Q2 2020 Stanley Black & Decker Inc Earnings Call

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PRESENTATION

Operator

Welcome to the Second 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 Second 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 second 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 on 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 may make today.

We direct you to the cautionary statements in the 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

Okay. Thank you, Dennis. Good morning, everyone. It's great to be here with you today. And now we're about 5 months in since COVID-19 began to roll across the globe. And while this pandemic has created an incredibly challenging time for all of us, it has also cast a new and very positive light on our portfolio as 3 powerful trends have emerged, which worked to our significant benefit.

First, there's the sudden acceleration in the shift to e-commerce, and then there's a reconnection with the home and garden and a trend towards nesting and DIY; and thirdly, a newfound societal obsession with health and safety, [reimagined] security. The combination of these trends has profound and exciting implications for our future growth and strategic positioning, but more on that in just a few moments.

In the meantime, we just completed what I would characterize as one of the most storied and most successful quarters we've experienced in my 21 years as a C-level executive at this company. It was successful based on the sheer magnitude of the challenges we faced and overcame, and it was also successful in that we've managed to operate effectively and maintain the strength of our enterprise throughout the crisis to date, while further strengthening the company and positioning it for even better margin performance and growth as we take stock here in the middle innings, and we look forward.

Let me give you a sense of some of the accomplishments our team has wrapped up since this crisis began. We were able to operate continuously across the globe with only minor and temporary supply disruptions while protecting our employees and maintaining the highest health and safety standards. We managed to handle with remarkable efficiency the most volatile intra-quarter demand swings we've ever experienced, beginning in the first 4 weeks of April, during which revenues were down approximately 40%, followed by an explosive May and June, which brought our point-of-sale in North American retail to stratospheric levels that we've never seen before.

Security revenues also improved dramatically as the quarter progressed. We took swift and decisive cost actions early in the crisis, announcing a $1 billion annual cost reduction initiative in April, of which $175 million was realized in the second quarter. Our margin resiliency initiative now in its second year contributed to this impressive performance. We substantially raised our second quarter revenue planning assumptions twice during the quarter while maintaining our cost reductions intact. This bodes well for the remainder of the year, and we were able to upgrade our internal full year revenue and margin scenario analyses accordingly.

Now our current base case for full year 2020 revenue and operating margin exceeds what we thought our best case was for the year back in April. And as a consequence of the better 2Q volume in conjunction with our cost and margin actions, we delivered $3.1 billion of revenue and $1.60 in EPS. Our operating margin rate came in at 12.8%, just 200 basis points lower than in second quarter '19, and the Tools & Storage business logged an impressive 17% segment operating margin rate, flat with prior year, which means that, that business achieved its previous peak margin performance in what we currently believe will be the trough quarter in the cycle for tools, with revenues down 16%.

As we enter July, given the uncertain economic outlook ahead, we decided to convert the run rate financial impact of our temporary salaried workforce reductions into permanent savings. We will implement this in early October by eliminating our temporary salaried actions that is furloughs and modified work weeks, returning 9,300 employees to a full work schedule while transferring the remaining 1,000 or so to permanent reduction status. This action will be a major step in ensuring the sustainability of the bulk of our $1 billion cost reduction actions, and we believe it paves the way for us to manage successfully through any reasonable economic scenario, which may unfold in the coming months.

In the back half of the quarter, with the supply chain performing and the cost reductions intact, we decided to identify a series of supercharged growth initiatives, which we will pursue in addition to the ones already in place. These initiatives have become even more attractive as a result of trends catalyzed by COVID-19 and are being funded as we speak. We expect these initiatives, which include exercising our option to acquire the remaining 80% of MTD, most likely in early 2022, to contribute $3 billion to $4 billion of incremental annual revenue beginning in 2022. All of that execution occurred while our salaried workforce was working remotely for the most part. We accomplished so much so fast during this time frame that we gained a new appreciation for the art of the possible when the power of people is combined with the power of today's collaboration technologies.

And finally, I would be remiss, as I think of our second quarter accomplishments, if I didn't reference the incredible resiliency and dedication of our people. It was the extraordinary people in our factories, distribution centers, service centers, call centers as well as our field techs and the salaried people in their homes that took a leap of faith and trusted that we could operate continuously safely and successfully during this time when everyone is dealing with extraordinary personal and other challenges. And it is to them that we owe a debt of gratitude and thanks for a job well done under extremely difficult circumstances.

Throughout the crisis, we have remained focused on our key COVID-19 era priorities, which we shared with you earlier this year: first, ensuring the health and safety of our employees and supply chain partners; second, maintaining business continuity and financial strength and stability; third, serving our customers who provide essential products and services; and fourth, doing our part to help mitigate the impact of the virus across the globe. Our number one priority has been and continues to be the health and safety of our people and supply chain partners. We continue to take significant measures to protect our 30,000-plus employees in our plants and distribution centers and other essential facilities.

On a tactical level, we established a mandatory mask policy in all locations in April, along with temperature taking and health questionnaires for all people entering facilities. We have continuously enforced social distancing, modifying our facilities and production lines where necessary. We implemented intensive standardization protocols in all of our operations as well. And we formed a corporate safety committee of senior execs and specialists to review and monitor compliance with our COVID-19 safety protocols and hired a Chief Medical Officer specializing in infectious disease control as part of that committee.

