago, at another conference, we gave an update that we thought the quarter was now trending towards a 20% to 30% decline versus that 30% to 45%. And within that range of 20% to 30%, it definitely looked like we were at the low end of the range, i.e., 20%.

So this morning, based on what we've seen in the last 2 weeks with continued strength in POS in U.S. retail, also our Security business continues to show our performance that was -- that's certainly better than expectations versus early to mid-April. And so we believe now that we'll likely end up somewhere between 15% and 20% down for the second quarter by the end of June. The largest driver of those -- both of those changes is really U.S. retail as we continue to see double-digit POS performance. We had a little bit of an inventory correction we had to deal with on a customer to or 2 in the month of April and early part of May. That feels like it's pretty much behind us at this stage. And therefore, the POS we're experiencing is starting to map -- really match to the shipments and the revenue performance we're seeing in that particular channel. And so that's a big driver of both those kind of step changes, starting from the original 35% to 45% down to now the 15% to 20% down.

I mentioned Security. Security continues to do well. At the beginning of the quarter, we thought they'd be down 25% because we were worried about just the shutdown nature of everything and our ability for our technicians to get into buildings to get work done around service and maintenance, installation. And we've seen that continue to get better as countries have opened up. And in some cases, even where the businesses have not opened up, our technicians are getting into buildings or restaurants or retail outlets that are closed to do some work that needs to be done while nobody is in that particular space other than the technicians and a few other individuals.

So we think we're trending closer to 10% down for Security versus the original 25%. And so although we're very pleased with that outcome in that dynamic, we recognize there's still a great deal of volatility in this situation. So therefore, we're maintaining all our cost actions at the same level we communicated back in April. We'll certainly reassess things as we close out Q2, and we have our earnings call scheduled for late July, around July 30, and we'll provide more color at that point as to not only how the second quarter played out, but what we think about for the back half of the year related to different channels. What we're seeing in European markets, emerging markets, some of the other areas that are a little more slower to recover, like our Engineered Fastening business in the automotive OEM space, we'll have another couple of months of activity under our belt to give another perspective across the entire company for what it means for the back half. So we're not commenting on the full year or back half at this point, we're just giving you a little more color on the second quarter, and that will come in the time frame that I mentioned.

So certainly more good than bad. That being said, we're still down 15% to 20% revenue in the second quarter, which is why we're maintaining our cost actions and our discipline around them. And then we'll play out the way I described in the coming months.

So that's all I really have for opening comments. What I'd like to do now is just pass it back to Markus and open it up for Q&A.

QUESTIONS AND ANSWERS

Answer – Markus Mittermaier: Great. (Operator Instructions)

Don, thanks so much now for this update. So it looks like things are moving quickly towards the more positive, or at least the less negative picture here. And appreciating that you don't comment on sort of like full year implications, but if I go back to sort of the original growth scenarios that you pointed out in the quarterly call where we saw sort of 2Q down in a scenario of midpoint negative 40%, as you said. The full year was down sort of 15% to 30% in those scenarios that you played around with. So it sounds like, from what you said, is that it's not an awful lot of restocking at the moment and that this sort of exit rate now towards that new trajectory for Q2 is real and not necessarily a lot of onetime restocking. So on that math, sort of, I can almost sort of, like, adjust by myself, obviously, sort of that full year would have to be significantly better than that sort of negative 15% to 30%. Is that a fair way to think about it? Or is there other moving pieces, sort of, that I might be missing here?

Answer – Donald Allan: Yes. I think the kind of the unknown at this point about the back half is the strength that we're seeing in U.S. retail is certainly driven by DIY activity. And so as people have been home, they're definitely working on a lot of different projects. How long does that continue? Is that something that continues at that strength in Q3 and even Q4 is a question mark at this point. The other question mark is the stimulus impact in the U.S. Right now, that program runs out in July. And if it's not extended, what does that mean for potentially that POS performance in the third and the fourth quarter? So those are kind of question marks at this stage. And do we have a continued quick recovery in some of these areas in the third or fourth quarter? Or does it slow down? Do we start to see things flatten out a little bit and not as much growth in that channel? Those are the question marks that kind of have us really holding off on giving any really detailed thoughts about the full year. I would say that range is still applicable, but it certainly feels like we're trending to the low end of that range versus the high end of 30%.

