FINAL TRANSCRIPT

Thomson StreetEvents℠

SWK - Q1 2011 Stanley Black and Decker Inc Earnings Conference Call

Event Date/Time: Apr. 27. 2011 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Kate Vanek
The Stanley Works - Director of IR

John Lundgren
The Stanley Works - Chairman, CEO

Jim Loree
The Stanley Works - EVP and COO

Donald Allan
The Stanley Works - VP and CFO

CONFERENCE CALL PARTICIPANTS

Jason Feldman
UBS - Analyst

Daniel Oppenheim
Credit Suisse - Analyst

Will Wyman
JPMorgan - Analyst

Nicole DeBlase
Deutsche Bank - Analyst

Dennis McGill
Zelman & Associates - Analyst

Sam Darkatsh
Raymond James & Associates - Analyst

Jim Lucas
Janney Montgomery Scott - Analyst

Eric Bosshard
Cleveland Research Company - Analyst

Peter Lisnic
Robert W. Baird & Company, Inc. - Analyst

Michael Kim
Imperial Capital - Analyst

PRESENTATION

Operator

Welcome to the Q1 2011 Stanley Black & Decker Incorporated earnings conference call. My name is Theresa, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over to Ms. Kate White Vanek. Ms. Vanek, you may begin.

Kate Vanek - *The Stanley Works - Director of IR*

Thank you, Theresa. Good morning, everyone, and thank you all for joining us on the Stanley Black & Decker first-quarter 2011 conference call. On the call, in addition to myself, is John Lundgren, President and CEO; Jim Loree, Executive Vice President and COO; and Don Allan, Senior Vice President and CFO. I would like to point out that our earnings release, which was issued after yesterday's close, and the supplemental presentation, which we will refer to during the call, are available in the Investor Relations portion of our website, www.StanleyBlackandDecker.com.

This morning, John, Jim, and Don will review Stanley's first-quarter results, and various other topical matters, followed by a Q&A session. A replay of the call will be available beginning at 2.00 PM. The replay number and access code are in our press release. As a reminder, you can download the earnings replay as a podcast from iTunes, and even set a subscription for all future replays of the calls that we post. This should be ready this afternoon.

I will make a comment that when we do start our Q&A session, we're going to stick to a strict one question, one follow-up format. As always, if you have any additional questions, please feel free to contact me with anything after today's call.

We will be making some forward-looking statements during this call. Such statements are based on assumptions of future events that may not prove to be accurate, and as such, they involve risk and uncertainty. It is therefore possible that actual results may differ materially from any forward-looking statements that we might make today. And we direct you to the cautionary statements in the 8-K, which we filed with the press release, and in our most recent '34 Act.

With that, I will now turn the call over to our CEO, John Lundgren.

John Lundgren - *The Stanley Works - Chairman, CEO*

Thanks, Kate. Good morning, everybody. If you will take a look at the presentation posted to the website, I'd like to first summarize some of the first-quarter highlights that we experienced, and I will say, as Kate has pointed out, this is the last quarter where we'll provide, feel the need to provide as much pro forma data from the second quarter forward. Everything will be quite clean. As a reminder, the transaction with Black & Decker closed on March 12, 2010, so there are a couple weeks of Black & Decker performance included in the GAAP measures. And from second quarter onwards, it will be clean, it will be more clear, but we think the pro forma comparisons are most helpful to you in understanding our business.

Revenues increased 9% on a pro forma basis to -- up 9% on a pro forma basis, $2.4 billion, organically up 4%. Strong growth in emerging markets, particularly Latin America, we had some great share gains, new products are doing well, Jim Loree is going to talk about that in the segment break down, and certainly some successful implementations of the first signs of some positive growth from our revenue synergy plans. Diluted EPS was $1.08, reflecting a significantly favorable tax rate. Diluted GAAP EPS was $0.92. Per the press release, the tax rate contributed about $0.12 to earnings, relative to our planned rate, and I'll come on to that again in just a second.

Free cash flow of $61 million was up $24 million versus the prior year. That excludes the $37 million of merger-related payments.

As a reminder, we increased our dividend 21% in February, and we've announced a $250 million share repurchase program that will begin in the second quarter. That $250 million program, when completed, will consume less than 0.5 of the $7.8 million authorization that's still outstanding. And I think it's important at this stage, Don will spend more time on it, but to be clear, the purpose is simply to avoid creep. Our stock is up 16% year-to-date, almost 30% on a 6-month basis, and 80% since we announced the merger.

The guidance we provided in our plans were for an average share count during 2011 of approximately 170 million shares. As options have been exercised, that creep would drive us up to above 175 million shares, so with the repurchase, our current best estimate would be about 172 million shares as our share count, which is 2 million shares higher, even including the repurchase program than was assumed and provided when Don provided our initial guidance for the 2011 year. That hopefully will be helpful to you in your modeling.

Commodity inflation headwinds continue to persist. We think they will peak in the second quarter, based on everything we know, and we'll recover 80% of that or more via pricing in the second half, as many of the price increases that we've already negotiated will take effect late in the second quarter, and early in the third quarter. 2011 guidance, as a consequence, has increased to the range of $5 to $5.25 due to the tax rate favorability that I discussed.

So far so good on the integration, and if we can flip to page 5, I think it is important, because the integration remains our top priority, so I think an update on where we stand is relevant for this morning's call. Our steering committee and our major footprint review group continue to meet regularly. We're looking at $165 million of realized synergies this year in calendar 2011, and in the first half of 2011 we completed the annual refresh process, including all-new opportunities. Some of that we discussed on our analyst day, but we constantly monitor and update it formally on a monthly basis.

In the first half of 2011, several major footprint-related projects will have been either launched or completed. We obviously don't talk about them in advance publicly, or make no disclosure until works councils, if it's in Europe, or employees, if it's in the US have been notified and consulted. Some of those programs are underway, for instance our Rock Falls distribution center consolidation, and some are behind us, in Jackson, Tennessee. The others, we will update you as appropriate, but no public disclosure on exactly which facilities are involved, as is our policy, and as just makes good business sense. We will have completed some of those consolidations this year, and by the end of the year we will have executed programs that represent almost 75% of our 2011 cost savings of $425 million, which as Don has pointed out, represents $460 million on an annualized basis in terms of cost synergies. And finally, revenue synergies, the opportunities remain encouraging, and they are going to contribute about 50 basis points of growth already in 2011.