We review every suspected case for root cause, trace it to completion where possible and respond with appropriate actions as we continue to learn more about the virus and its transmission characteristics. And as you'd expect, with geographic hotspots in California, Texas, the Carolinas, Mexico, Brazil and others, all areas where we have significant operations, we've seen our share of confirmed cases, which, as of today, number approximately 300 or about 1/2 of 1% of our total workforce. Notably, both Europe and Asia have been very quiet, and we've had only 1 confirmed case in China during the entire crisis, remarkable given that we have 10 plants and 8,000 people there.

The vast majority of confirmed cases have resulted from contracting the virus while colleagues were out in their local communities or were visiting with friends and/or family or were in a hospital for an unrelated matter. And as a result, we've been conducting a massive educational campaign for our associates through 2 global safety timeouts and several other approaches. We seek to ensure their effect-based understanding of risks and required safety protocols and to reinforce how our employees can stay safe at work and in the community. There's a lot of information -- misinformation out in the public regarding this virus, and the common understanding is necessary to keep people as healthy and safe as possible. And with so many of our associates homebound, our people are operating remotely in new and efficient ways, and we are seeing many unanticipated benefits of this future of work. It has allowed us to virtually flatten the organization, incorporating more diverse perspectives into decision-making and enabling faster and more efficient collaboration.

And going forward, remote and hybrid office remote work, will facilitate flexible working arrangements for our salaried people, enabling the reduction of our office real estate footprint, opening up new access to talent across the globe. And as we move forward, we will continue to have offices as activity hubs. However, there will be many associates who will continue to work remotely by choice and only be in the office when necessary or convenient.

As mentioned, one of our key COVID-19 era priorities is to focus on doing our part to help our communities and governments mitigate the spread and impact of the virus. Earlier this year, we announced plans to contribute $10-plus million to support pandemic response efforts around the world. In that spirit, we have already deployed millions of dollars to support nonprofits that are providing critical services such as hospitals and other health care organizations as well as those focused on basic services, such as food banks. We're also donating more than 1 million masks across North America in support of elder care facilities. Finally, we have initiated a $5 million employee relief fund to help our own associates and their families around the globe who have encountered severe financial hardships in connection with the pandemic.

In addition to cash contributions, we have formed a task force that is focused on leveraging our people's time and talents to create innovative solutions aimed at COVID-19 relief. An example of this is our partnership with Ford and 3M to design and produce lithium-ion powered respirators. And lastly, we are teaming up with private sector organizations, such as the U.S. Chamber, the Business Roundtable and the National Association of Manufacturers as well as with individual state and local governments in support of their efforts to battle the virus. Our philanthropic work here is never done, and we are all in working to do our part in living our purpose.

And now I would like to comment on our position regarding racial justice. On June 3, in the wake of the brutal slaying of George Floyd, I issued a statement on behalf of the company. I will share some brief excerpts from that statement.

"There is no place in society for this type of racism and brutality. We are for those who demand justice, take a stand for equality and commit to inclusivity for all. We have seen anguish and unrest resulting from racism and implicit bias. The deep-rooted history of these truths is real. We stand to do better. We intend to listen, understand and take action for the African-American community within Stanley Black & Decker and at large."

We are committed to doing our part to level the playing field. Since early June, our senior executives, including me, as well as our non-executive Board members have had extensive dialogues with our black associates to build a shared understanding of their experiences with racism and bias to determine concrete actions we can take to address equality, equal opportunity, career advancement, diversity and inclusion as we committed. We have commissioned a task force, which has recently made substantive recommendations, which we will move forward with in the second half and beyond, and many of these actions will have benefits that will spill over to other diverse cohorts as well. And we see an opportunity for real positive change going forward.

So I hope that summary gives you a window into what we've been doing to effect positive change during the busiest, most productive and most challenging environment we face during my tenure. We feel really positive about what our team has accomplished and how the company is positioned to deal with both the opportunities and the challenges ahead.

And I'll now turn it over to Don Allan to provide the business details for second quarter as well as a deep dive into our scenario planning for the back half of 2020. Don?

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

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

Tools & Storage revenue declined 16% as volume was down 16%. Currency contributed an additional 1 point of pressure, while the impact to price was a positive 1%. The positive impact to price was driven by the benefits from our actions in response to continued tariff and currency headwinds. The operating margin rate for the segment was 17%, flat to the prior year as the benefits from productivity, cost control and price offset the impacts from lower volume, tariffs and currency. The segment delivered decremental margins in the teens, which is an outstanding result and a reflection of a strong operational performance by the Tools & Storage team. They were quick to execute on the cost actions and productivity opportunities, while also demonstrating excellent agility by responding to the higher North American demand levels that emerged in the middle of the quarter.

