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SWK - Q4 2011 STANLEY BLACK & DECKER, INC. EARNINGS CONFERENCE CALL

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OVERVIEW:

Co. announced full-year 2011 GAAP diluted EPS of $4.06. 4Q11 revenues were $2.8b, resulting in GAAP diluted EPS of $1.05. Guidance was given for full-year 2012 diluted EPS of $5.75-6.00.

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PRESENTATION

Operator

Welcome to the Q4 and full-year 2011 Stanley Black & Decker Inc. conference call. My name is Monica 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. Please note that this conference is being recorded.

I will now turn the call over to the Vice President of Investor Relations, Kate Vanek. Kate Vanek, you may begin.

Kate Vanek - *Stanley Black & Decker, Inc. - VP of IR*

Thanks so much, Monica. Good morning, everybody. Thanks for joining us for the Stanley Black & Decker fourth-quarter and full-year 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'd like to point out that our earnings release, which was issued after yesterday's close, and a supplemental presentation, which we will refer to during the call, are available on the Investor Relations portion on our website, as well as our newly-launched iPad app, which you can access through the Apple store.

This morning John, Jim and Don will review Stanley's fourth-quarter and full-year results and various buries other topical matters, followed by Q&A. There is some helpful information in the Appendix of the slide deck as it relates to your models. If you have any questions, as always, feel free to contact me.

A replay of the call will be available beginning at 2 p.m. today. Replay number and access code are in our press release. We will be making some forward-looking statements during the 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 there possible that actual results may differ materially from any forward-looking statements that we might make today. 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 - *Stanley Black & Decker, Inc. - President and CEO*

Thanks, Kate. Good morning, everybody. Thanks for joining us. Just in terms of fourth-quarter highlights and basically a summary of what we will talk about this morning, some points on the fourth-quarter, some points on the year, and a couple of points on 2012 -- all of which we'll get into in more detail.

Fourth-quarter revenues, per the press release, up 17% to $2.8 billion; organically up 6%. CDIY was up 8% organically, excluding Pfister; good solid 7% organic growth in industrial. Security as a total segment up 1%, with 4% organic growth in convergence security. I'm going to give you some more granularity on that in the very next slide.

Fourth-quarter diluted EPS of $1.36. That, of course, excludes the merger and acquisition-related charges. Fourth-quarter diluted GAAP EPS of $1.05, also a significant increase. Looking at the year in total, we saw revenues grow 12%; 4% organically from a $9.3 billion pro forma 2010 base. You'll recall the Black & Decker transaction officially closed in mid-March of 2010. So, up 4% from the pro forma base.

Emerging markets now represent 14% of the Company. That's a nice growth from the 11% of the Company they represented at the time of closing. It continues to be an area of focus for us. Diluted EPS for the year, $5.24, a 26% improvement. GAAP EPS of $4.06. Free cash flow was slightly in excess of $1 billion, and working capital turns reached 7.0, a 23-point-percent increase versus prior-year, and a 52% increase since the merger closed.

That's clear evidence that the Stanley Fulfillment System is gaining traction and, I think, of significance. Those increases were across all businesses and across all regions. Jim is going to give you some more detail on that a little bit later on this morning.

Don is going to go through guidance in detail. There was quite a bit in our press release, but we're guiding for 2012 a fully diluted EPS of $5.75 to $6.00. In order to get there and ensure we achieve it, we are also announcing a cost containment action with about $150 million of benefit in 2012. That benefit is separate from previously communicated and quantified integration-driven cost synergies, both from Black & Decker and Niscayah.

Simply said, since the last time we gave a preliminary look at 2012, the external environment we would -- experienced a lot of headwind with very little tailwind. Don will give you some more granularity. But the euro and the real have weakened significantly. The European economy is certainly weaker than it was three to six months ago. There is some carryover inflation that, thus far, is unrecovered.

That's what we've learned in the last three months. We have two options -- or had two options of accepting that, and accepting higher risk and lower earnings, or moving proactively, as we did in 2008, to get ahead of -- what we feel get ahead of a curve where we're going to have more headwind than tailwind. Given the choice, Stanley Black & Decker is always going to choose to move proactively to get ahead of the curve. That's exactly what we're doing. Don will give you some more detail on that, as he outlines the guidance.

2012 cash flow we think will approach or slightly exceed $1.2 billion. A lot of that is going to come from working capital. You'll see the sources of that when Don and Jim walk you through a little more detail.

Moving on to the next slide, just in terms of where did the growth come from and how did it look by business? Primarily, in the fourth quarter, as well as the year, continues to be driven by new products and emerging markets. More detail on geography in just a minute. But very encouraging organic growth.

Look into the fourth quarter -- 6% in total, most of which came from volume, 1% came from price; acquisitions added 11%, adding to a total of 17% growth in the fourth quarter, 6% of which was organic. For the year, volume was up 4%. Pricing was flat, a little less than historical recovery of inflation, for a total of 4% organic growth; acquisitions added 6%. You'll recall Niscayah, being the largest acquisition, closed in the fall of 2011. Currency was favorable in 2011 of 2%, so for total revenue growth of 12%.

I think that the box on the right will be helpful. It's a lot of granularity, but we've elected to provide it because I think it will help you business-by-business think through where we were, and as a consequence, where we're going.

In the fourth quarter, Professional Power Tools and Accessories grew 9%; nice strong finish to a very, very good year in which that product line grew 13%, on the strength of 20-volt lithium-ion and some promotional activity supporting the nickel-cadmium platform. More from Jim in a minute on that.

Industrial remains a bright spot across the Company -- 7% in the fourth quarter; 10% for the year. It's across all of our global platforms, and just gaining tremendous traction since we've done a better job at managing some of those businesses as global platforms with regional focus, as opposed to managing those businesses in silos, as we, quite frankly, we had done in the past.

Convergent Security grew 4% in the quarter and 4% for the year, while the commercial MAS business had a good fourth-quarter, flat for the year. Consumer Power Tools, including outdoor, had a very strong seasonal finish. That business is a little more seasonal than any of our others. That's some of the Black & Decker-branded power tool items, as well as outdoor. But the Black & Decker-branded power tool business did very well in the fourth quarter around the season. Flat for the year -- you'll recall a very, very weak spring, in terms of the outdoor products, some of which was weather-driven. But strong finish resulting in flat year-on-year performance for that business.

Hand Tools and Fastening up 6% in the quarter, 1% for the year. As we've talked about, MAS Residential was down 5% in the quarter, 3% for the year. Pfister Stabilizing was down 5% in the quarter, 20% for the year. The loss of a large piece of business and a large customer in the late first-quarter/early second-quarter of 2011 will anniversary at that same time next year. So, more detail on that within the segments. So, total fourth-quarter growth [of] 6%; organically, 4% for the year's solid performance, clearly above market growth in both areas, which obviously implies some share gain.

Moving to the slide on geographies, we'll take it, I guess, in order of size and priority. The emerging markets continue to be the primary source of our growth. But if we look in the middle of the left-hand side, US remains our largest market. For the year, it's 52% of our volume and it was flat.

Second-largest market to the right, of course, being Europe. Good, solid performance in Europe, driven primarily by our strong industrial business in Europe, up 4% for the quarter and 5% for the year. Europe -- as the emerging markets grew, Europe as a percentage of our total business is now 20 -- was 31% in the fourth quarter, but for the year, it's 27%.

