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SWK - Q2 2015 Stanley Black & Decker Inc Earnings Call

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OVERVIEW:

SWK reported 2Q15 YoverY organic growth of 8% and diluted EPS of $1.54. Expects full-year 2015 GAAP EPS to be $5.70-5.90.

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PRESENTATION

Operator

Welcome to the Q2 2015 Stanley Black & Decker Incorporated earnings conference call. My name is Amanda, and I will be your operator for today's call.

(Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to the Vice President of Investor and Government Relations, Greg Waybright. Mr. Waybright, you may begin.

Greg Waybright - *Stanley Black & Decker Inc - VP of Investor & Government Relations*

Thank you, Amanda. Good morning, everyone, and thanks for joining us for Stanley Black & Decker's second-quarter 2015 conference call. On the call, in addition to myself, is John Lundgren, Chairman and CEO, Jim Loree, President and COO, and Don Allan, Senior Vice President and CFO. Our earnings release which was issued earlier this morning, and a supplemental presentation, which we will refer to during the call, are available on the IR section of our website, as well as on our iPhone and iPad app.

A replay of this morning's call will also be available beginning at 2 PM today. The replay number and the access code are in our press release.

This morning, John, Jim, and Don will review our second quarter 2015 results, and various other matters followed by a Q&A session. Consistent with prior calls, we are going to be sticking with just one question per caller.

And as we normally do, 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's therefore possible that actual results may materially differ from any forward-looking statements that we might make today. We direct you to the cautionary statements in the 8-K that we filed with our press release, and in our most recent 34 Act filing. I'll now turn the call over to our Chairman and CEO, John Lundgren.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Thanks, Greg, and good morning, everybody. This is an encouraging quarter to say the least, as everything from organic growth to margins, earnings, and capital allocation demonstrated that innovation is robust, SFS2.0 is gaining traction, and our management team and 50,000 associates around the world are demonstrating agility, and executing really well in a volatile environment. And as a consequence, they are overcoming numerous challenges that are well beyond their control. So let's get to it.

Second quarter organic growth of 8%, offset by currency of negative 8%, so essentially flat revenue. This was our fourth consecutive quarter of organic growth at or above 6%, with Tools & Storage leading the way with 11% organic growth. We, as a Company achieved and delivered growth across all three segments.

The Black & Decker merger closed in the first quarter of 2010, more than five years ago, and our operating margin in 2Q 2015 expanded to a post-merger record of 14.4%, plus 70 basis points versus second quarter 2014. Volume with sharp cost focus and price realization delivered robust operating leverage, despite a $50 million foreign currency pressure. There were lots of puts and takes with respect to FX, and Don will provide a lot more detail around this in our estimate for the year, which still includes $200 million to $220 million of foreign exchange headwind, that we have every intention of overcoming.

Second quarter diluted EPS was $1.54, up 11% versus prior year, overwhelmingly on strong operational performance. And on July 23, we announced a dividend increase of 6% to $0.55 a share from $0.52. That maintains our compelling dividend payout, and as well as an unrivalled history on the New York Stock Exchange in terms of continuity of dividend payment and increasing a dividend. As a consequence of a great first half, and actions we're taking for the remainder of the year, we are increasing our 2015 full year GAAP EPS guidance range to $5.70 to $5.90 from $5.65 to $5.85. So the range is now up 6% to 10% versus 2014, and that's despite $1.00 to $1.10 per share foreign currency earnings pressure.

Let's take a look at our sources of the growth, which in fact were very similar in terms of both source and geography to the first quarter of 2015. Volume was up 7%. We got 1% from price, leading to the 8% organic growth that I referred to previously. No impact from acquisitions, offset by 8% in currency. So you see flat revenue, for the first half of the year, as well as for the second quarter.