So let's now take a look at the regions for Tools & Storage, and starting with North America, which was down 10%. U.S. retail was flat organically as channel inventory reductions early in the quarter were offset by the strong underlying demand trends that emerged in mid-April. This demand inflection was primarily driven by a DIY phenomena that started shortly after the lockdowns emerged. The end users refocus on the home has increased activity levels for our categories resulting in historically high POS levels. We experienced multiple weeks that demonstrated POS growth in the 30s, 40s or even over 50%. While we do not know the duration of this trend, we can report that the strong POS has continued into the first 4 weeks of July. More details on these July trends a bit later in my presentation.

Additionally, retail customer store inventories are now at historically low levels and, therefore, we are well beyond the Q2 inventory corrections with our North American retail partners and are currently experiencing shipment growth in line with POS demand. On the opposite end of the spectrum, the U.S. commercial and industrial tool channels experienced more significant organic declines, down 44% and 25%, respectively due to the impacts from shutdowns and reduced construction activity. We saw some positive indications in June as reopenings occurred and activity resumed within our more pro-focused end markets, but we expect a slower recovery in these channels compared to the incredibly strong result in retail.

Europe started the quarter very slow as revenues declined by approximately 45% in April, improved during May, and by June, revenues were flat versus prior year, resulting in a decline of 21% for the full quarter. The U.K., France and Southern Europe led the declines while the Nordics, with limited shutdowns, posted high single-digit growth. With all major European markets reopened by June, we saw improved demand, which has continued into July. The emerging markets were down 29% in the quarter as these regions were significantly impacted by customer closures and government restrictions implemented to control the virus. All regions were -- within emerging markets declined. Asia improved sequentially from the first quarter but was still down 20% organically. There were a few bright spots with South Korea and Vietnam showing double-digit growth. Latin America saw the most meaningful impacts down 38% driven by significant declines in Brazil, Mexico and Colombia. The performance during the quarter was very choppy, and the environment remains more challenging than the other regions as the virus impacts are still very prevalent in Latin America. That gives all of you some interesting details on a geographic basis for Tools & Storage.

Now let's take a quick look at the second quarter performance by SBU. Power tools and equipment declined 9% as continued momentum behind commercial execution and new product introductions were more than offset by the volume impacts from the pandemic. Hand tools, accessories and storage declined 23% due to steep declines in our industrial tool channels and international markets, which this SBU has more exposure to. This SBU also dealt with some -- obviously some difficult comp dynamics associated with last year's fantastic Craftsman rollout. Both of these SBUs benefited from positive global trends in e-commerce and DIY. E-commerce continues to grow rapidly, and it represented nearly 15% of the global 2Q Tools & Storage revenue. With our leading global market position in e-commerce and our strong stable of brands, we are uniquely positioned to capitalize on these 2 accelerating trends.

As we look ahead, we are making additional targeted investments to further maximize these significant market opportunities as they continue to gain momentum. For example, we see opportunity to expand our e-commerce initiatives into several key geographies where our current presence is limited. And of course, we have the exciting Black & Decker initiative in North America, which we just began about a year ago, which will leverage both the e-commerce and DIY trends. The Tools & Storage team did an amazing job managing the business to an incredibly turbulent period of time and demonstrated great flexibility and agility, a fantastic outcome given the environment they needed to navigate.

Let's shift to the Industrial segment. Total growth was negative 20%, which included a 10-point benefit from the CAM acquisition, offset by a 29% volume decline and a negative 1 point from currency. Operating margin rate was down year-over-year to 8.8% as the impact from volume declines was partially mitigated by cost actions.

Engineered Fastening organic revenues were down 35% driven by lower global light vehicle and general industrial production. The declines were broad-based with all regions impacted. As you would expect, automotive fasteners and systems experienced a 43% decline as global light vehicle production was down 47% in the quarter. The general industrial markets remain weak, but the declines in our industrial fastener business were less severe, only down 24% as it benefited from serving essential industries as well as the return of manufacturing activity in May and June.

Broadly across our regions and end markets, underlying demand improved each month of the quarter. Therefore, we currently believe 2Q represented the trough for this business, and the recovery will continue to build momentum now that global automotive production and general industrial activity have resumed.

The Infrastructure businesses declined 19% in the second quarter due to lower volume in oil and gas, which was down mid-single digits and a 25% organic decline in attachment tools. While this overall segment was particularly hard hit with factory closures and reduced industrial activity, the teams worked hard to manage cost and limit decremental margins as they prepare to participate in a recovery going forward. I would like to call out the attachment tools business specifically for their agility. Even with the steep market-driven declines, which I mentioned 25% down, they were able to maintain a mid-teens operating margin rate for the quarter. Well done.

Finally, I will review the Security segment, which was another positive within the quarter as they performed better than initial expectations. Revenue declined 11% as volume was down 9%. They also had a 1 point negative impact from divestitures, a 2-point decline from currency and price was a positive 1%. North America organic growth declined 7% and Europe was down 10% as all businesses were impacted by government and customer restrictions, which were more pronounced clearly earlier in the quarter. We saw this dynamic improve in May and June, allowing us to perform more installation and maintenance activity. Backlog remains in a healthy position. It is up 16%, positioning us well for continued improvement in the back half of 2020.