Moving on to a look at our business by geography, our largest market, of course, being the US, which accounts for 53% of our volume, was relatively flat. There were a lot of puts and calls that I won't talk about because Jim is going to go into it in more detail, with our industrial and automotive repair platform up, mechanical security, hardware, home improvement down, others relatively stable. Second-largest market being Europe, with tremendous performance across-the-board, particularly in our industrial and automotive repair platform, as well as our engineered fastening business. Latin America, really strong growth. While it only accounts for 8% of our combined volume, that number will continue to grow, and as you see, growth in essentially every geography in the country, and as the successful execution of revenue synergy plans continues.

Looking at earnings, on page 7, as we reported, the $1.08 up 54% on a GAAP basis, excluding the $37 million of merger-related charges, which of course, was a much larger number in the prior year. As mentioned in our press release and as shown at the bottom, underneath the bars, it was helped $21 million or about $0.12 from tax. And as I think you all know, historically we and all other publicly-listed companies would estimate spread and then reconcile any tax settlements or tax reserves that we held.

We're now required to report them, only when the audits are completed and fully settled, which regrettably makes for a very lumpy quarter-to-quarter tax rate. There is absolutely nothing we can do about it. It's an SEC requirement. We'll try to live with it, and we'll try to provide the best guidance we can, and Don will add a little more flavor on that later on this morning.

So the earnings were up, volume leverage, cost synergies, favorable tax rate all helped. I've talked to the share count, and what we think the modest repurchase program will do to that share count, and Don will touch on it a little later in his guidance.

Looking at our sources of growth, I think first and foremost, volume up about 7% on the legacy Stanley side, which is helpful. Pricing was again, with some puts and calls, by business was flat. Currency helped us 2% on a GAAP basis this quarter, and of course, the acquisitions, overwhelmingly Black & Decker and then several minor acquisitions that Jim will talk about, their impact and their influence on our revenues in the segment break-down, gave us an 89% lift in revenue.

Looking at legacy Stanley, legacy Black & Decker just very quickly, hand tools, fastening and power tools, essentially our CDIY segment, the legacy Black & Decker portion up 4%, good movement on power tools, and as pointed out in the press release, hand tools and fastening was essentially flat. Nice performance on the 12-volt lithium ion introduction, which is really giving us a lot of traction in the marketplace.

We talked about Pfister, and the loss of a significant number of SKUs in a line review early in the year, the impact that's had on volume in the home centers. The Industrial segment, including the former Emhart or engineered fastening business, both those businesses showed great momentum, as suggested. IAR plus 7%, and infrastructure plus 17%, and the legacy Black & Decker industrial business, which is primarily Emhart, up 12%. Security and HHI, again legacy Stanley up 4%, on the legacy BDK side, down 12%, as suggested.

Kwikset has performed extraordinarily well for the last 12 to 24 months. There was some meaningful inventory correction at the big box customers in the first quarter, which did have a negative impact on Kwikset. We still feel very good about that business and its future prospects in the market place. So in total, you see the legacy Stanley business up 6%, legacy Black & Decker business up 2%, with lots of puts and calls.

Let me turn it over to Jim Loree who is going to give you some more flavor on the performance within our 3 major reporting segments.

Jim Loree - *The Stanley Works - EVP and COO*

Thanks, John. Let's start with CDIY. CDIY had a solid quarter, in line with our expectations, except for the loss of some Pfister business that John talked about at a major customer, which is unfortunate, but not surprising given the inherent challenges of that product line. I'll come back to that in a moment.

Total CDIY segment sales were $1.211 billion, up 2% on a pro forma basis, and up 3% excluding Pfister, and up 4% excluding Pfister and the exits of the very small Delta stationary and consumer auto electronics product lines. So really, when you cut through some of the dispositions or the non-strategic elements of the performance, a real nice solid 4% growth.

Power tools were up 4%. They really drive the segment up 6%, taking the exits into account. Professional power tools were very strong, with continued success in the 12-volt lithium ion program. And consumer products was flattish, with solid power tool sales offset by some timing issues in outdoor between 1Q and 2Q; a few pre-merger SKU losses, some of which have been recouped already, and anniversaried in the third and fourth quarters; and the effect of the exits as previously mentioned. All of that was as expected.

On a regional basis, Latin America remained the highlight, up 22%, and up 19% excluding the effect of FX. North America up 5% without the exits, and excluding Pfister the profit rate was up 90 basis points, including, as you see on the chart, up 50 basis points to 13.1%, as the cost synergies and the volume kicked in, and partially offset by unrecovered inflation, some of which will be recovered in the fourth quarter we expect.

Let me address Pfister for a moment. Back on March 3 at our analyst day, Jim Lucas from Janney Montgomery Scott asked a question, and we answered it, and the question was -- are there other potential divestitures down the line, any either in product lines or brands that are sticking out that are not, don't have the potential to be number 1 or number 2? And I answered that question by saying -- there's nothing really glaring, except I would say in the HHI business, which is where we manage Pfister out of, although it's reported externally in CDIY, we have this thing called Pfister. And Pfister for us, we have to make a decision about whether we invest in that particular plumbing product line, or whether we divest, and it's a strategically challenged business, in the sense that a lot of what it produces or sells is actually sourced. They do a lot of the design work, and it has a fashion element to it as well, which is not something that we love, and it's very concentrated with a few customers.

So it reminds me a little bit of the home decor business that some of you long-time followers will remember. It's a very good business if you look at the industry. There are definitely examples of companies that make a lot of money in plumbing products, but it would take a lot of effort. And so right now we don't have the resources to put that effort into it, but we also don't have the appetite, as we sit here today, to do all of the work that it would take to actually dispose of it. So right now we're in kind of a maintain mode. We'll see what the future brings. We've asked the team that runs Pfister to do everything they can to fix the strategic challenges associated with that business, and if they do it, it will only make it more valuable if we choose to later dispose of it, and if they don't, it will make the decision a lot easier.

So when you step back from Pfister, it's roughly a $200 million business. It has 2% share of the global plumbing market. It's number 5 in the US, with 8% to 10% share behind Moen, Delta, Kohler, and American Standard, all formidable competitors. And so the strategic challenge starts there, and then we add to that the sourced aspect, greater than 50% sourced, greater than 50% concentrated in US home centers, and its tendency to be a fashion business.

So the challenges are obvious, and it's probably more valuable to others than it is to us, and the only reason we still own it is that disposition would be a distraction with the integration going on. So the loss in the first quarter of $50 million of annualized business was unexpected in terms of timing, but not surprising, and we have to deal with Pfister on an ongoing basis, and we will.