All geographies showed some strength, with the US leading the way at 11%, strong growth in Europe 4%, despite relatively stagnant market conditions. Emerging markets as a total were up 4%, despite some areas of weakness, specifically Russia and China that Jim will talk to you about in a minute, and the rest of the world was up 7%, so the very, very strong second quarter back to back of 8% organic growth. So enough on the totals. There's a lot of really good news and strong momentum within each of our three segments. So let me turn it over to Jim to take a closer look.

Jim Loree - *Stanley Black & Decker Inc - President & COO*

Okay. Thanks, John. I'll start with Tools & Storage, which continues to be a great story. Revenue was up 4%, while operating margin grew 9%. We set a post-merger record with a 16.4% rate, once again demonstrating impressive operating leverage.

Gains resulted from volume leverage, modestly positive price, operational productivity, and continued tight SG&A cost management, which more than offset another quarter of severe currency headwinds. Organic growth remained in double-digit territory, this time 11%, averaging a noteworthy 10% over the last four quarters. All regions contributed with strong performances, as North America was up 14%, Europe 7%, and emerging markets accelerated to 5% growth. Across the global product lines, organic strength was broad based with professional power tools up 14%, consumer power tools up 15%, accessories up 12%, and hand tools and storage up 5%. The categories benefited from strong customer level execution and new product introduction, as the Tools & Storage Innovation machine not only remains robust but continues to gain momentum.

Contributing to growth within the quarter was an outdoor season, which is tracking to a more normal pattern. Against this backdrop, we released a stream of new products in the category including DeWalt Outdoor, which delivers a full line of products with the performance and run-time demanded by lawn care professionals. It includes a compelling new 40-volt line, which competes favorably with many gas-powered tools. This is a great example of DC brushless technology and advances in lithium ion that have opened up segments that historically have not been served by cordless.

POS was again robust across the channels, with major big box customers in the US continuing their strength. Aggregate weeks on hand are in a good place, remaining at or below prior year levels. We also believe sell-through in the hardware, lumber store and STAFDA channels was very strong, as both resi and non-resi markets, construction markets benefited from good growth in end-user demand. The eCommerce channel continues to grow in importance, particularly for the DIY end-user. This is true for both big box and independent e-tailers. Not surprisingly, industrial markets in the US remain somewhat weaker than we saw in 2014, but were still positive.

For the ninth consecutive quarter, we are able to highlight Europe, as an impressive growth story for tools. The businesses averaged 7% organic growth over this time period in a relatively flat market. Our team continues to control their destiny, by leveraging our broad stable of leading brands, launching new innovative products across categories, and adding new points of distribution. European tools represents a prime example of commercial excellence in action, as we define it in SFS2.0.

Growth within tools in emerging markets accelerated in the quarter, as a double-digit performance in Latin America, and solid growth in India, Turkey, the Middle East and Africa was enough to overcome a steep market related decline in Russia, and a weak performance in China. The mid price point product rollout led by our Stanley Power tool line continues to proceed successfully, and this important initiative provided support for emerging market growth amidst volatile underlying market conditions.

And looking at the markets, our estimate is that the US is growing about 5% to 7%. In constant currency, the European market is slightly positive, and the emerging markets are growing about 2% or 3%.

On a global basis, this pegs our total market growth in 2Q at about 3% to 4%, which when compared with our 11% organic performance implies continued share gain. And many ask us whether or not the high levels of growth can continue, as the comps get tougher and global GDP trends slightly lower? Our response has been consistent. Organic growth in the double-digits against this backdrop will be difficult to sustain. However, in the environment we are operating in, this business has the ability to deliver growth within our 4% to 6% targeted levels on an ongoing basis.

We have leading brands, global scale, and an organization that continues to raise its own high standards for innovation, as well for our commercial and supply chain excellence. And clearly, we are well on the way to creating the organic growth culture envisioned, when we integrated Stanley and Black & Decker. SFS2.0 is the new catalyst which will continue to drive momentum.