Probably the next most important market to focus on might be Canada. Just quickly -- strong finish, resulting in a flat year at 6% of our revenue. Latin America, bottom left -- strength to strength, we grew 26% in the fourth quarter, 25% for the year. Fourth-quarter being about equal to the year reflects the fact that our revenue synergies are more than offsetting or completely offsetting the fact that that market, while still growing at nice rates, the growth in Latin America has slowed down. Our growth has remained at the same pace due to the unique advantage or situation of some tremendous revenue synergies between the two businesses in Latin America.

Asia grew 12% in the fourth quarter, 18% for the year. Fourth-quarter growth being slower than the year is consistent with the markets slowing down; still achieved share gains for the year in Asia and we're pleased with that. And Australia, down about 4%. It's primarily CDIY. It's stable, consistent with market performance in Australia. We have a very strong franchise there, but obviously, it's far way and it's relatively small country -- represents only 2% of our total revenue.

So, revenue synergies, new products and some good marketing support are helping increase brand awareness, expanding our global customer base. That thrust towards continuing to develop our franchises and emerging markets will carry forward into 2012.

Last but not least from me, before I turn it over to Jim to give you some more granularity on the segments, I think we'd be remiss not to provide an update on two major integrations that are in process. And simply said, they're still in really good shape.

The Black & Decker integration is anticipated to achieve another $115 million incremental synergies in 2012. That's helping offset a lot of the headwinds that Don will walk you through. That's driving $0.50 of EPS accretion. We anticipate achieving $450 million in cost synergies by the end of the year, so we'll be at a run rate of $485 million as we leave the year. Revenue synergies remain on track -- $300 million to $400 million. That will add $0.35 to $0.50 of accretion by the end of 2013.

We're just gaining traction there, as the next bullet points out. A lot of that Latin American growth, as I previously indicated, came from -- contributed to $100 million total CDIY revenue synergies, which we're very, very pleased with.

Qualitatively, our best judgment is the cultures of the two companies are melding well together. The best data point we have is something we take very seriously -- a global employee opinion survey. Obviously, completely objective; not traceable to individual employees, as any objective survey would be. And 90% of the responses were favorable or highly favorable. We have never had results like that in our history. So it gave us a very, very good feeling that two terrific companies have come together with some similarities and some differences in culture. Everybody is getting on the same page and we're focusing on the opportunities rather than the issues.

Last but certainly not least with that integration, Stanley Fulfillment System has been fully embraced. You don't get CDIY working capital turns, which is where the majority of the integration takes place, from where it was to 7.1, without everybody being onboard on the same page. Jeff Ansell's team, and Steve Stafstrom and the operating folks within that business, are just doing a great job embedding that within our culture. As I think you all know, certainly, we believe the road to improved margins, and other source of cash that we can reinvest in growth or return to shareholders, is coming -- is the fruit of SFS being embedded across the system.

Quickly on Niscayah -- we're still forecasting $45 million in cost synergies in 2012. It's going to drive about 20% of accretion and about $35 million more in synergies in 2013. That's the $80 million that we projected upon announcement of the acquisition. We haven't backed off from that at all. Most -- much of it is in Europe, and it takes a little longer, but we have every bit as high a degree of confidence that we'll achieve it.

The integration is progressing as planned. As I think some of you know, Brett Bontrager runs this business for us. Brett is probably our process expert on integration. He led the Black & Decker integration. So we have one of our most seasoned and experienced executives in the quarterback position.

Major upgrades to leadership are complete. With Niscayah, not surprisingly, it was a relatively small publicly traded company and a spin-off, so there were a lot of folks -- good people in corporate positions, not necessarily industry or subject matter experts. And, as often happens in these situations, they have moved on to other opportunities. The counter of that is terrific strength in field tech and field sales, and installation, both in Europe and the US.

So we've, again, had the opportunity to combine the best of the best. Some very, very capable Niscayah field leaders -- sales, marketing, operations, technology -- have joined the team, both in the US and Europe. So it's a nice upgrade to the combined team.

As you would expect, we have reporting rhythms and weekly project tracking. This is in our DNA. It's what we do; it's how we operate. This is a very large acquisition and the processes are essentially identical to what we did with Black & Decker.

A lot of questions on the European market. We didn't anticipate the European market being very strong when we acquired Niscayah. A relatively soft forecast for the global European market was anticipated when we made our commitment. And we haven't backed off from the synergies or the accretion, despite probably more headwind in Europe than many would have expected or anticipated.

We remain focused on execution. So, all in, we've got about $0.70 of accretion from the two integrations next year, which we have a very high degree of confidence we will achieve, irrespective of the macroeconomic environment in general, and that in Europe, in particular.

Let me turn it over to Jim Loree, who's going to give you, I think -- I know -- more granularity on the segments and some of the drivers going forward.

Jim Loree - *Stanley Black & Decker, Inc. - EVP and COO*

Okay. Well, thanks, John. Maybe one of the untold and really elegant aspects of Niscayah is the fact that it was a $1.2 billion acquisition that was paid for with no incremental debt or equity; i.e., a redeployment of idle cash. So not only is it accretive to EPS, but also to the return on capital employed rate and cash flow return on investment.

Well, moving to CDIY, CDIY had a solid quarter and is well-positioned for 2012. Revenues totaled $1.324 billion, up 6%; operating margin was $171 million, up 22%. They delivered 8% organic growth. That was their strongest quarter this year, despite flat volume in Europe. They achieved 170 basis point increase in segment profit rate -- in the segment profit rate, driven by solid execution of the Black & Decker merger synergies as well as volume leverage.

Along the geographic axes, once again, high-teens organic growth was achieved in emerging markets. Europe was flattish, driven by the market conditions there. New this quarter is the fact that the all-important North American region picked it up a notch and delivered mid-single digits organic growth.

From a product perspective, both Consumer Power Tools and Professional Power Tools and Accessories posted strong growth numbers, with 10% and 9% growth organically, respectively. These healthy increases were fueled by strong new product sales, especially with respect to the lithium-ion spectrum of products across the brands. We received a little help from the market in the fourth quarter. Most of these increases were driven by share gains.

The revenue synergies also had a positive impact. And then Hand Tools and Fastening was strong, but lagged slightly the power tools units, at up 6% organically. This was also propelled by new products and revenue synergies, especially as it relates to the DeWalt Hand Tools.

Looking forward, we remain positive on 2012 CDIY growth prospects for both revenue and margin, despite concerns surrounding the European markets, and to some lesser extent, the emerging markets. Europe will be a headwind, but it will be offset, we think, by strong new product carryover plus a strong new product pipeline, as well as revenue synergies, which are now gaining momentum in the third year of the Black & Decker integration.

We have assumed continued sluggishness in the US, but the market does appear to be firming for housing and home improvement. But we really haven't seen a big rebound yet -- that could happen.

Lithium-ion lines will be broadened as we look forward and as we speak. And the lineup of new Black & Decker branded products in power tools, outdoor and home products, is the most impressive that we've seen in several years. So look for an exciting NPI year. A good act to follow have been two really good NPI years already.

Any concerns on the margin front for CDIY should be unfounded, as we enter 2012 with our ongoing productivity initiatives set to deliver 2% to 3% annual productivity; much more limited unrecovered inflation for this year, although the tailwind will still be an issue -- or the headwind will still be an issue in the first quarter. We're mixing it to both new products and emerging markets, both of which have higher than line average gross margin. In addition to that, we have the big slug of incremental cost synergies and CDIY's share of the Company's $150 million cost reduction.

So, in short, the table is set for CDIY to perform well, even if the European economy re-trenches. It is also set to outperform and ride the volume leverage, if and when the US housing and home improvement markets take off.