I'll finish my comments on CDIY with some thoughts on the second quarter. I think we can expect a pretty good sequential balance in the organic growth rate in 2Q, even with the exits and the Pfister drag. Organic growth should be between 5% and 10% in this segment, as new product introductions, even more new product introductions and customer programs gain steam, the revenue synergies take hold, and the timing issues between 1Q and 2Q work themselves out. So we're very excited and enthusiastic about what the second quarter should bring for CDIY.

Moving now to Industrial. Industrial had a super quarter, with sales increasing to $613 million, up 105% versus the first quarter of 2010. The addition of a full quarter of Emhart and CRC provided acquisition growth, and legacy Industrial grew a very robust 17% organically. On a pro forma basis, Emhart grew a solid 12%, despite exposure to the Japanese auto industry, which production was down 27% in the quarter. And pro forma operating profit was up 400 basis points to 17.5%, incredibly strong performance from a margin-rate and growth perspective, and strong operating leverage is evident here.

In the Industrial and Automotive Repair business, sales volumes were up double digits across all regions, due to market share gains in North America and Europe, as well as strength in all major Industrial distribution channels. And we note that revenue synergies kicked in, in the Industrial and mobile distribution channels in North America, with DeWalt products being sourced through those channels. And in the second quarter, DeWalt power tool products will be launched to Industrial channels in Europe, and the early signs are encouraging there. Now that's about one-third of the segment.

The second third of the segment is engineered fastening, which is the legacy Black & Decker Emhart business. They had a terrific performance as well, with their pro forma revenue up 18% due to additional penetration with their existing customer base, and some vehicle production increases in the Americas and Europe. However, this performance was against the backdrop of 4% growth in global auto production, and they do have about $200 million of exposure to the Japanese market, and they're dealing with the headwinds from that and dealing with them very effectively, especially with added growth in China that we're experiencing.

The infrastructure subsegment, which is the last third of this Industrial segment, includes hydraulics and CRC-Evans. CRC-Evans had a respectable quarter. Revenues were up 8% organically, and hydraulics had a terrific performance, with their revenues up 49%, leveraged by the strong steel scrap market. So in total, a welcome out-performance by our Industrial team, which helped offset the Pfister issue in the quarter.

Moving to security. Security had a mixed quarter with pluses and minuses. The biggest plus of all was the organic growth in Convergent, at last, some of you might think, as do we. The SSDS business in France, integration going well; the performance was super. And the healthcare business, the core healthcare growth platform showed solid organic growth and profitability growth. On the minus side of the ledger, we had weak demand, market demand, in mechanical access. We had a sizeable inventory correction in HHI, and we had to deal with inflation ahead of price increases, the latter of which was expected and not a surprise.

The overall sales in the segment increased 17% to $557 million, acquisitions were 12 points of the increase, and organic growth accounted for 4 points. It was a tale of 2 businesses with a CSS resurgence and 8% organic growth in the HHI legacy Black & Decker business down 12% on the inventory corrections. And as John mentioned, the underlying Kwikset business remains very, very healthy.

Just to highlight a few facts on CSS. The revenue from both installations and RMR grew in the quarter, which was very encouraging, especially given that installations increased 10%, and RMR increased 3%. As I mentioned, the organic sales were strong in healthcare. They were up 5%. So this quarter we added a chart to help clarify the margin performance, and if we could turn to that, this chart shows the security margin-rate walk on a year-over-year basis, this time starting with a pro forma 1Q 2010, which happens to be the same as the legacy Stanley with a little Black & Decker mixed in last year after March 12, but it is the same 16.3%. And this chart will walk you then to the 13.9%, and we start with the impact of volume and inflation in HHI, which totaled 2.4 points, that's the first yellow bar to the right of the 16.3%. That was split between volume of 1.0 points and inflation of 1.4 points.

Next was the impact of acquisitions, dilutive to the rate by 1.4 points, then legacy-managed inflation accounted for 0.9 points of headwind, and mix in the CSS business, within the CSS business and legacy MAS, accounted for minus 0.7 point effect. That was roughly split equally between the RMR and install mix effect within CSS, and weaker retrofit sales versus new construction in the legacy MAS business. Now all of that totals about 5.4 points of headwind, which was a pretty dramatic headwind within the quarter in the security segment, but it was partially offset by a really strong performance in synergies and productivity, which provided a 3.0 point benefit, and thus you get to the 13.9%.

Now, of the headwinds, we think that about 5 points or so of the 5.4 were really simply timing-related. So for instance, the HHI volume, which accounted for 1 point, was simply related to the inventory correction. As we said, the underlying business remains strong. Inflation accounted for 2.3 points, when you take into effect both HHI at 1.4 and legacy MAS at 0.9, and that will be positively impacted by price increases in the latter part of the year. In fact, because of the increase in inflation, it's actually made the whole process of achieving price increases more pragmatic.

And then finally, acquisitions with a 1.4 point headwind. They will correct themselves over time as the integrations proceed. So what could appear to be a more challenging story than it actually is, a lot of it's just related to timing, but I hope this chart you'll find helpful to understand what's going on in the security segment.

On working capital, I'll just touch upon this briefly. It was a positive story, the turns improved 15% on a pro forma basis versus the prior year. There's really no dramatic improvement in the numbers yet, in terms of absolute numbers. Over $100 million is a good start, and minus 6% year-over-year, quarter-over-quarter, and moving from 4.6 to 5.3 turns. However, the key here is that the rollout of SFS and the implementation of that initiative is well underway, and we expect to see good progress here as the year goes on.

And now I'll turn it over to Don Allan, who will illuminate the financial aspects of this in a little more detail.

Donald Allan - *The Stanley Works - VP and CFO*

Thank you, Jim. As we start on page 14, which is free cash flow for the first quarter of 2011, you can see that it excludes all the M&A charges or payments, which is about $11 million in the first quarter. The working capital was a negative in the first quarter, so normal trends historically when you go back, both legacy companies have had a negative working capital performance in virtually all the first quarters of the last 10 years. And that's really just a trend of revenue, as well as the aspect of building certain inventory levels for the Spring season in several of the businesses. But the good news from my perspective is it's a relatively modest negative trend in working capital of $70 million.

The other item of significance is other/restructuring. We had some significant timing of payments associated with various things such as pensions and derivatives that resulted in a $90 million negative. We do not see that as a repetitive issue. It's something that was one-time in nature in many cases.

Moving down to capital expenditures, about 2.9% of revenue in the first quarter, so slightly above the guidance range we provided of 2.5% to 2.8% for the year; however, we still believe that range makes sense on an annualized basis. It's more of a timing aspect to it.