In terms of profitability, the segment operating margin was down 160 basis points to 9.6% as price and cost control were more than offset by lower volume. This is a strong performance for Security as they implemented swift cost control actions, and we're able to pivot to increase demand as things shifted in May and June. We also believe that the Security business can now energize its commercial activities around new transformational revenue opportunities related to safety, such as proximity, entry and identity management software solutions. We believe these growth opportunities will help us take the business transformation to the next level in the coming year or 2.

So in summary, the second quarter was a challenging environment as we navigated the pandemic but thankfully less extreme than feared. The outperformance to our initial expectations was a result of our team's resiliency and strong operational execution, enabling us to deliver approximately $175 million in cost actions and productivity opportunities, which helped to minimize our decremental margins to 25%, which were close to 10 points better than initial perspective.

Let's now briefly look at our free cash flow performance and a refresher on liquidity on the next page. On a year-to-date basis, our use of cash is $224 million, which is $107 million behind the prior year. The primary drivers are lower earnings as well as the working capital decisions that we've made to ensure we are prepared for potential second half improvements in demand, primarily related to strong Tools & Storage U.S. retail trends. Lower capital expenditures partially offset these impacts, reflecting our focus on capital conservation and maintaining a robust liquidity position as we navigate the current environment.

In terms of our liquidity and balance sheet, we ended the quarter with approximately $860 million of cash on hand. Our strong investment-grade credit rating continues to provide us with the uninterrupted access to commercial paper. Following the successful remarketing of our preferred equity units in May, we used the $750 million of proceeds to pay down the short-term debt. We now currently have approximately $2.3 billion of capacity on our $3 billion CP program. As you can see, we have maintained enough flexibility from a liquidity standpoint with a total potential of $3.2 billion available as of quarter end.

As a reminder, we do not have any long-term debt maturities coming due until the fourth quarter of 2021. Our capital deployment priorities remain focused on debt repayment and achieving our leverage targets. To support these priorities, we have kept in place our planned 2020 capital expenditure reductions and are continuing to suspend M&A and share repurchase activity for the time being. Also, as a reminder, the company withdrew its full year guidance in April, as a result of the uncertain macroenvironment, and we'll continue to refrain from providing such guidance at this time.

Similar to April, I would now like to provide some insights on our second half scenario planning as well as recent trends in revenue. While we have a much better appreciation for the depth and duration of the trough across our businesses, the trajectory of the economic recovery remains uncertain. As such, we are preparing for a variety of demand scenarios that may occur, and we will remain flexible in our approach. The left side of this page provides a segment view of our second half organic growth planning assumptions and our June and July forecasted shipment trends, as well as our color -- as color on the region or sub business performances relative to the recent trends. We also show some other recent key trends on the right side of the page, which are providing us additional insights into our potential second half revenue performance.

For Tools & Storage, our planning assumption for second half organic growth ranges from negative 3% to a positive 4%. A key factor in this range is the sustainability of the very strong growth in U.S. retail demand that's largely been driven by the surge in DIY and e-commerce. As mentioned earlier, we have seen record POS, and it continues into July. POS was up 33% versus the prior year in the first 4 weeks of Q3. If these trends continue, you can clearly see a line of sight to positive growth for the segment in the back half. So we are watching the U.S. consumer trends very closely. We're also watching the potential for the extending of the stimulus packages here in the United States, and finally, looking at the continued return of our pro-focused activity, which all of these could help support or sustain these recent trends.

The remaining portions of the Tool business, such as our U.S. commercial and industrial channels as well as international operations, all carry deeper troughs within Q2. Many are on a recovery trajectory, and the slope of that improvement will also influence the high and the low end of this range.

Europe Tools & Storage has seen strong performance over the past 8 weeks with organic growth in the high single digits. Asia clearly is further along than Latin America in this recovery. However, Latin America, which is now much better than the depth of the downturn, continues to be very slow as far as its improvement trajectory as the region addresses that spread of the virus and has difficulty in containing it.

Our midpoint for the Tools & Storage second half organic growth assumes: one, POS continues to moderate from current levels, but still strong for the entire second half of 2020; two, Europe continues to see growth, but slightly moderated versus the last 8 weeks; and three, U.S. commercial and industrial as well as emerging markets are slow to recover. The recent revenue performance in the segment revealed a strong organic growth rate globally of 8% for the last eight weeks, which likely supports a view that tools is trending towards the high end of the planning assumption range.

For Industrial, our planning assumption is an organic growth range that is down 25% to 15% in the second half of 2020. This business is facing some of the company's most difficult end markets. The last 8 weeks, the shipment trends were down 23% organically. Our midpoint of the abovementioned range would assume continued improvement across Q3 and Q4 from what we believe to be the trough in the second quarter.

As you look at the business trend over the last 8 weeks, we see that Engineered Fastening is tracking in the low 20s as both auto and industrial-focused markets continue to gradually improve. Another trend to look at in assessing our view on the auto portion of Engineered Fastening is that light vehicle production is down approximately 17% for the last 8 weeks.

The attachment tool trends are negative high-teens, while oil and gas and aerospace fasteners on a pro forma basis are weaker than the planning band of a negative 25% to 15% for the whole segment. Given all these facts in the industrial area, it appears this segment is currently trending to the midpoint of the planning range.