Now moving to Security. We continue to make progress on most underlying businesses in Security, although this quarter it was two steps forward, and one back. Execution in both Europe and the North American mechanical locking businesses was very encouraging. However, in North American convergent, we are continuing to deal with growing pains related to an increasingly complex business mix, specifically installing jobs efficiently.

It was truly a watershed quarter for Europe with a list of accomplishments including 3% organic growth and double-digit order rates, attrition within target ranges, and the successful sale of Spain and Italy with nominal but positive cash proceeds. Our European management team is executing well, and delivering their turnaround commitments.

The North American mechanical lock business also showed excellent progress with 4% organic growth, and improving profitability. The business looks to finally be emerging from the challenges of the distribution model change era, and it is now focused on revitalizing its performance through innovation and commercial excellence. The biggest challenge of the quarter was in our North American electronics business, where continued gains in vertical markets were achieved at the expense of core growth, as the team struggled with the efficient installation of some of the larger, more complex, vertical market jobs.

These challenges are well understood, and being addressed by our new and capable management team. The softness in Asia also cut into Security 2Q organic growth and profitability. So overall, we made some very good operational progress in the quarter, with some isolated and manageable issues. We continue to be confident in a positive trajectory for Security, and remain committed to our assessment of its strategic fit by the second half of 2016.

And now turning to Industrial. Industrial had a solid quarter, led by another steady performance from engineered fastening and a resilient infrastructure business, the latter of which is battling significant market headwinds in oil and gas and hydraulics. The net result was a 4% decrease in revenue, as 4% organic growth was more than offset by an 8 point negative currency headwind. Margins rebounded sequentially to 19.1%, and expanded 140 basis points versus 2014, while operating margin grew by $3 million or 3%. Volume leverage across engineered fastening and oil and gas, combined with tight cost controls and pricing, more than offset the negative profit impact of foreign exchange.

Engineered fastening delivered a 4% organic performance, led by high single-digit automotive growth, once again outpacing light vehicle production, which was relatively flat. Additionally, we saw solid growth within electronics. This was offset by lower North American Industrial sales tied to a slowing market. So it was an impressive quarter of organic growth and margin expansion, despite the translational currency headwinds experienced within the business.

Infrastructure, which includes oil and gas and hydraulics was up 3%,quite an accomplishment, considering the market exposures of these businesses. Oil and gas benefited from a large international equipment sale, which contributed to 11% organic growth for the quarter. We still expect this business to decline organically for the full year, but this quarter's results are a great example of the team's willingness to drive forward, in the face of market headwinds. Growth was moderated by a 13% decline within the hydraulics business, which services demolition markets that are highly correlated to the vagaries of the scrap steel market. All in all, it was a solid operational performance in Industrial, with organic growth and margin expansion despite soft markets and significant currency headwinds.

So as you look at this quarter's performance in the aggregate for the Company, it represents another strong quarter with 8% organic growth, record operating margin levels that expanded 70 basis points, in the face of 80 basis points of year-over-year currency headwinds. Our management team continues to execute at a high level, overcoming numerous external obstacles, including the strong dollar and dynamic end markets to produce exceptional results. With that, I'll turn it over to Don Allan.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

Thank you, Jim, and good morning. I'd like to start spending a little bit of time on our second quarter and year-to-date free cash flow performance. For the second quarter, free cash flow was $247 million which brings us to a relatively neutral performance on a year-to-date basis. The quarterly and the year-to-date declines versus the prior year are explained by carrying higher amounts of inventory compared to last year to service the increased levels of organic growth we are experiencing primarily within the Tools & Storage business.

We do, however, continue to realize benefits from applying our core SFS processes and principles, and for the second quarter we achieved 7 working capital turns, which was 2/10 of a turn expansion versus the prior year. We are confident that we will deliver a continued improvement in 2015 towards our vision of 10-plus working capital turns for the Company. We will continue to monitor the working capital levels closely, to ensure they are adequate to support our higher growth expectations for the full year.