The end result was $61 million of free cash flow in the first quarter versus $37 million last year, so a $24 million improvement, and in line with what our expectations were for the first quarter. And we reiterate our guidance of $1.1 billion free cash flow for the year of 2011.

I'd like to spend a little bit of time on the next page, because inflation is such a relevant topic to us and many other companies, and this is a page that I presented at our Investor Day back in March, and the focus is on the pricing center of excellence. As many of you know, we have been very active in pricing actions, and have implemented many of them and will continue to do that as we go forward.

There's 2 different aspects to it. There's 1 related to reacting to changing cost structures, such as inflation drives in our business, and how you respond with price increases to your customers. And then the second piece is more of a longer-term pricing alignment with the value that you deliver to your customers, and making sure that your products are appropriately priced. Clearly in the time frame that we are right now in the short-term, we're very focused on the inflation we're experiencing in commodities, and how we pass that on in price to our customers.

We established this center of excellence back in 2004, and with 7 years of experience, and we've gone through, this is our third inflationary cycle that we've gone through since that started. We have 10 different business consultants that are focused on the analysis that needs to be done, which is really providing the data to our customers, so they understand the reasons for the price increases and why they're needed. We also have additional finance resources embedded in our major business units to assist in driving this analysis, and ensuring the facts are appropriately put on the table in these discussions.

As a result, we have over 100 years of pricing experience with all these individuals in our Company, and they really focus on training and coaching and mentoring our business units through a process like this, to ensure that we're passing on inflation appropriately to our customer base. As we indicated at the beginning of the year, we believe this year in 2011 we can recover one-third to 0.5 of the inflation through price increases. And in particular, as you hear about in a few minutes, and as John has mentioned earlier on, we expect our recovery actually to be 80% in the back half of 2011, because the recovery in the first half due to timing is relatively low.

So with that, I'd like to move to page 16, which is an update of our outlook for 2011. First of all, as indicated previously, our earnings guidance we've raised from $5 to $5.25 versus our previous guidance range of $4.75 to $5. The main driver of that is the tax rate, where our tax rate now we believe will be between 20% and 21% from the previous range, which was 25% to 26%. As John indicated, there's definitely a little pressure associated with share creep, and the average outstanding shares we're projecting to be 172 million for the year, so that's slightly offsetting some of that tax benefit in our new guidance range.

The other thing that I want to touch on is, when you look at the timing throughout the year of our earnings per share, there will be significant inflation impact in the first quarter and in the second quarter. And as a result, our EPS for the year and the percentage first half versus second half will be 45% and 55%. So what that means is in the first half of 2011, we believe when you take our annual guidance, about 45% of that will occur in that time frame, because of the timing of the inflation and the price recovery, as well as the timing of additional tax settlements that are expected later this year.

Digging in a little deeper into inflation, as I mentioned the one-third to 50% recovery, which is causing that 100 basis point negative drag on our operating margin that we discussed back in January, if you look at the timing by quarter, we believe that we will see about $40 million of a net negative impact in the second quarter, as many of those price increases will be put in place in late June and early July, as John indicated, which results though, in the back half of the year of seeing us 80% price recovery on inflation. So we really begin to see the impact in the back half of the year. And the net negative is only $20 million for the entire second half of 2011.

John touched on the share repurchase of $250 million, which is really trying to partially offset the share creep that we expect to experience and have experienced, getting to that average outstanding share number of 172 million. So those are the major changes in our guidance.

We are reiterating, to the right side of the slide, many of the operational components that we reviewed back in January, such as net organic sales are expected to increase 5% to 6% on a pro forma basis off a pro forma level of $9.3 billion for 2010. The revenue synergies will add an incremental 50 basis points of revenue to that number, with a modest EPS impact, as previously disclosed. The acquisitions of CRC-Evans, SSDS, GMT, and InfoLogix will add about 3% growth to that pro forma base. Our cost synergies are still anticipated to be $165 million in 2011, and our operating margin rate is expected to expand by 150 basis points, or just over 14% for 2011.

The one thing that I want to point out that may be lost in a little bit of various different changes here is that our Pfister business, as discussed by Jim, had a negative performance and lost some significant SKUs with a major customer. That's about a $50 million revenue impact for the year, and about $25 million negative operating margin impact for the year. We're offsetting that with stronger performance in Industrial, and a little bit in our CDIY business or hand tool and power tool businesses, so we were able to absorb that negative impact with out-performances in other parts of the portfolio, to maintain our operational guidance numbers. And then the last thing I'd indicate is the non-merger and acquisition related restructuring is still expected to approximate 2010 levels.

So moving to the next page, a little bit more discussion around the segments, as we look forward through the remainder of the year. Starting with CDIY, we still believe that we will see mid-single digit pro forma organic revenue growth. Jim gave you a little indication for 2Q and some of the nice growth rates we're expecting there, but the year is still anticipated to be strong in this particular area. We will see operating margin headwinds in the second quarter from inflation, as I just discussed, as a lot of the inflation and price recovery is in our CDIY business. The operating margin headwind in 2Q will also be impacted by the promotional spend, as we disclosed back in January of this year, and the timing of that versus lower levels of promotional spend in the second quarter of 2010.

We're seeing really strong revenue growth performances across the globe in CDIY, but Latin America will continue to outpace many of the other areas, as we really expand our hand tools presence down there through the existing Black & Decker infrastructure. The share gains are going to continue as we see robust new product pipeline for 2011 across many of the business units. So we feel very good about the prospects for our CDIY business this year and going forward.

Security, we believe that we will see low-single digit pro forma organic revenue growth this year. I did indicate back in January that we expected a relatively slow performance from a top-line perspective in the first part of 2011, which we did experience in Q1, and it was a flat revenue performance overall. So we believe that will continue to improve, and as a result, we'll see a low-single digit revenue story for 2011.

The good news from our perspective, the CSS organic sales are strong. They were very strong in the first quarter. We believe that will continue. We will see a bit of a mix impact from installations versus RMR, as we saw in Q1, but we don't expect that impact to be very significant to operating margin for the full year.

We're very focused on productivity and pricing synergies and some additional cost actions in our MAS business to offset some of the operating pressures that we're seeing there from inflation, and a little bit of the lower volumes. So we're very focused on making sure that we're maintaining our operating margins across the security segment, and improving them from the levels we saw in Q1.

Industrial, fantastic performance in Q1, as Jim reviewed with you. We believe we will see a mid-single digit pro forma organic revenue performance for 2011. That may seem conservative to many of you based on a 14% performance in Q1, but we do have to recognize that the comparisons get very difficult starting in Q2, as in Q2 of last year we began to see some significant growth across this segment. So as a result, we believe we'll likely see mid-single digit growth for the entire year.