Answer – Markus Mittermaier: Got it. Okay. That's helpful color here. And you touched on inventory, maybe a quick follow-up here. If you look across sort of Tools & Storage, Industrial and Security and the inventory situation along the entire chain here, so it sounds like at least in Tools & Storage, we may be sort of closer to the end than the beginning of the restocking here. What about sort of company-wide and those other 2 segments?

Answer – Donald Allan: Yes. I would say that I feel really good about the inventory levels in Tools. And I think we got through the kind of destocking in U.S. retail very quick in the month of April and early May, and I think that's behind us. And so now we're really -- I feel good about the levels of inventory throughout the customer base within Tools & Storage.

On The Industrial side, actually, I think we've gone through kind of on and off destocking activities for the last 2 or 3 years as we've seen kind of little, mini downturns. And so we're definitely experiencing some of that right now, especially related to our Engineered Fastening business and -- in particular. So I do think that as we get through the end of the second quarter, a lot of that will probably be behind us, and it'll be more about what is the actual demand that we're seeing for our product and the manufacturing demand in general across automotive OEMs and general industrial OEMs. So I think that'll trend along those lines.

And Security, obviously, doesn't have the same type of dynamic as the other 2 businesses around inventory and in the particular customer base because of what they do and solutions they provide. So I think as we go into the -- I'm hopeful, and I feel almost borderline confident that as we go into the back half of the year, we won't be looking at inventory corrections, we'll be looking at more of what is the demand and how does that impact Stanley Black & Decker's revenue performance.

Answer – Markus Mittermaier: Interesting. Okay. No, great. Maybe on Industrial, so you kind of flagged Security in your opening statement. You kind of commented on Tools & Storage, obviously. In Industrial, except also like the destocking now in Engineered Fastening, with auto factories starting back up, is that something sort of meaningful near term into Q2? Or was there enough inventory and we still have that destock? Or should we also see that maybe trending up on your end in Q2 as the factories are starting back up?

Answer – Donald Allan: Yes. So the Engineered Fastening business, that initial range I mentioned for the whole company of 35% to 45% down at the beginning of the quarter, they've pretty much been trending at the kind of high end or the worst-case end of that range for the first 9 weeks here. It's starting to get a little bit better the last couple of weeks as we started to see some of these OEMs open up. They don't tend to hold a lot of inventory from us. And so they expect us to be able to supply fasteners in a relatively short lead time period. So they don't tend to have a lot of inventory. So as soon as they're ramping up production, we're ramping up production usually a week or 2 before them to get ready for that.

So we're seeing that get a little bit better as we close out May. We think June will continue to see that trend. And I would imagine that in the month of June, we'll see something that's -- it's still a pretty big negative for the business, but much better than what we've seen through the first 9 weeks. But it will match most likely the performance and demand we're getting from those particular customers because of that dynamic where they just don't hold a lot of our inventory.

On the general industrial manufacturing side, we tend to go through dealers and distributors, and they can have inventory, obviously. But I think we're basically working through a lot of that in these 2 months here. So I don't -- that's why I don't think as we enter the third quarter, we're going to have much of an ongoing correction in that particular channel.