For Security, we expect this business to be relatively stable and continue its improvement trajectory with a second half range of down 8% to flat. This business is demonstrating a 4% decline in the last 8 weeks, still continues to show improving trends. Although the recovery is mixed by country, backlog remains strong, which supports an opportunity for sequential improvement with installation and maintenance activity. Additionally, as I mentioned earlier, new security and safety needs in factories, offices and health care environments, emerging from the virus should create exciting new revenue opportunities for the business to capitalize upon starting in the back half of the year.

As you aggregate these planning range assumptions for the total company, we see 3 scenarios. First, on the low end, we see the potential for a 7.5% organic revenue decline in the back half. This would represent a choppy recovery for our end markets. For this to occur, we would have to see a significant moderation in POS trends for North American tools and slower recovery trajectories in all the different areas of the company. Our base case, which is at the midpoint, is down organically just below 4%. This represents a broad continuation of recovery trends across the businesses and continued strength in Tools North America, particularly in the third quarter. As it relates to the third quarter, this scenario embeds low to mid-single-digit growth within Global Tools, sequential improvement versus 2Q within Security and Industrial growth that declines in the low 20s.

Finally, our high scenario or improving case is relatively flat organic revenue performance in the back half of the company. Broadly, this would assume slightly more accelerated recovery scenarios within the businesses and North American retail POS trends continuing at very strong levels through the fourth quarter. Our company organic revenue trend in the last 8 weeks is modestly positive. So this is one factor that makes us feel that this optimistic scenario is possible, however, not quite probable at this stage. While this is a broad range versus our normal environment for revenue, we feel it's prudent to prepare for all of these scenarios, both to ensure that we have sized our cost base appropriately for the pessimistic end of the range and to ensure we are prepared in our supply chain if the markets are better.

Moving to the cost reduction program slide. First, I want to remind you how we are approaching this initiative. We have targeted 4 areas of opportunity within our cost reduction program: indirect spend, compensation and headcount, employee benefit modifications and raw material deflation. We see this as a $1 billion savings opportunity over the next 12 months with $500 million benefiting this year. Approximately 60% of this is made up of indirect spend and deflation, with the balance consisting of compensation and benefit actions.

We got off to a fast start in the program in the second quarter, and we are approximately $50 million ahead from an execution perspective. This was the result of a swift implementation across the entire company. At this point, we are maintaining our 2020 estimate of $500 million of savings, which implies that we should realize about $325 million in the second half. As you think about the total program over the next 12 months, we are still on track to deliver $1 billion. The organization has been working diligently on ensuring that these cost actions are highly sustainable heading into 2021.

As Jim mentioned in his opening remarks, we are converting a significant portion of the temporary compensation actions such as furloughs and reduced work weeks to permanent actions. While a very difficult decision, this was needed to prepare the business for what remains an uncertain demand environment, and it removes the significant uncertainty for many of our employees who are impacted by these temporary actions, which were approximately 10,000 employees. It will also help ensure our compensation-related actions are sustainable, and we will have no snapback as we look into 2021. As it relates to indirect spend, the teams currently have about half of the savings identified as sustainable. We are working to push this higher potentially up to 75%. Based on external research for these types of programs, a very good result is 50% sustainability, and 70% will be a best-in-class result.

So this is a significant amount of forward progress as it relates to the implementation and sustainability of our cost program. At this point, we feel that 2/3 of the $1 billion program can be permanent. This would result in a positive 2021 carryover or tailwind of approximately $150 million.

So now let's address decremental margins for 2020. We are assuming we can limit the decremental margins net of cost-cutting to the mid- to high-teens in our base case. Clearly, this is a volume dependent, and you can see better decremental margins potentially mid-teens in our improved case. If we experience a choppy recovery, they could potentially be 20% to 21% this year. As a reminder, our decremental margin performance peak to trough during the last 2 recessions was contained to mid- to high-teens, so these are very relevant compared to our current 2020 view.

I would like to wrap up my comments by summarizing our 2020 planning assumptions on Slide 10. From a revenue perspective, we see the potential for a range of down 7.5% to flat for second half organic revenue, which puts the full year decline in a range of 5% to 10%. Our planning assumptions limit decremental margins, net of cost savings to mid- to high-teens for the full year 2020, with a range of outcomes dependent on volumes, as I just mentioned.

From a cost structure perspective, we have $180 million of savings included in our estimate or range assumptions from our Q4 '19 cost reduction program and expect an additional $500 million from the cost actions announced last quarter. Tariffs and FX are currently expected to be $180 million headwind, with $115 million of that behind us in the first half.

Finally, as you see in the middle of this page, we have disclosed our planning assumptions for the below the line items. So as you work through your models of various business scenarios, please utilize this information. From a cash perspective, our focus is capital conservation and deleveraging. We are maintaining our capital expenditure reductions in our temporary suspension of M&A and share repurchase activity. We will keep a sharp focus on working capital management and have aligned our supply chain with the recent trends and will modulate accordingly based on the trajectory of the recovery.