The industrial and automotive repair tool business continues to exceed market growth, and we feel very good about the prospects for that across the year. The Emhart business, as Jim mentioned, definitely has some challenges associated with Japan, but the good news here is that production continues to be forecasted as strong in US and China, and in Europe in certain cases. And we believe that stronger performance will be able to offset any of the negative performance we see in Japan, as they begin to ramp up production throughout the quarter and throughout the year.

So in summary, I'd like to just wrap up the presentation portion of our call today, and reinforce 5 different points. The integration continues to proceed with success. We're very much focused on that; that is our top priority. The cost synergies are on track, and in line with our $165 million objective for 2011, which will really drive a lot of that 150 basis point operating margin expansion for this year.

The inflation headwinds are real. We all know that, but our actions are swift, and we're trying to focus on recovery, and have many things in place at this point that will go into increases in price in June and July of this year, which will result in that 80% price recovery in the back half of 2011. The revenue synergies are off, and they're progressing smoothly and yielding nice results, particularly in emerging markets like Latin America, and also within our Industrial portfolio.

We're very focused on SFS, and rolling that across the Company, and that will continue to be a cultural penetration throughout 2011, and of course, beyond. And then last but certainly not least, $1.1 billion of free cash flow is forecasted for 2011, as we really see the cash begin to generate from this great merger that happened a little more than a year ago. Our acquisition pipeline is robust, as we've indicated before, but our integration continues to remain our top priority.

Kate Vanek - *The Stanley Works - Director of IR*

Thank you so much, Don. Theresa, we'll now open up the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from Jason Feldman. Please go ahead.

Jason Feldman - *UBS - Analyst*

Good morning.

John Lundgren - *The Stanley Works - Chairman, CEO*

Good morning.

Jason Feldman - *UBS - Analyst*

A quick question on price cost. The basic expectation is unchanged but in March I think you said you didn't expect to get back to an 80% cost recovery level, actually for a couple years. What's got to change to make you more optimistic about the second half, and does this imply kind of that the first half is going a little bit more slowly than expected?

Donald Allan - *The Stanley Works - VP and CFO*

Jason, it's Don. I would say that there's a few dynamics happening here. First of all, we've had two waves of inflation associated with commodities over the last six to eight months. We had a wave back in third and fourth quarter of last year, and then we had a significant second wave in February and March time frame of this year.

The fact that we had the additional wave and it increased the negative impact of inflation to us, actually allowed us to have a more pragmatic factual discussion with our customers, based on more significant inflation levels, which allowed us to get many of these price increases in place, or they will be in place in June and July of this year, so really it had to do with the timing of it and those two different waves, and the more inflation that you tend to have in one of these cycles, the more factual robust discussions you have with your customers and your ability to implement price increases, I wouldn't say it's easier, but it's a little less difficult when you're dealing with lower inflationary numbers.

Jason Feldman - *UBS - Analyst*

Okay, got it. And for power tools specifically, obviously very good results in the quarter. Do you have a sense of how much was related to share gains as opposed to market growth, and have you also seen changes in the competitive environment, given what's going on in Japan, Techtronics and Makita's position in those markets we heard they're shipping less to the US given demand there for the tools.

Jim Loree - *The Stanley Works - EVP and COO*

This is Jim. The one thing I would say about the market growth is it's pretty soft in Europe, and the market, and in North America, and by soft, I mean if you look at point-of-sale at the big boxes or the merchants, mass merchants, to see a positive POS is a good day for the total market, so I think what we're seeing as kind of a sluggish bumping along the bottom kind of market and a couple points of on performance on share, in the power tools and it's mainly the cordless, where I think that's occurring and mainly in the 12-volt area.

John Lundgren - *The Stanley Works - Chairman, CEO*

Jason, this is John. Your last piece on product coming from Japan, stay tuned and watch. You're well aware that the travesties and tragedy in Japan took place very late in the quarter. Any US shipments or POS were already here. The supply chain is longer than that so any impact from Japanese producers shipping to the US as a result of the difficulties in Japan would not have shown up in first quarter numbers. It will, to the extent they exist, they will take place in the second quarter.

Jim Loree - *The Stanley Works - EVP and COO*

I think you'll also find that Japan power tool production tends to go to Japan although there's some export, but most of the power tool production that comes to the US is probably from China, even if it's a Japanese Company, so their plants themselves, we've studied the locations of their plants and the plants haven't been impacted, the final finish goods plants haven't been impacted in any significant way from what we can tell, but we don't know to what extent their supply chain might have been impacted. We know that ours is pretty much unharmed with one or two little very small immaterial items here and there, probably you count them on one hand, but as the Japanese companies might have a little bit more tendency to have Japanese subcomponent suppliers and that's what we'll really have to see in the second and third quarter.

Operator

Thank you. Our next question comes from Daniel Oppenheim. Please go ahead.

Daniel Oppenheim - *Credit Suisse - Analyst*

Thanks very much. Was wondering if you can talk a bit more about Kwikset, you talked about the inventory correction there. Where do you think the inventories are at this point? Do you think it's fully done in terms of the correction, and how are you looking at that in terms of the sales environment there?

Donald Allan - *The Stanley Works - VP and CFO*

Yes, I don't think we can provide anymore direction Dan than we already have. Specifically, inventories were too high. They were corrected, and we think they are right about where they need to be at this stage, which is why I worry about a lot of things, but this is not one of them. As Jim described, we really do think it was temporary.

This business has performed, the Kwikset business, extraordinarily well over the last 18 months in terms of both POS, customer acceptance, and performance in the marketplace, and as you know, home center inventories are always depleted in the month of January due to their fiscal reporting, and reorders took place later in the quarter than we anticipated, but that's a long way of saying we think they were a little high, and they probably got a little low by the time the quarter was over, and we think they're pretty much in line with where they need to be, given our customers' projections and our projections on demand going forward.

Daniel Oppenheim - *Credit Suisse - Analyst*

Great. Thanks. Second question, wondering about a comment and commodity costs, you said you expect commodity costs to peak in the second quarter. Can you add any color in terms of what's driving that just in terms of thinking about it for the second half of the year?

John Lundgren - *The Stanley Works - Chairman, CEO*

Sure, I'll start and Don, Jim and I are all so extraordinarily close to the pricing center of excellence and our global commodities sourcing team. I think we're probably all equally attuned to respond. If you think about the commodities that affect us the most, primarily it's steel and then we get into non-ferrous metals, resins, and now that we're in the power tool business in a big way, batteries, but it's still far less of an issue than steel, non-ferrous metals, and resins. We've seen pricing out through essentially the third quarter.