Answer – Markus Mittermaier: Okay. Great. Got it. Maybe focusing a bit on sort of swing factors here. I think you mentioned some of the signposts that you're looking for in terms of stimulus. End of July, sort of what's going to happen there, et cetera. It sounds like, obviously, the biggest swing factors in the business is the Tools business in the U.S. at the moment and Security. I mean how did the business overall behave, sort of, in previous, sort of, down cycles in terms of mix and promotional, sort of, drags maybe, right? If we have high unemployment, anything there that we should monitor? Or is that still, given the strong sell-out, not an issue at the moment? Are people not sort of like mixing down? Or what about promotions?

Answer – Donald Allan: Yes. Within tools, there's a little bit of a negative mix because of the DIY component. And so you've got brands like Black & Decker, they're selling-through at probably much higher levels than you would normally see, and they are at little bit lower levels of profitability, but not dramatic. You have Craftsman that's selling very strong. That covers consumer do-it-yourself or a tradesman and pros. That profitability is pretty close to line average, so that's not much of an impact there. And then you have Stanley and Stanley Fatmax that Stanley can kind of bounce between the do-it-yourself or in the pro, and that tends to be either at line average or above line average, depending on if it's certain types of hand tools. So the impact will probably be a little bit of a modest negative from a mix perspective in the second quarter because of that pretty healthy do-it-yourself dynamic. But I don't see that being a significant impact, and it hasn't played out so far here in the quarter, as we've seen the financial results.

Answer – Markus Mittermaier: Okay. Got it. Maybe I'll focus a bit more sort of like beyond Q2. And dare I ask, right, around sort of like growth. Hopefully, that comes back sometime soon. But if I think about e-commerce, I mean, I think your sales in '19 here were at about $1.3 billion. Obviously, that's kind of maybe a shift of sales from one channel to another. But how do you guys think about growth as we emerge, hopefully, on the other side of this? What are the opportunities that you see? Yes, let's start with that.

Answer – Donald Allan: Yes. I think there's 2 or 3 really big opportunities that come out of this. One you mentioned, which is e-commerce. And we've positioned ourselves, as a company, very well for e-commerce. We're on many e-commerce platforms. We're on our major customer e-commerce platforms, major retailer customer platforms. And we sell through all those different channels and different areas, and we have a mix of brands and types of products that we continue to focus on. We're looking at a really big launch eventually sometime next year on the Black & Decker brand in the e-commerce channel, so that's a great opportunity that's in the future. That existed before the virus. But I think with the virus, it just adds to the likelihood of that being a much -- a very big opportunity. And so I think e-commerce in general, not only in the U.S. but around the globe, is going to continue to be a very big opportunity. And then there are certain countries around the globe where our Tools business presence is not as strong as we would like to be, such as China, India, Germany, Japan, as examples, that maybe historically, we were looking for potential future acquisitions to fill that out. Maybe e-commerce can be the solution instead, given what's happened here in the pandemic. And so that's something that we can think about as we continue to look at that as a really outstanding growth opportunity.

And then I would add that we probably will want to really double down on some of our e-commerce efforts that we've had underway in the past in the mature markets and in certain emerging markets where we have a good presence to really leverage this opportunity as well. So I think that's the biggest opportunity of growth that we can go after in the next 3 to 4 years or so.

The next area is actually Security. And so Security -- in this pandemic, what we have realized is now all of a sudden, we have a lot of customers that are in our customer base that want more safety, security measures for their employees. They want to have the ability to do automated entrance management with temperature taking. They want to be able to do contact tracing, proximity tracing. They want touchless doors within their office buildings or within their manufacturing plants and distribution centers. We have all those products. And we may have to modify some of them to build things that are more mid-price point products versus everything being premium products to serve the entire market, but we have all those products today. So now the market is much bigger because we have a bigger demand for it, before -- where before, it was really just targeted to certain verticals that wanted that, now it's going to be, in a much broader sense, a need for that particular solutions and products in that particular space. So we're really excited about that.

And I'd say the third area is something that is not necessarily new, but it's our lawn-and-garden perspective when we think about MTD and that great partnership we have with them. They're performing really well through this crisis because they're heavily weighted to the U.S. retail channel in those particular customers. So that's kind of another check in the assessment of this business saying, "Hey, this is really something we want in our portfolio", based on how they're performing, and they're also doing very well in their profitability improvement plan.