Moving on to security. Security forged ahead in fourth-quarter and put some excellent numbers on the board, while assimilating the game-changing Niscayah acquisition. Their revenues totaled $827 million, up 49%. They were powered by the Niscayah acquisition, which closed in September and put $1.2 billion of idle cash to work, as I mentioned. It adds $0.20 of accretion this year and $0.45 over three years. It is a high-quality franchise that needed some management attention and some TLC, but we're very happy with what we have and where we are in the integration process.

Security is now 30% of company revenues, up 23% from a year ago. The security revenues are now at a $3.3 billion annualized run rate. Security segment profit was $129 million, up 37%. Their profit rate increased to 18.5%, excluding acquisitions. The increase was driven by strong price inflation recovery, acquisition synergies, and ongoing productivity initiatives.

And now with the Niscayah acquisition, Europe represents about 40% of security revenues. For the long-term, this certainly provides a better balanced geographic footprint than the prior configuration, and clearly enhances the overall value of the franchise. But given European market conditions, there may be some short-term revenue pressures on Niscayah. As John mentioned, our announced EPS commitments assume significant downward pressure.

We can handle up to a 10% negative growth -- organic growth downdraft, and can absorb that with no negative impact on our committed EPS accretion. And notably, Niscayah pro forma organic growth was minus 4% in the fourth quarter. So, pretty far off from minus 10%.

It was an encouraging quarter for a CSS, with overall organic growth of 4%, with relatively flat geographic markets performing well. For example, the (technical difficulty) -- the UK was also up 5%, and France was up 6%. We had healthy order flow, and installation sales were up 12% globally, with monitoring RMR up 3% with a positive outlook.

On the other hand, resi hardware was down 5% organically. We don't think this is an ongoing issue. We had an inventory adjustment at our largest customer, due to the implementation of an automated replenishment system. The POS turned positive in the fourth quarter -- first quarter all year. Kwikset, we believe, is continuing to gain share. We had solid organic growth at both mass commercial and in automatic doors, both were up 5% organically. And finally, the integration of GMT is going very well. This is a small but important toehold in China and the Southeast Asian markets.

So, all in all, a very busy but productive quarter for security, which is set to be a stable and profitable growth engine for 2012. Now let's turn to industrial.

Once again, industrial delivered an outstanding performance. The revenues were $641 million, up 9%; 7% organically. The operating margin was $106 million, up 19%. The profit rate was a very attractive 16.6%, up 130 basis points from a year ago. The drivers were volume leverage productivity and strong price inflation recovery. At IAR, or Industrial and Automotive Repair, organic growth was 9%, which included 2 points of price. All geographies were strong except for Europe, where volume was up only 1%.

Organically, MAT was up 7%, Proto was up 8%, and the storage -- engineered storage business was up 18%. Asia was also up in the high-double digits. Engineered Fastening continued its strong performance, with an 18% organic growth performance, outpacing the global auto production, which was up only 4%. They achieved high double-digit growth in the Americas, Asia and even Europe -- the latter in the face of modestly negative auto production.

Their overall growth in engineered fastening was driven by new products, new applications, and the resurgence of Japan. Infrastructure was off 7%, as CRC Evans was impacted by regulatory-driven project delays in the US onshore business. Need I say any more about that? John says no. (laughter)

The fourth quarter was capped off -- or capped off two years of exceptionally strong performance for industrial, so the question becomes what's ahead for this segment? There are several inherent growth drivers in place for 2012, and thus, we are confident of continued success. Earlier this month, we completed the Lista acquisition, which will add about 3 points of growth and broaden out Vidmar's product lines and distribution channels.

Last year, we completed a small but very important acquisition called CribMaster, which, as we speak, is unveiling a revolutionary new line of RFID-enabled tool and storage systems, which will play very well in the aerospace industry and will contribute to growth in 2012. We're also putting an intense focus on the emerging markets -- now about 15% of industrial revenues. That will power strong double-digit growth in these markets, which will also benefit from the Black & Decker revenue synergies.

Engineered Fastening has a new, successful stud welding system and also a self-piercing riveting system, which benefits from the penetration of aluminum vehicles, and should be generating a fair amount of growth. CRC has secured a very, very strong position in offshore services. We'll see substantial growth in 2012 from that; and in addition, has won some significant business in joint coding in Australia, which should provide another $30 million of growth over the next two years. So, despite the slow North America pipeline onshore market, we think CRC should flourish in 2012.

So there are several exciting new growth drivers that should enable a strong and successful year for industrial as we go. And now we'll move over to working capital.

This working capital story is exactly where we want it to be. We made tremendous strides with integrating the Stanley Fulfillment System into legacy Black & Decker, as John mentioned last year. We achieved a 1.3 turn improvement from 5.7 to a very respectable 7.0 turns. That was a $234 million reduction in working capital. Excellent progress was made in accounts receivable and in payables. In receivables, we took out five days. In payables, we added 11 days. Those are both very good. The payables, in particular, came from terms changes and process improvements and nothing else.

We benefited from our centralized sourcing and our scale, making that happen. A lot of heavy lifting was done in inventories as well. We should really begin to see commensurate improvement in inventories as 2012 unfolds. And we are on a journey to 10 working capital turns by mid-decade. We have the knowledge, the expertise and the momentum to get there. So you can expect more progress along that trajectory in 2012.

Now I'll turn it over to Don Allan.

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Thank you, Jim. I'd like to start on page 12 and quickly touch upon the free cash flow performance for the Company in 2011 and the fourth quarter, before I move into 2012 guidance.

As you can see, we're very pleased with our achievement of greater than $1 billion in free cash flow for the first full year of our combined company, which really significantly outpaced our original goal, which was, by year three, post-merger, we would achieve this level. You heard from Jim the significant progress in working capital.

You can definitely see that in the cash flow statement, as we had $255 million of cash flow in the fourth quarter from working capital, and for the year, a positive amount of $134 million, which is pretty close to what we were estimating back in our October earnings release, as we do see significant seasonality improvement in working capital in the fourth quarter. So very pleased with the results.

As I also mentioned back in October, we do have a few unusual items in Other that drive negative cash flow performance. Those items are pension contributions of about $80 million, and then noncash benefits from some of the tax items we had in our P&L, as we settled audits, of about $70 million. Those are the main drivers of the $200 million in negative that you see here for the year.

Another item of note is our CapEx. We've done an excellent job as a company of managing that to within our objectives of somewhere between 2% and 2.5% of revenue. It came in at about 2.1% of revenue for the year, with the end results of that just over $1 billion in free cash flow.

So let's move to 2012 outlook and page 13. As John mentioned earlier on, and also in our press release last night, we're guiding EPS to a range of $5.75 to $6.00. Let's walk through some of the assumptions associated with that, and then -- on this particular page, and then I'll walk through a little more detail on the next page on a couple of the items.

The first item is organic net sales assumption for 2012. We believe our organic net sales growth will be approximately 1% to 2% in 2012 on a pro forma basis. That includes the effect of Niscayah for a full year in 2011. This does include the impact of BDK revenue synergies in that estimate.

Several of you are probably wondering why does that make sense based on the performance that you saw in the fourth quarter, with organic growth more around a 6% number and for the year, 4%? We're definitely seeing some signs and signals in certain parts of our company, in particular in Europe and emerging markets, that things are slowing down.