So Don made the reference and it was a very good one. When there was very modest inflation in the fourth quarter of 2010, we absorbed it or tried to with productivity, because it was not enough to justify a price increase. When we got it the second time, dramatic increases, particularly in steel. It was enough to go and get the pricing, and as Don suggested, most of it that we've had the negotiations, it will go into effect in June or July, and we think that will offset at least what we've seen coming basically through September. Beyond that, we don't have prices, and obviously, our prices in the marketplace will be are pretty much set up until that time, and we think one will offset the other.

Operator

Thank you. Our next question comes from Michael Rehaut.

Will Wyman - *JPMorgan - Analyst*

Hi this is actually Will Wyman in for Mike. How are you guys doing?

John Lundgren - *The Stanley Works - Chairman, CEO*

Good.

Will Wyman - *JPMorgan - Analyst*

Just a quick question regarding CRC-Evans. I was wondering if you could talk a little bit about how that's backed up to your expectations this quarter, and also, in terms of whether if you guys have seen any sort of weather impact in some of the operations of CRC-Evans?

John Lundgren - *The Stanley Works - Chairman, CEO*

Well we haven't seen any weather impact. The business overall, I think is on track for what we expect for the year. It's a lumpy business. This quarter was not as robust as we would have liked, but it certainly was a solid quarter, at 8% organic growth and low-single digit operating margins, so we're going to have to get used to the lumpiness of that business, and we'll all have to get used to it, especially when infrastructure becomes a bigger part of the portfolio but right now we're more than happy with the integration the way it's going.

And I think the interesting thing, as nuclear becomes a little perceived as more risky in the wake of the Japan situation, I think natural gas and clean coal are basically the two areas that you're going to see a lot of interest in, in terms of helping supplement the energy base here in the US and CRC strength is natural gas onshore, North America, so we're right in the sweet spot if and when that takes off and in the meantime, the offshore business in CRC is a burgeoning area and I'd say CRC brings more to the table in offshore and has a very small business there, but a significant contracts have been signed in the last three to four months with major providers, and we really have a great value proposition. We see a lot of growth coming from that, so I think that CRC is going to live up to our expectations and maybe then some, but time will tell.

Operator

Thank you. Our next question comes from Nicole DeBlase, please go ahead.

Nicole DeBlase - *Deutsche Bank - Analyst*

Yes, good morning guys.

John Lundgren - *The Stanley Works - Chairman, CEO*

Good morning.

Nicole DeBlase - *Deutsche Bank - Analyst*

So first of all, if we could talk a little bit about the repurchase, what is the timing that you guys expected, is it more of an accelerated repurchase that will occur in Q2 or is this going to be balanced across the year, and then also is there room to do more repurchases based on how the M&A pipeline looks right now?

Donald Allan - *The Stanley Works - VP and CFO*

Nicole, it's Don. It's likely that the repurchase, the bulk of it happens in Q2. I wouldn't expect it to go much beyond that, and as far as additional repurchase, John gave an indication that we have approval of about double the size we're doing so we could look at that as a possibility.

We'll have to balance that against the pipeline. As I mentioned in the summary comments the pipeline is robust and combining that with the fact a vast majority of our cash is overseas, we are looking at utilization of that, and hopefully through acquisitions, we can do that in particular. So I would imagine some will continue to evaluate as we move throughout the year.

John Lundgren - *The Stanley Works - Chairman, CEO*

And Nicole, let me just clarify. The repurchase for the third time is to avoid creep, get our share count back in the 170 million to 172 million range where we guided at the beginning of the year and it has zero to do with lack of a robust business development pipeline. As Jim has pointed out on numerous occasions, and I think it's important to reiterate, the integration of Black & Decker remains our highest priority. It's organizational capacity, not lack of opportunity, that will allow us to tread softly and be very thoughtful in terms of which types of acquisitions that we think we can pursue.

We're very pleased to have a position from a balance sheet perspective to be able to pursue meaningful acquisitions, but if it's the same people working on those acquisitions that are working on the integration, that will detract from our primary objective, so that is our biggest concern, staying focused on the integration of BDK. The pipeline is robust, as you're probably aware, we have full-time BD professionals on every continent and a very active group. It's just something we're spending less time on short to intermediate term because we are focused on the Black & Decker integration.

Jim Loree - *The Stanley Works - EVP and COO*

And also, this is Jim. At the Analyst meeting, I mentioned that our expectation for acquisitive capital allocation in 2011 was nothing substantial in terms of multi-billion dollars or $1-plus billion. I think I said probably around $0.5 billion would be our target for the year, with maybe a little bit more, but that's kind of the range that we're thinking of here, and so if anybody's worried about a major multi-billion dollar transaction, you can put that aside for the rest of this year at least. There's certainly, that's not going to happen.

Nicole DeBlase - *Deutsche Bank - Analyst*

Okay, great. Thanks for the color on that guys, and then in the outlook, what are you guys embedding for FX and what Euro rate are you using?

Donald Allan - *The Stanley Works - VP and CFO*

We're utilizing as far as FX, we utilize the latest rates in the last week or so. That's what we utilize in our guidance, and so whatever the Euro is, a week ago, $1.43 or $1.44 in that range, what we will be utilizing.

Nicole DeBlase - *Deutsche Bank - Analyst*

And how much of a positive impact does that have on revenues in your outlook?

Donald Allan - *The Stanley Works - VP and CFO*

Relative to what?

Nicole DeBlase - *Deutsche Bank - Analyst*

Year on year.

John Lundgren - *The Stanley Works - Chairman, CEO*

Year-over-year?

Donald Allan - *The Stanley Works - VP and CFO*

2% so far, Nicole.

Nicole DeBlase - *Deutsche Bank - Analyst*

Okay.

Donald Allan - *The Stanley Works - VP and CFO*

So our sense would be unless we've missed something that would be about 2% tail wind due to FX.

Nicole DeBlase - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from Dennis McGill. Please go ahead.

THOMSON REUTERS

Dennis McGill - *Zelman & Associates - Analyst*

Good morning, and thank you guys. First question, just wanting to understand the creep a little bit more because the 5 million I think you mentioned seems rather sizeable relative to the 8 million of options that were exercisable at year-end, so can you kind of split that between new you had issuance and what's been exercised, and from the exercise component, everything you're laying out certainly points to a very strong market moving forward and results moving forward, so even when the stock is strong, we certainly would hope the results continue to indicate a strong appreciation as we move forward, so can you maybe elaborate on where within the organization you're seeing those exercises?