And so those 3 big areas are things that we think we can really double down on and really leverage those opportunities to drive growth as we -- not only as we come out of the crisis, but also during the crisis.

Answer – Markus Mittermaier: Yes. That's actually very interesting. On Security, it sounds like you kind of almost -- the pandemic, obviously, changed your view to some extent on the strategic fit of that business maybe longer term. But can I ask, I mean, you alluded to kind of maybe expanding product range into the mid-price here to drive growth. Is that similar channels at the end of the day? Or would that also involve kind of building different channels? I'm just trying to think is this it's really a product extension to a different price range, or is that a bigger effort?

Answer – Donald Allan: Yes. It's really a product extension at a different price range. So I'll give you a simple example. So in an office building, you might have 100 internal doors that open manually today. People have to grab the door knob or the handle to open it up. We have a solution with a sensor that you can just wave your hand in front of the sensor and the door will open up automatically and it'll be touchless. Right now, our solution will cost well over $1,000 per door, that's a lot of money. We're working on and have been working on a solution at a much lower price point and a much lower cost point as well, so we have the right margin on it. And those are the types of things that you go to that particular facility owner or a business owner and say, "Hey, we can do this at $300 per door, as an example. And it's a kind of light touch offering that works very well. It's very efficient, low energy and has the right safety features as well with it. So that's what I meant by that. It's more of a product extension. It doesn't result in a new channel or a new way to go to market.

Answer – Markus Mittermaier: Okay. Great. There's one question here before I move off the growth side in the -- can you size the impact from pros coming back online? Contribution to growth? Also like the declines in sort of tool trucks, mechanics, et cetera? And what are you seeing there?

Answer – Donald Allan: Well, I think this recovery is just beginning, and I think you're seeing now professional construction workers start to get back to work, and so you're going to see that type of activity pick up. I think there'll be probably a slow -- probably a sluggish type of performance in commercial real estate construction, obviously, given that a lot of companies are going to be looking at space reductions and really a more virtual world for the workforce. But on the resi side, I think you'll continue to see strength and likely see more strength coming out of this recovery as things start to stabilize and the economics and the economies around the world get back to some GDP growth. So I think on the construction side, I feel like that that's going to be most likely a healthy recovery with a caveat on the commercial real estate side.

On the Industrial side, as far as automotive production, I think that's going to be an interesting one because there is a dynamic going on right now where there just is not -- people just do not want to go on mass transit, and will that result in more car purchases and car activity? And dealers are starting to see their inventory levels get much lower than they were 2 or 3 months ago, and so they're going to have to ramp up to fill up those particular dealers' inventory. And that is -- there's this stimulation of activity to get people that I could actually see that industry see a bit of a resurgence coming out of this. I think it's just a question of timing and when that happens, in particular. And so those particular areas, I think, are really going to be potential strength areas for our company as we think about growth coming out of this recovery. It's more about how quick does it happen, and when does it happen? And when do we really get to those high levels of strength in particular?

And then there's, obviously, the one area I didn't mention, which is infrastructure. Do we get to a point where we end up having a major infrastructure program in the United States? And we have many tools and products and businesses that would serve that particular space that would help be a positive stimulus for us as well. And I don't know if we'll ever -- government will ever get our act together on that, but it's certainly something that they continue to talk about and could very well likely be another really growth opportunity through this recovery that's just based on our existing product base.

Did I miss anything, Dennis?

Answer – Markus Mittermaier: Okay. Great. Yes, good? Maybe one last one on Security before we move on to cost actions. You had set that goal sort of in your review process on that segment, 4% to 6% growth, 15% operating margin. With everything we discussed before, how do you think about that now? Is that achievable in the foreseeable future?