There is a possibility of a recession occurring in Europe; no one knows for sure whether that's going to occur. But we believe it's prudent to put forth an estimate that is more conservative in the sense of what could happen and how we might respond as a company, and specifically, taking out costs to respond to that. Additionally in emerging markets, we do see a little bit of slowing in Brazil and China, although they're continuing to grow; they're just not growing at the pace that we saw in 2011, which in some cases, was greater than 20%, in particular, Brazil.

Moving on to the cost synergies that John touched on for BDK and Niscayah, that contributes approximately $0.70 in total year-over-year; [$115 million] for BDK and $45 million for Niscayah. The cost reductions that we're putting forth are approximately $150 million or $0.70 benefit year-over-year. A little bit of color on that -- about 50% of that $150 million will come out of our CDIY business, and the remaining 50% will be spread across Security segment, Industrial segment, as well as some corporate overhead. And approximately two-thirds of that will be US-based and the remaining one-third will be European-based.

Positive impact year-over-year of $0.08 associated with our lower share count, as we implemented the share repurchase program in 2011 of $350 million. And then we do have a $0.70 negative impact year-over-year associated with two items -- carryover inflation, net of price impacts, as well as FX or currency headwinds. I'm going to walk through a little more detail on that on the next page.

Our tax rate, we believe, will be somewhere between 22% and 23% versus the 14% that we achieved in 2011, as there were few one-time items that we do not expect a repeat, and that's about a $0.55 headwind. And in Interest and Others should approximate $380 million in 2012. We do believe our free cash flow will continue to increase, as we will see another improvement in working capital year-over-year. And then we approximate free cash flow to be $1.2 billion based on these earnings assumptions and a modest growth in working capital.

A little bit of flavor on the geographic split for revenue. If you look at North America, we believe we're probably going to see a modest 1% growth. It really reflects our ability to continue to gain some market share with the various new product introductions. It does not assume a residential construction rebound, however, as Jim articulated, as he was talking about CDIY.

Europe, we do believe will be down approximately 3%. That's currently what we've kind of forecasted within our company. The cost actions are really in response to that. This does exclude the effect of Niscayah. I'll walk through a little more detail on that in a few pages. Because we have baked the effect, as Jim mentioned, of Niscayah within that $0.20 accretion number for 2012. I mentioned the emerging markets slowing down, although we do expect them to grow somewhere between 10% and 15%. So it reflects a continued strong growth as well as the continued impact of revenue synergies in that part of our Company.

And the last thing to mention is just a reminder on seasonality. When you look at the different quarters, the first quarter does represent a much smaller percentage of our total year. If you look at history, it's approximately 18% to 19% of the full year EPS. So just keep that in mind as you look at the quarterly splits.

So on the next page is a detailed walk of the guidance, and many of the things I've walked through already. Specifically, lower share count, the volume revenue impact, the BDK and Niscayah impact, and then the cost actions, as well as the higher tax. But I would like to spend a few minutes walking through the net inflation and FX number of $0.70.

When you look at that, approximately two-thirds of that $0.70 is associated with foreign currency, and the remaining one-third is associated with inflation versus price. Looking at inflation versus price, when we look at inflation, we look at all inflation, not just commodity-based inflation. So this has SG&A wage inflation in it; it has utility inflation, et cetera.

When you break down the different components of that, we are fully recovering the commodity-based inflation in our price action. So we're very pleased to see that in our estimates for 2012. But the other inflation is something that is a carryover negative impact, or a new impact in 2012, associated with other types of inflation. It's approximately, as I mentioned, one-third of that $0.70.

The FX component is really driven by three currencies. If you look at it, at the operating margin, for our international businesses, approximately three-quarters of the international operating margin is impacted by three currencies -- the euro, the Brazilian real, and the Canadian dollar. The average rates for some of those, as an example -- the euro was $1.39 in 2011 and the spot rate has been anywhere from $1.27 to $1.30 over the last month. That's about a 7% to 10% decline from the average in 2011. The Brazilian real, very similar -- about a 10% to 11% decline when you look at it from that perspective. And the Canadian dollar, although not as significant, has been somewhere between 3% to 4% of a decline.

So, clearly, that has a significant impact on our company. A little rule of thumb that we've used in the past is, when you look at the euro and the euro movement, if it moves a penny, it tends to be, what we have said in the past, is about $0.01 of EPS. Based on our current makeup, we think it's actually closer to [$0.015] EPS now versus $0.01. So just a little guideline for those interested in that information.

On the next page, I'd like to spend a little time on Europe, because there's been a lot of questions about the makeup of our company in Europe and the potential for a recession, or concerns of a slowdown in that part of the world. So if we start with the three segments and look at -- first of all, look at the Security segment on a pro forma basis, which will be about 35% of our European business at $1.1 billion.

As we've mentioned a few times on the call this morning, revenue weakness that we're anticipating is built into the Niscayah EPS commitments. We do believe about two-thirds of the revenue associated with this business is in relatively stable countries in Europe. The business, looking back, is about 20% off the 2008 peak and it's at trough levels. So we have not really seen a recovery at this stage in our security business.

Moving to Industrial, approximately $700 million in revenue. Two main businesses there -- Engineered Fastening and Industrial Automotive Repair. Engineered Fastening has actually seen a significant rebound from the 2009 low they experienced, and approximately 100% back to peak levels in response to that low. So that's about $85 million of revenue rebound from the low in that particular business.

One thing to note about this business, though, is that it's heavily concentrated in German automotive manufacturing and production. We've seen a lot of strength in that part of the business in 2011. Although we don't expect it to be quite as strong from a growth perspective in 2012, we think it's remote that we'll actually see a retraction in that revenue in 2012.

Moving to Industrial Automotive Repair. They've recovered about half from their low performance in 2009. So, a peak performance that brought them down about 20% in revenue. They've recovered about half of that since 2009, and that's approximately $50 million in revenue. On the CDIY side, 30% decline from the peak down to the low period, and now they've recovered about 10% or about $100 million in revenue since that low.

So when you look at this, you have two businesses that, if you're concerned about a recession, you're concerned about retractions in IAR and CDIY, which, if they did retract back to the low, that would be about $150 million in revenue loss. Our 3% assumption related to Europe assumes about half of that possibly happening and possibly occurring. So it's just something to give you a bit of an impact. Although it may appear dramatic or significant, it really is not, as it's only about 1.5 of our total Company revenue.

So, lastly on outlook, just a quick flavor on segments -- we've touched on a few of these items already, so, I will not be repetitive. But clearly, we're looking at low single-digit organic growth for all three segments with a possibility of mid-single digit growth for Industrial. In CDIY, we'll continue to have the rollout of the 18-volt lithium-ion tools in the first half of 2012, which will be a nice driver of activity and growth to help gain market share. And then in the back half of the year, we'll have some new product introductions as well that will be launched to drive that activity.

We do expect weakness in Europe, as I mentioned, and that will be modestly offset by a little bit of the growth in North America, and continued strength in Latin America and Asia, as I touched on emerging markets. In Security, a couple of items of note -- the Niscayah operating margin rate will continue to improve as we execute on the synergies and the integration; but it will continue to be a drag on the entire segment in 2012. But as the year progresses, that operating margin rate will continue to improve.

And then in Industrial, Jim touched on these items around Industrial Automotive Repair and Engineered Fastening. One item of note in Engineered Fastening is we do expect the Japan market to continue to recover from the tsunami disaster they had in early 2011. We've seen that in the fourth quarter and we would expect that likely to continue in the first part of 2012.