Donald Allan - *The Stanley Works - VP and CFO*

As far as the outstanding share creep question, the reality is that because of the rise in the stock price, it's not only the exercising of options. It also has an impact of anyone who has options that are in the money that has an impact on the shares outstanding on a diluted basis so as the stock price goes up it puts pressure on the number of outstanding shares as a result of that, and we also have, you combine with the fact we do have certain tranches of options we know will be expiring from a vesting period perspective later this year, which will likely result in many of those options being exercised, and so when we forecast that and look at it, it indicates a possibility of 5 million shares of creep from the 170 million level to potentially 175.

That's why we're looking at a share repurchase, which is about 3.3 million as John indicated, but it doesn't completely offset that potential creep. Now if all those exercises don't happen, which would be unlikely, because if you have people's options expiring in a vesting period, they probably wouldn't let them expire, they will exercise them, so as a result we believe that's why the 172 makes sense.

Dennis McGill - *Zelman & Associates - Analyst*

Okay, just to clarify on that point then of the increase then, the vast majority is just timing of options that have already been issued?

Donald Allan - *The Stanley Works - VP and CFO*

Oh, yes. Absolutely. Not new shares or new options. This is previously-issued options.

Dennis McGill - *Zelman & Associates - Analyst*

Okay, perfect and then the second question would just have to be around the pricing realizing there's a lot of focus here. Can you talk about within the key power tools and hand tools area, have you seen announcements from competitors of similar magnitude, and if you had to think about the 80% recovery on a 1 to 10 scale how confident are you in achieving that based on what you know today? Is there any uncertainty as we think about the back half of the year?

John Lundgren - *The Stanley Works - Chairman, CEO*

The 80% is a back half number, which at the same time inflation is abating, the price increases are kicking in, so our total price recovery will be far from 80% for the total year, quite a bit lower, and as far as competitive reaction, we are the market leader, so we have to go first in order for the rest of the competitors to make their decisions, and time will tell whether they follow or not. Frankly, our value proposition is so strong right now, we feel very confident the price increases will stick. The discussions are under way, and in some cases commitments have been made. Agreements have been forged in some cases, and we're not feeling terribly concerned right now about the willfulness of the channels to take the increases in general, and now we'll see what happens at the point-of-sale and whether competition follows, and we'll have to do whatever we do to protect our market share and just watch and observe and respond as circumstances unfold.

Dennis McGill - *Zelman & Associates - Analyst*

Okay, thank you again.

Operator

Thank you. Our next question comes from Sam Darkatsh. Please go ahead.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Good morning. John, Jim, Don, Kate, how are you?

John Lundgren - *The Stanley Works - Chairman, CEO*

Great.

Sam Darkatsh - *Raymond James & Associates - Analyst*

This is Josh filling in for Sam, actually. Wanted to follow-up a little bit on the last question with pricing in power tools. You've talked about 80% realization overall. Could you maybe give us some sense of how much realization you're counting on in power tools given that spend is historically a little tougher?

Donald Allan - *The Stanley Works - VP and CFO*

Hi, this is Don. I would say we're not going to break it down by power tools and hand tools, and Industrial businesses and mechanical security, but if you look at where we're experiencing inflation, the vast majority is in our mechanical security business, HHI business, and CDIY, and both CDIY hand tools and power tools. We do, as Jim indicated, and I indicated, we do expect 80% price recovery in the back half. I don't see significant deviations in businesses as a result of looking at each business component to that percentage but you also have to recognize that for the year, we're only going to get one-third to 50% price inflation recovery. It's just the back half that we're experiencing. If you look at previous cycles, it tends to be a period up front where you don't get the price recovery and then you get a higher percentage later on but you rarely get to a point across the whole cycle where you'll fully recover all your inflation.

John Lundgren - *The Stanley Works - Chairman, CEO*

And 30% to 50% for the portfolio would be at the very low end of our historical post 2004 inflationary era norm, so I think we're in a good place there.

Donald Allan - *The Stanley Works - VP and CFO*

Exactly.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Okay, I appreciate that. And then just a little bit of a modeling question with, I appreciate the walk with the security margins. Could you give us a sense of how you see those progressing as the year goes on and subsequent quarters?

John Lundgren - *The Stanley Works - Chairman, CEO*

We don't tend to forecast operating margin percentages by segment. I think you can take the information that Jim presented and he talked about things he felt were temporary and things he felt were permanent and the vast majority were temporary. You can take that as an indication of the future.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Okay, thank you very much.

Operator

Thank you. Our next question comes from Jim Lucas. Please go ahead.

Jim Lucas - *Janney Montgomery Scott - Analyst*

All right, thanks. No inflation questions but two on security, please. Within CSS, with the installation growth, could you give a little more color of what vertical you're seeing that growth occur in, and then on the mechanical side, where the legacy Stanley business has been a little choppy, any particular markets standing out? Have we seen a bottom there?

John Lundgren - *The Stanley Works - Chairman, CEO*

Well, in the CSS business, Jim, I think without doubt, it's the national accounts that we're gaining traction with so it's the corporations and the very large commercial customers. What remains weak is municipalities and education. Government is modestly positive although I'd say we're making good strides in government from a share perspective, because we have a big initiative going on there, so that kind of breaks it down for CSS.

Mechanical, oddly enough, the construction business is stronger than the retrofit business, but when you think about that in the context of education budgets being constrained in this environment, and municipality budgets being constrained, I think it makes sense. We aren't seeing any huge recovery in commercial construction but I do think that there's a general feeling with our people in mechanical that the construction market, whether it's our own execution, or whether it's the market, that the volume is kind of firmed up a little bit there and we're certainly not decreasing, I'd say in the municipalities and education at this point in time, so it's really kind of a sluggish situation in mechanical, we're talking the best commercial, MAS, what we call level and I think probably see a little bit of positivity but not a whole lot. I think electronics is going to carry the segment for the rest of the year, would be my guess.

Jim Lucas - *Janney Montgomery Scott - Analyst*

And any update on the retail channel of what you're seeing there?

John Lundgren - *The Stanley Works - Chairman, CEO*

Retail channel is very, but for the inventory corrections, it's very stable. It's a point or two of growth. That type of thing, nothing dramatic, but certainly no downdraft going on and what we saw this quarter was a little resizing of the inventories.

Jim Lucas - *Janney Montgomery Scott - Analyst*

I was actually referring more to from construction versus retrofit.