Answer – Donald Allan: Yes. I think I would say that we officially deferred the decision on Security back in our April earnings call. But I think there's a more -- the potential for more positive things now than there has been in quite some time in this particular business because of the growth opportunities I mentioned. The profitability levels of those particular growth opportunities are going to be higher than the existing core business. We've taken out -- we've really kind of rightsized the business based on what we went through here in the last month or 2 that's going to help the profitability. And so I actually are leaning-- I'm leaning towards the positive here in this outcome. And I actually think that you could see a situation that over the next 24 months or so, you have a business that hits some of those thresholds of 3% to 5% organic growth and 15% OM profitability and has a trajectory that's very strong, but probably most importantly, has a set of products and solutions that really are unique and differentiated in the current marketplace that allows them to gain share and potentially continue to gain share on a go-forward basis.

So I wouldn't say that, that means we've decided to keep the business. What I would say is that it actually puts a little more positive attributes around continuing to transform it, continuing to improve it and get that financial performance to the level that I just mentioned. And then we'll continue to evaluate it. I think most likely what will happen is we'll just -- it will be something we continue to evaluate on an ongoing basis, which is not dissimilar to what we do with every business that we have -- or every piece of the business we have, and it'll go through that type of review on an ongoing basis. And if things shift and we feel like we've kind of maximized the opportunity, then we might decide to divest of it at some point in time, time will tell. It'll be an interesting story to watch because I suddenly see a lot of opportunities in that space beyond anything that we saw 6 months ago.

Answer – Markus Mittermaier: Interesting. Okay. Now so in a world -- again, obviously, early, but in a world where that would stay in the portfolio and then if you think we come into 2021, obviously, you have that MTD option come live in July, I think it is 2021, how do we think about sort of capital allocation, balance sheet capacity here to keep on growing, right? Help us through that.

Answer – Donald Allan: Yes. I think it does depend a little bit on what the recovery is here and how quickly revenue bounces back. Does it take long -- does it take 18 months to get back to where we were before? Does it take a shorter period of time to get back to where we were before? And I think those are all factors that'll go into that decision. But I think we're likely looking at something within 12 months of when that option becomes exercisable, most likely will be when we do it, so within a year after that. It may not be the back half of 2021, it might be the front half of 2022. But what's great about that particular option is it's open for such a long period of time of 10 years, and then even after that, it's open under certain circumstances, that it gives us flexibility to decide the right time to do it based on how they're doing in their transformation plan to get to the profitability at the right level and what else we have going on in our company around potential capital allocation items as well as where is our debt-to-EBITDA ratio and getting that down to the levels that we like to see it at post acquisition, which tends to be anywhere between 2 to 2.5x.

Answer – Markus Mittermaier: Okay. Got it. So -- and how is the business doing generally? You briefly mentioned it earlier on that it seems to be holding up well. I mean on top line, that's one thing. Also on margins, I know you guys said that it was sort of like mid-single digits, aiming to get that to sort of like the 10% to 12% range by 2021. So obviously, on day 1, it could be a bit margin dilutive, but how do you see that develop sort of longer term?

Answer – Donald Allan: Yes. I mean my hunch is it'll probably be around 10% when we acquire the remaining 80% for operating margin rate, which, yes, would be dilutive to the company's operating margin rate at that stage. But one of the things that we have learned, and we'll continue to solidify that over the coming 12 months or so, is that we feel like there is a path to take it to the kind of mid-teens level, somewhere between 13% and 17%. And there's enough ideas that have been created to improve the profitability to get us to that level, I think it's just more of a question of time and a question of does the family want to do it, or would they rather have us do it under our ownership? And we certainly understand that dynamic very well. But I feel pretty confident that there's ability to get it there based on the kind of road map that's been created with the team of people they've put together that we have some individuals that sit on as well as they have an independent consulting firm that's working with them to help them think through how to make this happen.