So to summarize the presentation portion of the call this morning, we're very much focused on margin accretion, really trying to maximize top-line growth, even though our outlook is somewhat prudent or conservative. We are focused on trying to drive as much market share activity as possible, as well as driving emerging market growth and revenue synergies. And we are, at the same time, focused on our acquisitions and integrating them in an effective manner, as we've done over the last several years.

Our long-term capital allocation strategy remains intact, the same; and we will be reviewing the potential for a meaningful dividend increase in 2012 as the year progresses. As Stanley Fulfillment System continues to drive significant benefit and continuous improvement in our working capital performance. 2011 was a great indicator of that, as we achieved seven turns, excluding Niscayah, and we expect more progress in 2012. Our free cash flow continue to grow, as it will be $1.2 billion in 2012. Additionally, we'll be able to achieve -- approach $6 in EPS in 2012.

So, with that, we'll move to the Q&A.

Kate Vanek - *Stanley Black & Decker, Inc. - VP of IR*

Monica -- questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Feldman, UBS.

Jason Feldman - *UBS - Analyst*

I am looking at the cost savings, newly identified $150 million benefit you're talking about this year. I'm trying to get a sense of two things. First, what sorts of projects does that include? And what the cash costs are associated with it, whether that's part of the $242 million of M&A charges or whether they're separate cash costs or aren't any?

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

Sure. Don can give you a lot of granularity on that, Jason, because we've given it a lot of thought.

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Yes. Jason, first of all, I'd point out what type of actions or this associated with. Really what it is, is it's a continued evaluation of our organization structures and looking at combining different pieces of the organization, flattening out pieces of the organization; looking at our supply chain as well, and indirect and direct ratios of our manufacturing plants.

In essence, really tightening the belt a little further in our organization to drive out more costs and be more efficient. Any time you take on a merger of this magnitude, you're going to have inefficiencies as you put two companies together. We've done a lot of great things with the integration and had significant cost synergies associated with it. But this is an opportunity for us to really, as I said, tighten the belt a little further. As far as the actual costs associated, it is included in the $242 million estimate and it's approximately $55 million associated with the $150 million of cost actions.

Jason Feldman - *UBS - Analyst*

All right, got it. And then last thing is, is $150 million benefit in 2012, what do you think the kind of annualized run rate will be as we exit the year?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

It's not going to be much higher than that. It might be $125 million to $130 million, because we've either taken some of these actions already or they will be implemented by early to mid next week. So the vast majority of them will be completed within the first 30 days of the year.

Jason Feldman - *UBS - Analyst*

Okay, thank you.

Operator

Nicole DeBlase, Morgan Stanley.

Nicole DeBlase - *Morgan Stanley - Analyst*

I just want to dig a little bit more into the cost actions that Jason just asked about. Can you guys just talk about how you view the trade-off between cost cuttings and investment? And the reason I'm just a little bit concerned here is because we've been cutting costs here for the past two years. And just give us some comfort that there's no cuts in the new product innovation area.

Jim Loree - *Stanley Black & Decker, Inc. - EVP and COO*

Oh, Nicole, this is Jim. Yes, there are absolutely no cuts in the new product innovation area. This company thrives on its new products and its innovation. That is definitely something that is absolutely excluded from these cost cuts.

You know, you said we've been cutting costs for two years -- we've been cutting costs for 12 years. And I think we're fairly experienced at it at this point in time. As Don mentioned, when you take on -- you put two organizations together, two $4 billion companies, and you plan an integration in the first 90 days of your time together, and you come up with the synergies that we came up with and then outperformed even beyond that, you learn a lot after two years of being together -- or almost two years of being together.

I think we're taking that knowledge that we've gained and we're really focusing the cost cuts on efficiency and effectiveness of organization. If you look at our track record over the years, when we've made cuts like this, normally, it's improved the effectiveness of the organization. That's what we expect in this case as well. This has nothing to do with new product innovation. It has very little to do with go-to-market strategies or resource levels. It has everything to do with the efficiency and effectiveness.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

Nicole, this is John. I'll just add a little -- maybe a little more light, because I couldn't agree more strongly with Jim that there should be anything but concern.

An analogy that my colleagues and teammates are tired of hearing but I think it will really help. SG&A we describe within Stanley Black & Decker internal-speak as cholesterol; and there's good cholesterol and bad cholesterol. My colleagues are laughing as I say this, but I think it's a really good analogy.

If it involves new product development and supporting our brands, that's good cholesterol -- not only are we not cutting it, we're improving it. If it involves backroom operations, paperwork, processing, non-value-added activities or a duplication of effort, that's bad cholesterol and we're eliminating it. That's exactly what Jim is describing.

So I apologize for the simplicity of the analogy, but I think it will help. SG&A in total will come down a lot. I think Don said that about 60% of the reduction is in SG&A and about 40% is actually cost of goods affecting plants and things of that nature. But of the SG&A reductions, it is all on the side of money that is required to spend to do business, but doesn't necessarily strengthen our brand or improve our product portfolio. Every P&L owner within Stanley Black & Decker looks at it just that way, approaches it just that way, and it's a very serious trade-off that we think about before we make any of the cuts.

Nicole DeBlase - *Morgan Stanley - Analyst*

Okay, thank you, John. That's really helpful. One more, if I may. Can you guys talk about some of the moving pieces in the Q-on-Q CDIY margin decline this quarter -- it was down about 30 basis points or so. I understand the year-on-year dynamics, but it seems like price costs should really be improving, and the promotional spend should have been consistent with what you guys saw in the third quarter. So can you just explain that a little bit?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Yes. You're absolutely right. It was modest. And as Jim said in his segment review, we don't anticipate it going on. We grew the business 6% in the fourth quarter when the market was flat to down. There was promotional activity on NiCad and there was less than historical inflationary price recovery. We can make that comment with 100% benefit of 2020 hindsight.

And so what you said is exactly right. There was very modest margin decline. That being said, we grew the business at five to six times the rate of the market. The balance between margin and volume and share growth should be or will be a little bit different going forward. So I think your statement is absolutely correct. Jeff Ansell and his team understand it.

Again, you don't always have the value of all that information until you've closed the books. We were driving for volume; we got it. We got it at slightly less margins than historically we have. We've got a very, very good team that understands that. We're highly confident they'll get the balance even better.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

And also, I just -- it would be remiss if we didn't mention that if you look at the historical gross margin and operating margin [per cents], for construction and DIY, and if you disaggregate them and look even before these two companies came together, you would find the exact same pattern in both companies -- which, in both companies, which is, the first quarter generally is right about the same as the fourth quarter or slightly higher.

The second quarter goes up -- it's the peak gross margin for the year, generally speaking. Third margin -- the quarter margin, steps down a little bit. And then the fourth-quarter margin tends to step down a little bit sequentially. So you can't really just look at these margins.

There is a seasonality to them on a pure, everything-is-the-same; so there must be something wrong if it's going down or something right if it's going up. I mean, there's all sorts of seasonal aspects to this. For instance, in the Consumer Power Tools business, you mix in the Consumer Power Tools in the fourth quarter. It tends to have a slightly lower gross margin and operating margin than the Professional Power Tools, as an example.

There's also Thanksgiving and Christmas holidays, which tend to be days that people are paid for but they don't do any work. So there's a more concentration of holidays, less productivity, less margin. And it's these types of things that just drive you crazy if you try to just track the margins sequentially in any one point or two points in time.

Kate Vanek - *Stanley Black & Decker, Inc. - VP of IR*

Next question.

Operator

Michael Rehaut, JPMorgan.