We believe we are continuing to take the appropriate actions given the current environment, and we are maintaining our approach to planning around a range of outcomes. Should growth or cost savings track ahead, we will remain flexible and reinvest in key areas, which could enhance growth in the short term and midterm. We are prepared to react and respond as recovery continues either at a rapid pace, a choppy pace or any scenario in between.

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

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

Thanks, Don. We continue to execute on a number of outstanding growth catalysts, which position us for continued market share gains as well as buffering the shocks of a volatile global economy, like we're experiencing in 2020. The Craftsman brand remains a key element of our growth strategy, and we continue to see a strong customer response, excellent growth and remain well on our path towards $1 billion. This brand, with its enduring value proposition, is well positioned to benefit from the positive trends we've seen in North American DIY.

We're continuing to invest in our innovation machine, bringing the new core and breakthrough innovations to market. And most recently, our DEWALT product line has had innovations that span the power spectrum. DEWALT ATOMIC and XTREME provide the highest power to weight ratio tools in the market, while FLEXVOLT is reaching up into higher power categories where we continue to introduce new tools that are cordless for the first time.

And during 2019, we also closed on a 20% stake in MTD Holdings, a leading outdoor power equipment manufacturer. This is an exciting opportunity to increase our presence in both the gas and electric outdoor power equipment markets with the first opportunity to purchase the remaining 80% beginning in the middle of 2021. MTD continues to make progress on improving their operating margins and is also benefiting from the focus on the home and garden nesting phenomenon that has emerged in recent months.

And as I mentioned earlier, downturns are a time of opportunity as well as a time of disruption. So for example, we are the tools industry leader in e-commerce, with global 2019 online revenues of $1.3 billion. But with a sudden acceleration and a shift to e-commerce, our growth opportunity here has become immense. To put it in perspective, it took a decade for e-commerce to become 10% of our revenue. And almost overnight, it grew to nearly 15% of sales and is increasing quickly. With our market position, brands, digital capabilities and global customer relationships, what a great opportunity to build upon our strengths in this area. With its excellent margins, this is one of the major growth areas that will attract significant new investment from us in the second half and beyond.

And in a matter of months, society has discovered a newfound obsession with health and safety. This, in turn, has thrust our Security business with its health care, electronic security and automatic doors businesses, smack in the middle of a new growth landscape. For example, we are commercializing new solutions such as automated entrance management with temperature monitoring, contact and proximity tracing and touchless stores for commercial buildings and manufacturing plants. We are allocating resources to scale these solutions and benefit quickly from these new sources of potential growth. We expect all of these growth catalysts, which include exercising our option to acquire the remaining 80% of MTD most likely in early 2022, to contribute $3 billion to $4 billion of incremental annual revenue beginning in 2022, a great long-term growth story as we look ahead to the future.

So in closing, we're delighted with the second quarter performance under the circumstances. We were able to quickly pivot to serve a rapidly improving demand environment and weathered in good stead what we currently believe to be the trough revenue performance for the year. Maintaining an intense focus on cost control and delivering on the improved demand trends within the quarter, we're able to limit the impact to our margin rates and deliver $1.60 of EPS. And fortunately, we were in a strong position going into the crisis and with the dedication and commitment of our talented, diverse management team and all of our great people are taking the necessary actions to stay strong during the crisis and to emerge from it even stronger.

We're now ready for Q&A, Dennis. Thank you.

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

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

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: So I want to start off with the -- first of all, thanks for details. These are fantastic on the second half of the year. On decremental margins, I just want to confirm the FY '20 mid- to high-teens commitment implies second half closer to low to mid-teens, I think, if we've taken the 24% decremental in the first half of the year. Is that correct? Number one.

And number two, assuming that Industrial is going to be a bit fresh in the back half of the year, it seems to imply that Tools margin's potentially up in the back half of the year. I just want to make sure that we think about this correctly.

Answer – Donald Allan: Yes. So on your first question, that's an accurate kind of view of the decrementals in the back half. Yes. I think the margins for Industrial will be very pressured, especially in the third quarter but get better in the fourth quarter, but they still won't be improving year-over-year. But at this stage, we do think tool margins will be improving in the back half year-over-year. But probably will be more improvement in Q3 than Q4 right now due to various comp and other matters. But also our insight for Q3 is very clear versus the insight for Q4 is still a little unclear. So that's probably another factor in that analysis as well.

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

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

Question – Timothy Ronald Wojs: Nice job on the quarter. Just my question is on inventory, really within the tools business. Just wondering if you could provide just color on where you think channel inventory is relative to normal. And as you're talking to your customers, just how long do you think it takes back to get to whatever, I guess, is normal? Just -- it seems like it could be a multi-quarter tailwind if you're only shipping the POS now. So just some color there on what you think inventory levels are relative to normal and how long it could take to get back.

Answer – James M. Loree: Yes. I mean, inventory levels are exceedingly low, and pretty much as low as I've seen in my time here. And I think the customers would probably prefer to have higher inventories, if they could. But as you pointed out, we're simply keeping up with POS right now. We were fortunate that we built a pretty substantial amount of inventory early in the quarter when we started to see the POS dramatically outperform the shipments, and the customers in the beginning of the quarter were still in the process of an inventory correction themselves. And then it took them a while to realize that the POS needed to be replenished like ASAP in the middle of the quarter. And the orders started rolling in, probably in the back half of the quarter.