Answer – Markus Mittermaier: Got it. Okay. No, that's helpful. If I can pivot maybe to the cost actions that you guys have announced and kind of think through that rhetoric, there's some questions here. So you've announced $1 billion in annualized savings. I think 60% of that came from indirect and deflation, the remainder from comp and benefit, really. So help us through how you can make some of that 60% sort of indirect and deflation really stick rather than having that creep back up with volume. How would you guide us here in our thinking?

Answer – Donald Allan: Yes. I think that's going to be the trick of this whole situation is I feel confident in our ability to get the $1 billion of cost out of the system. The question is how much of it's temporary due to volume? How much of it is temporary due to decisions we made on the compensation side to go to 4-day work weeks and furloughs, et cetera? And what's nice about it is the flexibility of the program. It allows us to kind of regulate if and when those costs come back into the system based on how the recovery plays out over the coming quarters. And so that's the kind of positive, nice aspect to it. But there will be some type of kind of a snapback effect on the $600 million number that you mentioned. There also will be something on the compensation side for the reasons I mentioned. I think right now, we feel pretty strongly about keeping a lot of this cost out through the remainder of this year. We'll see -- if we continue to see better and better performance throughout Q3, we might change that perspective and let a little bit of that cost creep back in.

On the indirect side, which is really your specific question, we -- there's definitely a volume-related piece of that where MRO-type equipment, office supplies and all these other things that you just cut back on because you have much lower levels of volume, travel, those types of things that will eventually come back as the volume comes back and people start getting back to the workplace.

But we are looking at some offsetting sustainable solutions in that area that really would try to mitigate a lot of that snapback in volume as much as possible. I don't think we'll be able to mitigate 100%, but we're trying to mitigate a large chunk of it. And as we go throughout the year, we'll give more color as we think about what that impact could be for next year. But I just want people to know that we're not just assuming it's all going to kind of come back when volume comes back, we're going to try to find a way to mitigate it through sustainable actions as much as possible.

And then on the comp side, I would say, some of that will creep back in, too, but we may have to continue to do some surgical restructuring activities here and there to try to mitigate that impact. But again, that also depends on how fast the recovery is as well.

Answer – Markus Mittermaier: Okay. Great. So one more question here on cost directly. Inflation pressures is the question. Commodity prices, tariffs, so obviously, you've had a lot of headwinds here over the last years. How do you think about that potentially turning into a tailwind? That's one question.

And then let me just follow up myself with a -- with something on indirect and how to model these costs going forward. If I look at the decrementals, right, so you were at kind of 40% precost actions, kind of you said low to mid-20s now after the actions taken. If I look back in history, I mean, at a 23% drop during the GFC, you kind of saw high teens in '01, low double-digit decrementals on a 5% decline. So as we think about maybe the decline rate not being as extreme, as we alluded earlier, could these decrementals maybe be significantly better than what we thought? I mean I know the portfolio changed over the years, right? But it sounds like not -- maybe not crazy to assume that at least you could replicate something as we've seen in the GFC period. Am I thinking about this the wrong way?

Answer – Donald Allan: Yes. I think our initial thoughts were, as we mentioned on the April earnings call, was that we thought it would be more closer to that kind of high teens, net decremental, and I think that's still how we feel. The only thing I would say is there's a couple of factors that could make that better. And one factor is related to the question -- the first question you had, which is we have had all kinds of headwinds around tariffs, commodity, inflation, but now we're seeing some commodity deflation to offset some of that impact in our cost base. We're moving a lot of production that we had on hold for a little while out of China to other parts of the world. And as soon as we can get back into that project, we will get that up and running again and continue that movement of manufacturing away from China into the U.S., into New Mexico and other Asian countries, such as India. But that's going to have a positive mitigating impact related to tariffs because a lot of the tariffs that were put in place, it was difficult for us to pass that on as price. And so once we're able to kind of mitigate that tariff, we get that rate benefit in our P&L as well. So when you start factoring that in and you start factoring in the commodity deflation impact, which should stick, and then the last factor would be these kind of sustainable mitigating actions I was talking about around indirect and even compensation, how big could those be? Those all create opportunities for the deleveraging net impact to be much better than that kind of high teens rate that we were talking about. And I'm pretty optimistic that our margin rates we'll come out of this crisis, it's more of a question of when and the exact timing, they come out pretty strong. And we had really outstanding gross margin and operating margin rates back in 2017, and I think those types of rates are attainable coming out of this. It's just a question of when we get to that.