Michael Rehaut - *JPMorgan - Analyst*

First question, just to go back and make sure I'm fully understanding in great detail so far -- I'm referring to the restructuring or further cost-saving activities. You know, I guess you're saying that, within a couple of weeks, it will be all implemented. Is that mostly headcount reduction? Or are there other buckets? And I guess how much of it would you consider perhaps even further upside to your original cost synergy estimates, you know, when we started with Black & Decker a couple of years ago?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Michael, this is Don. It's approximately 75% associated with headcount. So it's people-related costs. And then the other 25% is what we call discretionary costs and just hunkering down on T&E and other types of costs, consulting fees, et cetera. In those particular, that's really the split. As far as how much is associated with synergies, probably not a lot. I mean, there might be maybe 10% of it or something like that when we look at it, but it's not significant.

Michael Rehaut - *JPMorgan - Analyst*

Okay.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

And to be clear, it's all incremental to the synergy. I think -- I'm sure that that came across when Don made the point, but this is not -- this is all in addition to the synergies that have already been announced.

Michael Rehaut - *JPMorgan - Analyst*

Okay. Also on the $0.70 of net inflation and FX, this might be hard to do, but you kind of broke out the cost savings in terms of the different operating lines or operating segment lines. Can you give us any sense of how this $0.70 of negative impact from inflation and FX, is it -- can we think of it as a similar type of distribution?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

I would say that if you look at the two pieces of FX and inflation, if you start with FX, clearly, there is -- we have a CDIY business and industrial business; they're both very, very global. So if you just look at the makeup of revenue, you're going to get a sense of the FX impact for those different businesses.

So, roughly 30% or so of the business is international. On the security side, it's probably not a dramatically different ratio at this stage, given the inclusion of Niscayah. So I think if you look at that revenue mix, that will give you a sense of where -- of how things will go. And so, if each one of them is roughly 30% of the makeup, then it's probably one-third/one-third/one-third impact, roughly. But then you've got to look at the magnitude as well.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

(inaudible - microphone inaccessible) FX versus inflation of the $0.70 (multiple speakers) --

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Yes.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

-- because you've already (multiple speakers) --.

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Yes. And so, if your question was more around the split between FX and inflation, as I mentioned, two-thirds of that $0.70 is FX and one-third is inflation. I thought you were going more on the path of give me a little sense by segment of those pieces. And the inflation side, the vast majority of our inflation, frankly, is in our CDIY and Industrial businesses, and the remainder of it would be in our Security businesses.

Operator

Dan Oppenheim, Credit Suisse.

Dan Oppenheim - *Credit Suisse - Analyst*

I was wondering in terms of the European business, I guess you had talked about that in terms of the risks and expecting potentially down 3% for the year. But then sort of broadly speaking for the plans for the year, in terms of you talked about the margin accretion and top-line growth. When you think about Europe and the expectation for potentially 3% decline in revenue, how are you thinking about margins there and running the business with a focus on sort of preserving margin versus the revenue?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Dan, it's Don. I think if you think about the cost actions that we're executing on, and roughly one-third or so of those are associated with Europe, those costs actions are in response to clearly volume and FX pressures. I don't think that you're going to see a dramatic decline in rate. I think we'll be able to maintain our margin rates in Europe as a result of the cost actions. That's one of the main reasons we're taking the actions to ensure that we maintain them.

But then when you look at the cost synergies associated with Black & Decker and the synergies associated with Niscayah, obviously, those are accretive to the rate. So when you factor in all of these different things, you're likely to see actually margin rates in Europe improving in 2012, even though you have a little bit of volume pressure.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

And as is always the case, Dan, I know you're well aware, the magnitude is proportional, Europe and US. As Don has said, we've done everything in our power to not slow down the growth of emerging markets; but geographically, those cuts are shared equally among the -- prorationally among the businesses, as well as among the various functions. But it always takes longer to get it in Europe, which I know you understand well;

three to six months longer, just due to anything that's headcount-related procedures go with it. And it takes a little longer to realize. With that being said, that's built into our guidance and our anticipated timing.

Dan Oppenheim - *Credit Suisse - Analyst*

Great. And I guess related to that in terms of the proactive cost cuts here, you talked about that, given the expectation that there could be more weakness. If you don't see more weakness, is that sort of locked in, so that you'll end up having greater leverage in terms of the overhead and as such there? How do you look at those costs -- the cuts overall if you were to see any improvement?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Yes. Well, one of the -- I guess if there's a significant positive associated with cutting costs, one of the positives is if the top-line performance is not what we anticipated and it's better, the reality is we're taking cost out of developed countries that are more infrastructure and organizational-related, that frankly, you're not likely having a need to add that back. If you grow 5% in Europe versus being down 3%, you're not going to need to add back this cost that we're taking out, because it's more structural in nature and organization-based.

Dan Oppenheim - *Credit Suisse - Analyst*

Yes, and (multiple speakers) --

Kate Vanek - *Stanley Black & Decker, Inc. - VP of IR*

Next question?

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

And let me just also comment that the way we were thinking about this too is that, back in October, we indicated that we had a roadmap to get to a number approaching $6.00. When we, as Don mentioned earlier, found out that we had significant euro-related and market-related pressure in Europe, we decided to do everything we could from a cost perspective that made sense, to protect that cash flow and earnings range that we were discussing in October.

Because we really felt -- we really feel like we've set the Company up very well to be a -- to outperform, when and if the US home improvement and housing market returns. And we wanted to preserve that optionality, if you will, for the investors, so that folks that were thinking that this could be a good proxy for playing the home improvement and housing rebound, but felt concerned about the European negative exposure, can feel more comfortable continuing to invest in the stock. Because it still has the upside associated with the US home improvement and housing rebound, if and when that happens.

Operator

Stephen Kim, Barclays Capital.

Stephen Kim - *Barclays Capital - Analyst*

Yes, I appreciate the detail, but as usual, we could always ask for more, I suppose. If you could talk a little bit about the working capital improvement, and I guess maybe in terms of free cash flow generation, you've given a target of $1.2 billion. I'm curious if you could give us some sense for how that will be generated, either by region or by segment, if you were to take the regions I'm particularly interested in, what you think the European operations are going to contribute, roughly, of that $1.2 billion? And of the segment, I'm particularly curious as to what the working capital dynamics and free cash flow dynamics of the Security business are in your guidance? Thanks.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

Let me -- Steve, let me start by saying, we're just never going to provide that level of granularity on this call, and you know that. We can't hate you for asking.

Stephen Kim - *Barclays Capital - Analyst*

Right.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

Cash flow by region by business isn't something that we tend to -- A, we tend to track ourselves; B, that we're going to put out there. What I can say, and I think Jim touched on it but perhaps didn't quite finish the thought that's clear with us -- when we implement SFS, the immediate benefit comes from receivables and payables, because our very powerful global sourcing operation is involved, and our field sales force and business controllers and business CFOs are closely involved.

Normally, the dramatic improvement in inventory, inventory reduction and, ultimately, in absolute terms in days, and the result on turns, come six months later. Because it requires more forecasting accuracy and better process changes. We have the experience of trying to reduce inventory for the sake of doing it, with a negative impact on sale rates before the process changes have been put in place. That happened to us two years ago in Europe, with our Industrial Tools business. And we learned from that lesson.

So, more of the increment to try to simplify it will come from inventory improvement, or we anticipate it will in 2012, because we've gotten the lion share of what we will get from receivables and terms. Geographically, just assume it's going to be split but commensurate with our businesses and with our revenues. There is no business or region that's particularly far behind or ahead. We run global platforms with local P&L leaders.