Jim Loree - *The Stanley Works - EVP and COO*

Yes, Jim, that remains slow, to be very candid. I mean part of what we experienced in the second quarter was a large very good customer delaying some retrofits and some store expansions, and a lot of competition in the retail space, on both the door and the lock side, so I guess the simple answer is that remains slow. We think we certainly have hit the bottom but we would like to see a little more robust activity in that of you will retail end market or retail vertical as we refer to it but both for our mechanical locking and our access technologies business, we have not seen it yet, and as you know well, having followed legacy Stanley, second and third quarters are normally the best quarters for that business due to a lot of work, no weather-related issues and just a lot more construction than normal but it's still bouncing along the bottom to be very candid.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from Eric Bosshard.

Eric Bosshard - *Cleveland Research Company - Analyst*

Good morning. One question. Jim, you talked about CDIY growing 5% to 10% in the same quarter and an acceleration from what you saw in the first quarter. Can you just give us a little more color in terms of what you see going on, how much is end market or how much is new product or market share that's driving that improvement in Q2?

Jim Loree - *The Stanley Works - EVP and COO*

We're going to get a little end market but I think it's going to be mostly Stanley Black & Decker specific. We've got a new product major initiative in hand tools through the DeWalt hand tools. We've got additional generations of power tools, product development that will be introduced as we go forward. We've got timing issues that affected the first quarter that won't repeat. We've not revenue synergies. I mean, everything is pointed in the right direction.

Eric Bosshard - *Cleveland Research Company - Analyst*

From an end market and I appreciate that, from an end market perspective, or from a channel interest in supporting or promoted or bringing inventory in the category, is there any change within that?

Jim Loree - *The Stanley Works - EVP and COO*

No. The customer receptivity is as strong as ever.

Eric Bosshard - *Cleveland Research Company - Analyst*

Okay. Perfect, thank you.

Operator

Thank you. Our next question comes from Peter Lisnic. Please go ahead.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

Good morning, everyone.

Kate Vanek - *The Stanley Works - Director of IR*

Hi, Peter.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

First question on the inventory and just ignore HHI, can you give us a sense, especially in the power tools business, I would have expected maybe some pressure with inventory adjustment there, but maybe give us a sense as to what you're seeing in terms of sell-through there. Any inventory risk related to that business as you kind of look forward?

John Lundgren - *The Stanley Works - Chairman, CEO*

Pete, this is John. I guess it would be naive to say there's no inventory. There's inventory risk every day. We experienced it at HHI in the first quarter but I think simply said what you're after, POS is in line with shipments and retail inventories across-the-board to the best of our knowledge, and that's one area where we've really got good data, are totally in line with what we're used to seeing. There's a modest seasonal build, because it's a busy season, but we see there's nothing at retail to suggest a risk in that regard at this stage of the quarter.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

Okay, perfect. And then just second question. On the infrastructure piece of Industrial, understand that comps getting tougher, but from the global infrastructure players and suppliers, that piece of the economy is certainly strong and maybe even strengthening. Can you give us a sense as to how your backlog in that piece of the business is evolving and when you say sort of a tougher comps in the second quarter and second half, does that apply to that business specifically?

John Lundgren - *The Stanley Works - Chairman, CEO*

Let me start and Jim will give you a little more detail. The infrastructure piece of our portfolio is extremely small right now. It's $350 million annualized revenue. About a third of that is legacy Stanley hydraulics and two-thirds is CRC, which Jim talked about our optimism in that business but the lumpiness of it. If you think about the third we've got a lot of history on, there's a very close correlation between our backlog and our future projections and the price of scrap steel in our hydraulics business.

And as Jim referenced, scrap steel is very high relative to historical levels right now, which would indicate our legacy hydraulics business is in very good shape. CRC-Evans is newer to us and as Jim indicated in the segment break down, it comes in bigger pieces on a less regular basis and to be candid, we really don't have the history with that business to project it quite the way and to read as much into backlog good or bad as we would if this had been part of our portfolio for five or six years. Jim you may want to elaborate.

Jim Loree - *The Stanley Works - EVP and COO*

The only thing I'd clarify in addition to that is when Don referenced more difficult comps on a prospective basis he was really referring to the industrial and automotive repair business which has been booming since the second quarter of last year as well as the engineered fastening business, which has also been extremely strong if you look over the last three quarters or so, so that's what we're up against in Industrial is that the comps for IAR and for MR are both getting tougher. Hydraulics is not big enough to matter in the overall scheme of things.

Kate Vanek - *The Stanley Works - Director of IR*

Next question, Theresa?

Operator

Next question comes from Michael Kim. Please go ahead.

Michael Kim - *Imperial Capital - Analyst*

Hi, good morning, guys. Just a quick follow-up on the convergent security business. With a step up in installations, how should we think about the pull on RMR through the balance of the year as we exit the year and with you talk a little bit about the pricing delta between the national counts and your core commercial customers?

John Lundgren - *The Stanley Works - Chairman, CEO*

I guess two things. We are not going to get into detail on the pricing between national and core commercial. I just don't think it's appropriate on this call. As it relates to install at RMR, as Jim said, install is up 10%, RMR is up 3%.

We've been saying for about the last 18 months that our margins have been flatter, for lack of a better word, or certainly helped by the fact that installs were so low and as a consequence, RMR as a percent of the total is higher, and our margins are higher, so the shift to installs growing at three times the rate of RMR is not healthy short-term in terms of margins but I think as we've alluded to all along we feel very good about it because you know well without those in stalls, the future RMR won't be there.

Historically, we've had a tremendous national account focus. I will say that much and the small, the local or small to medium size Enterprises as we refer to them offer a great opportunity for us going forward and Brett Bontrager, Tony Byerly, the North American team are really focused on it but we are not going to get into profitability by customer or by channel on this call or ever, if it helps you going forward.

Michael Kim - *Imperial Capital - Analyst*

Okay and just maybe to clarify with the neutral impact to the balance of the fiscal year on the mix of installation and RMR. Can you clarify what are the puts or takes then to drive sort of a flat operating margin performance for the balance of the year?

John Lundgren - *The Stanley Works - Chairman, CEO*

Yes, I think frankly, the impact wasn't that significant in Q1. It's not going to be that significant throughout the year. It's a relatively small impact of 20 to 30 basis points the security sector and it's not something that we should be overly concerned about as a result of this year and going forward.

Michael Kim - *Imperial Capital - Analyst*

Okay, great. Thank you very much.

Operator

And thank you. That was our last question and I'll now turn it back to you for any final remarks.

Kate Vanek - *The Stanley Works - Director of IR*

Thank you, all for joining our call today. Again if you have any questions or need any sort of follow-up please do not hesitate to reach out to me.

Operator

And thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.