And then also a question is can you actually do better than that, which would be a huge positive from this horrible crisis, if that could play out that way. And I think there's a high probability that it very well could. When you also factor in that we put a big emphasis on this through performance resiliency. And some of the things we're doing that I just described are related to that program, but we're also doing other things that -- like Industry 4.0, which help us move things to mature markets for manufacturing but have less labor associated with it because of automation and digital tools and other factors as well. So I actually think that there's a very good possibility that our -- not just the decremental component of it, but also just when we get past this downturn and we start to grow again, that we could be looking at really robust gross margin and operating margin rates.

Answer – Markus Mittermaier: That's very interesting, and a great takeaway to like the final [seen] complex that I think we should address, and [reassuring]. So you -- is there a specific target that you have in terms of local-for-local production in the U.S.? That's one. I mean you start the Craftsman plant later this year, obviously.

And then a follow-up. Is there a cost-neutral way? You mentioned automation, you mentioned Industry 4.0. Can you produce cost neutrally versus China on a landed cost imports into the U.S.? How do you think about that?

Answer – Donald Allan: Yes, we can. I think what we're trying to do is we want to move about $1 billion of cost that we currently manufacture in China to the various countries I mentioned, with a heavy weighting to Mexico and the United States. The Industry 4.0 is certainly an opportunity to try to mitigate the impact of the labor costs going up from the receiving -- or the country that is China today versus the receiving country, and we think that's a very real, likely mitigating impact. You obviously have lower freight costs. It's fairly significant of having product on the water for months before it hits the U.S. market, that's a positive as well. And so ideally, if you can find a way to get that neutral and then let the tariff benefit just drop through the P&L as a positive, that's the ideal outcome. And it probably won't play out that way for every single product, but I would imagine for the vast majority, that will be the case. And we'll end up probably having close to 65% of what we sell in the U.S. we'll be making in the U.S., and then another large chunk will be made in Mexico. And then a smaller percentage will come from certain Asian markets and even a little bit of it coming from China.

Answer – Dennis M. Lange: Tariff net of pricing.

Answer – Donald Allan: Tariff net of pricing.

Answer – Markus Mittermaier: Yes. Interesting. And I know we're out of time, but very briefly, so 65%, where do you stand now? And sort of like in what time frame do you think you can get to that 65%?

Answer – Donald Allan: We're -- the last time we looked at it, we were trending to 45%. We haven't updated it based on the new volume numbers and everything, but I would imagine it's probably around 40%, 45%. So...

Answer – Markus Mittermaier: So interesting. Okay. Great. No, this was excellent. Sorry, I didn't get to one of the questions here that we've had, but thank you very much. Really appreciate it. Are there any closing remarks that you want to leave us with before we sign off here?

Answer – Donald Allan: Yes. I would just say a few things. One, obviously, things are trending a little better than we thought here in Q2, which is great. We're really excited about all the growth opportunities that are emerging, not only because of the crisis but also because of things that we've been working on for the last several years in the areas of e-commerce and MTD and outdoor product. And so we're excited about the future, and we just have to figure out how to kind of navigate through this crisis and get back to growing again.

Thank you, everybody.

Answer – Markus Mittermaier: Excellent. Good luck. Thank you very much.

Answer – Dennis M. Lange: Thanks, Markus.