Everyone is incented the same way. Everyone is equally focused on it. And while emerging markets are a relatively small percentage of our total, 14%, they're in pretty good shape in terms of working capital turns. While you might think credit terms are loose or things of that nature, they're not, because in many of the markets, a lot of the business is done through letters of credit or cash. So in fact, the turns among our Asian business, in particular, are very near the top of the heap. That's about all the direction or business -- sorry, direction or detail that we're in a position to provide.

Stephen Kim - *Barclays Capital - Analyst*

Okay. Well, that is helpful. Thank you. And my second question relates to something Don mentioned. I apologize, I didn't quite grab it all. But he -- you mentioned, Don, something about the security business, and I think you meant Niscayah specifically, could absorb business being down 10% and still hit your 12% EPS guidance contribution from that segment. And, in fact, it was only down 4% in 4Q.

One, I just want to make sure that I heard that right. And then secondly, can you give us an idea of what you're anticipating in your 1Q outlook?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Sure. Jim did mention in his presentation that Niscayah, the assumptions of $0.20 EPS accretion does have a 7.5% volume decline built into that. It was part of the model that we created initially related to this transaction. And he indicated that we could absorb as much as a 10% volume decline and still achieve that $0.20 EPS.

So, that's just to clarify that point. And, also indicated that we saw about a 4% decline in the fourth quarter. So we're not really trending to that number, but we do have it built into our assumptions that it could get worse. As we do make business model changes, in particular, associated with profitability of certain installation revenues, projects, and making sure that it's more aligned with the Stanley legacy security business.

As far as the first quarter, we don't tend to give a lot of information about first quarter, Steve. So, I'll just kind of leave it at that.

Operator

Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

I just want to explore Niscayah. Obviously, it's a big acquisition for you guys. It happens to be in a market that's slowing down. So you said Niscayah was down 4% in fourth-quarter. Was that a similar rate for the year, given its 8% decline in 2010?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

Yes.

Ken Zener - *KeyBanc Capital Markets - Analyst*

And then, I think the $45 million that you talk about in Niscayah to me appears, from an execution perspective, very easy, given that you're just consolidating supply bases and kind of more back-office. But if I think about the HSM model, an integration that was very successful in the United States, I wonder if you could give us a little more color there? Given that Niscayah margins were 6% in '10, looking to go to 10% in '12, just on your consolidation, but how are you going to balance the shift of going -- try to get higher installation revenue tied to recurring revenue amid a slowdown in demand in those end markets? Could you just discuss that -- how much that hurts? If it matters --?

Jim Loree - *Stanley Black & Decker, Inc. - EVP and COO*

Ken, this is Jim. First of all, the integration, I would not characterize as easy, because there are multiple countries involved with multiple P&Ls and some very small, some very large, and many different cultures. Niscayah has some embedded -- very localized embedded management practices that have to be more -- operated in a more central manner while remaining keeping their local flavor. So this is not a slam dunk.

That said, we feel great about the $45 million. We have a very clear roadmap. We have very talented, experienced people in charge working on it, and so we feel good about it. And what we will do is essentially the same thing that we did with ADT France and the same thing we do with GDP in Europe, and Blake as well, which is, we will take the HSM model -- we are taking the HSM model and we are implementing that, so that you have a nice blend of central oversight with local regional management.

And that's going to take about three years to fully implement. But this year, I will call it the low-hanging fruit, will be absolutely executed to get to the $0.20. And that's kind of the play here is that we are going to -- we are doing the things that are going to generate immediate results, have priority to do that.

And then there's kind of a medium to long-term organizational transformation that's taking place, which is why we put a very strong leader, Massimo Grassi in charge of this, who is multicultural, speaks five different languages, and has been with us a long time. We know him very well and he's bolstered the organization already. He's mustered the resources from the security business and they're working in earnest to effect this transformation. And we feel very good about what we bought, (multiple speakers) but it will be a long haul.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

(multiple speakers) Excuse me, Jim -- I'm sorry. Ken, one other point -- you mentioned mix and the need to do install to get recurring revenue, which we've been talking about for years.

We've mentioned this on the acquisition call, but to remind you and everyone -- the Niscayah business was heavily skewed towards install with a far lower than line average in certainly Stanley Convergent Security, with recurring as a far lower percentage of the total revenue base. So part of Brett and Massimo's charge is obviously maintain the flow of a profitable installation to keep the pipeline full, but to dramatically improve the mix toward recurring.

And if you think about that for those who have followed this company a long time, that was the HSM -- the legacy Stanley model was much closer to the Niscayah model, where we were way too skewed towards installation without enough recurring revenue and service coming with it. The very successful HSM model was very much focused and directed and incented toward recurring revenue, which is why we described it as a reverse integration of Stanley Convergent Security into HSM.

So, simply said, we've seen the Niscayah model before -- good business; too much installation; not enough recurring. We know what to do with that. And, oh, by the way, we have a history with security acquisitions of improving margins [of] 400 to 1,000 basis points within two to three years. That's what's in our model for Niscayah. And to Jim's point, we've seen absolutely nothing, having worked with this business now for about six months and owned it for four, that would let us -- that would want us or lead us to back off from that.

Jim Loree - *Stanley Black & Decker, Inc. - EVP and COO*

Yes, and there's some hidden benefits as well, because -- and I've mentioned this before -- but the Niscayah people happen to be very good at recurring service revenue. In other words, maintenance, scheduled maintenance, prepaid maintenance, those types of things; service contracts for equipment that we, frankly, in HSM, had not really pursued too aggressively.

So we're really learning from that. That's going to be something that's implemented in the US and in the non-HSM or non-, excuse me, -Niscayah parts of the legacy Stanley security. And I think we'll benefit from that. That's not included in any synergies or anything like that.

And then the other thing is the vertical marketing prowess. And Niscayah clearly was better and is better than we were at that. And we've been trying for years to figure that out. I think they bring excellent talent in that area and experience. And that's something that we will also leverage into our legacy Stanley electronic security markets.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

Yes. Particularly in the financial services vertical, as Jim is referring. As you know, Stanley has done -- historically done very well in retail and some other verticals. Niscayah is equally strong in the financial services sector and brings, to Jim's point -- and we'll leave it at that -- really strong vertical marketing capability, strategy, execution. It was a real plus of the folks that we've inherited, both in the US and in Europe.

Operator

Sam Darkatsh, Raymond James.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Good morning John, Jim, Don, how are you? (multiple speakers) Most of my --

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

We'd be better if we were in St. Pete.

Sam Darkatsh - *Raymond James & Associates - Analyst*

(laughter) Live in paradise. Two quick questions. First off, you mentioned in the summary, Don, that the long-term capital allocation strategy remains the same. That said, you -- which suggests that more than half of your free cash flow would go to acquisitions.

You have a low valuation; you're asking for more productivity with your organization now with the restructuring. Your cash is tied up in Europe, but Europe is going into a recession and things are slowing down. All of that would argued that you would be a little bit more reticent, perhaps, with making acquisitions on a go-forward basis. Is that the case? Or is it still full steam ahead?

Don Allan - *Stanley Black & Decker, Inc. - SVP and CFO*

We look at each and every acquisition, first, on its strategic value and benefit, and second, on its ability to meet or exceed our financial hurdles. And we very, very carefully, internally -- and if it's a large acquisition, with our Board, evaluate that, relative to returning cash to shareholders.