But by then, with our supply chain cycle time, we're fortunately producing sufficient inventory to at least keep up with the POS. And we're -- actually, it took us a while to get to the point where we were keeping up with POS. There was substantial inventory drain in the channel throughout the quarter stabilizing pretty much near the end and then has been stable for several weeks now.

Answer – Donald Allan: Yes. And my comments in the script, and what Jim said, we don't want to leave you the impression that the inventory levels are so low that it's causing major issues with the end user. But then when you look at the weeks of stock and you look at the typical range of anywhere from 9 weeks to 15 weeks, depending on the customer, we're definitely at the very low end of that range. And so that's a factor in as we think about going forward. And we are producing enough products in the tool space that if there is a desire of our customers later in the year to restock, we'll have the ability to do that, even if the POS continues to run at the levels it's trending at now.

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

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

Question – Markus M. H. Mittermaier: Thanks for the scenarios. Very, very helpful. Can I ask about the positive carryover into '21 that you mentioned, the $150 million? Just confirming that this is pre any of the supply chain changes and potential cost savings that you might have from that by rearranging the China supply into Europe and the U.S. So that would be incremental on top of that? And then like is there any change maybe pulling that plan a bit more forward in time? It would be great if you could elaborate on that.

Answer – Donald Allan: Yes. I mean maybe the best way to answer that question because it's a very good question, is that if you think about our margin resiliency program which Jim commented on related to how it contributed to this year's cost actions, we still think there's a great deal of value going forward in that program. And we believe this -- a range of $300 million to $500 million of opportunity that we can capture over the next 3 to 4 years. And part of that will be what you're talking about, really shifting the supply chain and the value opportunities that happened there associated with that. There's also many other things associated with Industry 4.0, advanced analytics, better pricing, analytical and technology tools. I mean our organizations have really digitized themselves, and the supply chain continues to do that to really create more value on a go-forward basis.

So one of the really positives that's coming out of this crisis is that we're not like depleting our margin resiliency, value creation. We still see a great deal of value going forward. And at this point, I would just assume it's probably $100 million to $150 million per year for the next 3 years, starting next year. We'll certainly refine that as we get closer to the end of this year, but that is an opportunity that we will continue to pursue. And as you can see, there are a lot of values still associated with it.

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'm going to ask one really easy question, and so I was hoping maybe you could make an exception and answer 2 for me. First, on just the cost savings, the remaining 3 -- what is it, $325 million for the rest of this year, how does that split between 3Q and 4Q? And then I guess my bigger question is, when we think about the DIY fade potentially, I guess, as people go back to work, what's the potential that, that could be offset by the pro coming back as that is kind of compensated?

Answer – Donald Allan: Yes. The first one is, it's a pretty even split between Q3 and Q4, and then I'll pass your second question over to Jim.

Answer – James M. Loree: Yes. I mean, actually, I think they're both relatively easy questions, because, clearly, the DIY fade is something that makes logical sense. When you take into account the factor, even if there is a stimulus, which I suspect there will be, it will be a lower dollar amount than we've seen thus far. And so I think that there probably will be some POS fade. I just know -- it's unsustainable to keep circa 40% POS going for a long, long period of time.

So yes, I think that's probably going to happen. But the pro has been pretty much on hold very, very quiet in terms of what we're seeing there. And of course, with the housing market potentially heating up here and the urbanization and so forth, it's likely to go on -- starting to go on, likely to continue and so forth. I think we're going to see a fair amount of pros coming back into the mix from the sidelines. So I think there is some potential that, that could happen.

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

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

Question – Michael Jason Rehaut: Congrats on all the results and the efforts so far. I had a question around the cost savings program. Wasn't sure, when you talked about still reiterating the full $1 billion of savings -- $1 billion of savings and $500 million in 2020, from what I understand, a portion of both of which is the temporary actions that you had said prior to this call is maybe about 30% of the overall total. At the same time, you're talking about welcoming back 9,000 employees, which is wonderful, but it's -- I understood that part of that was perhaps part of the temporary actions.

So just trying to get a sense for -- and then you talked also about the carryover at $150 million, which is close to that 2/3 of the overall actions being permanent. So just trying to get a sense for the remaining 1/3 how that flows through. And maybe the timing of that if perhaps the solve in kind of talking about working to get those temporary actions permanent, but it doesn't seem like maybe in the next 6 to 12 months, you look at that full $1 billion, if I'm understanding that right. But perhaps you could walk us through that.

Answer – Donald Allan: I think the way to think about it, Michael, is that if we got the full $1 billion, obviously, we have another $0.5 billion of incremental benefit in 2021. But we do recognize that, that's probably not likely, that we're going to get that type of carryover because we're going to have some of these temporary things that come back into our systems, such as we've suspended certain employee benefits as an example. That's going to be something we can tolerate as an organization for 1 year, but we can't continue that into next year. So that will be something that comes back into our cost base.