So, in that regard, our process hasn't changed. If what you predict is correct, it will make it harder to achieve our hurdles and it would mean there's a greater opportunity to return cash to shareholders. If valuation is low, or we think unfairly low, via repurchase -- as we did $350 million worth in 2011; if we think valuation is somewhat fair but in a 1% return environment for the next year or two -- which, based on what the Federal Reserve announced this morning, seems to be the case, then there's probably more potential for an increased dividend in terms of improving the total shareholder return for our investors.

So the strategy is the same, Sam, and we will obviously respond to conditions in the marketplace and allocate our capital. And as you know well, it's not year-in, year-out; it is over time. And if you look back in history, it's been roughly 50/50, even though we have a stated objective, two-thirds of our capital allocation going to acquisition. It's been about 50/50. And it's because we, as I say, evaluate every acquisition relative to share repurchase or relative to a meaningful change in the dividend.

Sam Darkatsh - *Raymond James & Associates - Analyst*

My last question -- obviously, restructuring is going to occur all over building products land. But, after having covered you guys for a long time, you've got a consistent history of what we'll call proactive restructuring. John, does this make it ultimately more difficult to attract incremental top talent at the middle management levels, if the Company has a reputation of being hypersensitive with employment levels related to business conditions?

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

I guess I couldn't be more on the other side of that spectrum. It -- this is -- you've followed Stanley longer than I've been here, which is eight years. This is -- it is so much easier for our senior HR staff and our business leaders to do their job, because we are now a $10 billion company, that six years ago or seven years -- six years ago, was a $2.5 billion company.

There is tremendous growth opportunity. Jeff Ansell would cite the statistics, and he has publicly at the last investor meeting. He's promoted 200 people internally. So, simply said, the talent -- we've been a magnet for talent of late. What it's not a good place to be is if you'd like to just punch the clock, maintain the status quo, and have your secretary water you every day, and collect a large paycheck, this probably isn't where you want to come to work. But that's not the kind of talent you're referring to or that we want to retain.

So, I just couldn't be in a more different place. We really have the success and the size of the Black & Decker merger, combined with a growth rate, Sam, has actually made it a lot easier to attract talent. And I'm not saying it's easy, because there's tremendous competition for talent all over the world, particularly in emerging markets. But we have people seeking us out as opposed to us having to, you know, pound the streets for talent. So it's actually gone in the other direction.

Fair question, but the impact has been exactly the opposite of what you might be concerned about.

Operator

David McGregor, Longbow Research.

David McGregor - *Longbow Research - Analyst*

Jim, thanks for the color a few moments ago on the CDIY category. But you had referenced the promotional activity there, and I was just wondering if that was seasonal and it's now over? Or whether it's carrying into the first quarter?

Jim Loree - *Stanley Black & Decker, Inc. - EVP and COO*

Well, there's always going to be promotional activity in CDIY. It tends to be -- peak around Father's Day and then peak once again around the holidays at the latter part of the year. So, and then, typically, hits the tail end of the third quarter and the beginning of the fourth quarter.

I would expect a very similar promotional calendar for this year. I think that it's quite possible that we will be looking for better -- even better returns on the promotions this year, maybe a little tighter, but probably the same amount of activity.

David McGregor - *Longbow Research - Analyst*

Okay. And then you mentioned you were driving for volume. Is that just part of your ongoing pursuit of growth and share? Or was there something specific going on there that would -- ?

Jim Loree - *Stanley Black & Decker, Inc. - EVP and COO*

The Company, before we -- before it became part of Stanley, it lost a fair amount of market share in the lithium-ion area in particular. And so, we are definitely regaining share in lithium-ion. And while we're not aggressively promoting because the products really and the price value proposition speaks for itself. That's where we really look to be gaining share.

And as we look at the Ni-Cad business, while we're in the Ni-Cad business and will continue to be in it, that will become a smaller part of the power tool business as time goes on. And so when there's promotional activity, that typically revolves around that.

And then the other area where we're gaining share then -- I'm speaking principally about CDIY right now -- and the other area would be in the emerging markets, especially related to revenue synergies, where Black & Decker had some really strong infrastructure in the emerging markets in Latin America, the Middle East. And we both had kind of subscale infrastructure in Asia. When you put that together, it's pretty strong.

So we now have excellent infrastructure. We have great brands that we can leverage across into these markets across the legacy businesses. And I'd say we're really making some great progress in that respect gaining share.

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

And David just one more point on promotion so you don't get cut off. We pride ourselves on being a learning organization. And again I referenced that our CDIY team, as you would expect, analyzes every promotion that they conduct -- whether it's in Consumer Power Tools or, to a lesser extent, they do the same amount of analysis less promotion in Professional Power Tools.

And we get a lot of learning late in the year, as the team drove to recapture some lost share, on which promotions were effective and which weren't. Both in terms of which generated enough incremental volume to make the price discount or something else that was offered, to make it a good business decision versus bad. With every promotion we run, we learn.

I think it's continuous improvement. We'll do a better job every year, while, to Jim's point, the level of promotion will be about the same. The effectiveness of that promotion, if we continue to perform the way we have in the past, will be improved every year.

Operator

Our last question comes from Peter Lisnic of Robert W. Baird. Please go ahead.

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

I guess the -- to continue on the CDIY margin question, I understand the clearing out of some of the old products and the promotional environment -- I'm just wondering if we're seeing any sort of structural change when you look at new product introductions and the margins that you're getting there, has the competitive landscape changed? Does it alter how you think about CDIY going forward from a margin potential perspective?

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

No. Not at all, not at all. I think the new products -- I think they've done such a phenomenal job with the design, particularly of the lithium-ion. I think you're going to see, if we look at those margins, they're at very acceptable levels and will continue to be so for a long time.

Power tools is different than Hand Tools. We all understand that. But I think we're managing it pretty effectively. And to be able to achieve overall margins in the 13% range for the year for CDIY, and to have more revenue -- or excuse me, more cost synergies coming in next year, and the expectation that we will get some accretion in the rate next year -- meaning this year -- is -- I think it's reasonable.

I mean, there is a certain limitation to that over time. And we have -- we've not reached that yet. But I think there is a point where, in the Power Tool market in particular, it just becomes difficult to -- there's a ceiling to surpass that ceiling. But I don't think that ceiling is at 12% or 13%.

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

Okay. All right. That's actually a good lead into my final question, which is -- if I'm doing the math right, your op margin guidance basically is about 15% for 2012, which has sort of been the longer-term target. So not to put the proverbial cart before the horse, but how much upside do we have if we actually get better volume? And not necessarily just for 2012, but as you kind of look out three to five years with a better construction environment?

John Lundgren - *Stanley Black & Decker, Inc. - President and CEO*

Peter, you're right about the 15%. I mean, clearly, the cost actions above and beyond the synergies adds almost a point-and-a-half to our operating margin rate from 2011 levels. There are negatives against that, as I walked through; but for us to achieve that range at these volume numbers, you are looking at that level of operating margin rate.

To your second part of your question around if we perform higher volume levels -- I mean, we typically indicated that our leverage effect or contribution margin is somewhere, for legacy Stanley, around 40%; for Black & Decker, it was in the low 30s. I think for the new company, it's probably somewhere between 36% and 38%. And that's probably the best way for you to look at it.

Operator

We have no further questions at this time. I will now turn the call over to Kate Vanek for closing remarks.

Kate Vanek - *Stanley Black & Decker, Inc. - VP of IR*

Thank you so much for tuning in today. Please contact me if you have any questions.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