We did some of these temporary compensation things that we are reversing for the reasons we articulated, which will create kind of an incremental cost next year, year-over-year. But then we're shifting into -- and we have some things in indirect that we did temporarily this year that will increase in our cost base next year. But then what we're doing is we're focusing in other categories where we're taking permanent headcount actions here right now through, as Jim mentioned, into September time frame. That would kind of help offset a portion of that. And then we also are trying to sustain some of these indirect savings, so they're permanent.

And so ultimately, when you look at the $1 billion that we've gone after, we think we found $650 million of it roughly that is permanent. And when you do all the math of all those pluses and minuses, and Dennis can give you a little more detail off-line, if you'd like. You're going to get a situation where you get a value of $500 million this year, it's incremental over last year. And you're getting at a value of $150 million incremental next year over this year, and that's really how it works.

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: Maybe just a question around the Tools margins for the medium term. So looking at your guidance, it looks like the Tools margins are back to that sort of 17% plus level in Q2 and the second half. Historically, that's where they've kind of peaked out. So I just wondered, as we look ahead, what type of incremental margins should we expect in Tools when sales growth resumes.

And do you think that in the medium term, an operating margin aspiration of sort of 19%, 20% or so is realistic given the margin resiliency efforts? So pushing through higher than those old peaks?

Answer – James M. Loree: Yes. I mean we're very, very pleased with the Tools margins in this quarter because they are pretty much at what has historically been peak levels at a time when revenue is in what we think is a trough in the cycle. So yes, I mean, I think that's a very significant probability that they will accrete upwards. There's a lot of positive things that Don has talked about and I've referred to relative to the impact on margins from the cost reductions, from margin resiliency, et cetera. And so I think it hopefully will foretell a very positive story in the future. And I think equally important is the lack of what we've had over the past few years, which have been really significant headwinds from the dollar, the strength of the dollar, which is now kind of backed off a bit, and hopefully, will continue along those lines for a while. And also, the tariffs are kind of anniversarying out here as we speak in the next quarter, and inflation has turned into some deflation.

So there's a lot of powerful things happening in the Tools margin story that I think bodes very well for it going forward. There's always going to be new headwinds over time, so we can't get crazy about it. But clearly, the momentum is upward.

Answer – Operator: Our next question comes from Deepa Raghavan with Wells Fargo.

Analyst: Deepa Bhargavi Narasimhapuram Raghavan, Wells Fargo Securities, LLC, Research Division - Associate Analyst

Question – Deepa Bhargavi Narasimhapuram Raghavan: Can you talk to what kind of initiatives are being taken other than just expanding -- other than just taking more -- taking the rest of the stake in MTD? If you can just focus on what kind of verticals or end markets, probably perhaps is it more DIY focused? Maybe COVID-proof products, more e-commerce-friendly, et cetera? And just a broader question tagging to that is, and in the process of managing through COVID, did you discover any new adjacent markets or newer opportunities you can expand into?

Answer – James M. Loree: Yes. That's great. It's a great question. And it's -- I was trying to kind of get at that with -- when I talked about the trends that had occurred with the advent of COVID, the first being the sudden shift into e-commerce in terms of the revenue weighting and the consumer preferences. And then in addition to that, you have this kind of reimagination and reacclimation to the home. People spending time at home, doing projects at home and then also out in the garden and landscaping. So a lot of the DIY in that area, I think that's going to be a relatively, I'll call it, a semipermanent trend, which means probably for at least a couple of years, we'll see that. And then finally, the obsession with health and safety. So all of those things play to our portfolio with the world's leading -- certainly world's leading tool business and a great position in e-commerce and in DIY, both in the U.S. and in North America and in Europe.

And then the MTD acquisition, which hopefully we'll be able to do in early 2022, that's going really well in terms of the cost takeouts that we had -- are working with MTD on, making sure their margins get up to acceptable levels. And also from a revenue point of view, MTD is doing quite well as well with significant growth in this -- at this period of time. So that's going to be a great story, and that's probably going to be about $3 billion when we exercise that option of revenue that we're going to bring on probably at a weighted multiple when you take into account the first 20% and then the second 80% will -- weighted multiple, probably be in the 7x to 8x EBITDA range, which is going to be just fantastic.

And then the Security business, because of this newfound obsession with health and safety, the Security business, which has what is today a relatively small but extremely sophisticated health care business that serves acute care facilities and elder living facilities and has very sophisticated technology in terms of IoT in particular, in artificial intelligence using that business to help with contact tracing and other relevant health care applications, and one of them being to the protection of elders in these elder care facilities, which, as we all know, is one of the great tragic stories of COVID-19. And most states are running around 50% plus of their deaths associated with elder care facilities. So we're going to be trying to help out with that as a social kind of project to help deal with safety in elder care facilities.

And then the electronic security business, which, for a long time, has been on the bottle, if you will, certainly has now moved into the strike zone in terms of strategic relevance with all of its applications that relate to health, safety and security. So yes, I think it's a really great time for our portfolio based on what we see out there in the world today.

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

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

Answer – Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.