The core SFS principles require agility to respond when business conditions change, such as the strong organic growth we've experienced in the last four quarters. SFS has enabled us to reach working capital and asset efficiency levels that are considered world-class, compared to our Industrial and security peers, but at the same time allowing us to be agile to changing market conditions to ensure we meet our customer's needs.

I'd also like to spend a little bit of time, and give you a quick update on our share repurchase program. During the quarter, we executed cash repurchases of approximately $100 million. Taking into account all of the actions to date, this brings the cumulative total share actions to the equivalent of approximately $1 billion, which fully achieves our plan announced back in the fourth quarter of 2013. As we reviewed during our Investor Day in May, you should expect us to return over time to a capital allocation of approximately 50% of our free cash flow being deployed to M&A, and the remaining 50% back to our shareholders via dividends or the occasional opportunistic share repurchase.

So let's move to page 10, and spend a little bit of time on the 2015 outlook. As indicated by John earlier, we are increasing the 2015 EPS guidance range to $5.70 to $5.90 versus the previous range of $5.65 to $5.85. This is due to stronger organic growth, as well as additional indirect cost savings which will be partially reduced by a slower margin improvement trajectory within Security. So let's walk through a little bit of the detail around these assumptions that provide the level of information that nets to a $0.05 increase to the midpoint of our prior outlook guidance range.

First, we expect organic growth to be approximately 6%, versus our prior expectation of approximately 5%. This change recognizes a strong organic growth momentum that continues within our Tools & Storage business. Additionally, we are increasing our expectation modestly within engineered fastening, due to the solid first half trends within that business. These improved growth expectations, combined with all of our other businesses tracking to their planned organic growth rates result in an overall improved performance for 2015. This overall improved growth performance contributes an incremental $0.15 EPS impact, over and above the EPS benefit that was included in our guidance last quarter.

The next item I'd like to touch on is the great work that we've been doing in our indirect cost savings programs across the Company that continued to yield benefit throughout 2015. This should contribute approximately an additional $0.05 of EPS benefit versus our last quarter's guidance as well. So the total of those two items contribute $0.20 in positive momentum versus our April guidance.

Finally, we now expect a slower trajectory of margin improvement within Security, due primarily to the North American electronics project mix matter that was described by Jim earlier. This represents a headwind of approximately $0.15 of EPS for 2015 versus our April guidance assumptions. All the other planning assumptions within guidance including FX, tax rate, share, and restructuring costs remain the same.

But I would like to spend a little time discussing FX, because there have been various movements in currency over the past few months. However, based on the present spot rates this week, our current estimate of currency in 2015 versus the prior year is still within our April range of $200 million to $220 million. Significant movements in the British pound, the euro, Canadian dollar, and Brazilian real over the past few months have netted to a relatively neutral impact versus that April estimate.

A few other key items of note relative to our annual EPS guidance that you should be aware of. The first item is restructuring charges in the third quarter of 2015 will approximate 30% of the full year expectation of $50 million, as some timing shifts from the second quarter into the third quarter for several key actions. The second item is related to the third quarter as well. I have a few comments that I want you to understand related to the timing of the back half of the year.

First, we obviously expect higher plan restructuring charges in the third quarter versus our April estimate, as well as a higher tax rate in that quarter as well. Combining that with a significant currency headwind, this will result in a third quarter EPS of approximately 24% to 25% of the full year EPS estimate. Another factor to consider when you look at the third quarter is the operating margin rate. It will be relatively flat versus the prior year, as we experience the largest quarterly impact of currency headwinds during this quarter, which is estimated at this point to be approximately $75 million.

Let's turn to segments on the right side of the page. We expect high single-digit organic revenue growth and solid operating margin rate expansion year-over-year in the Tools & Storage segment, due to the volume leverage, cost actions, price, and other significant positive actions that Jim touched on earlier in his commentary, which will more than offset the significant currency headwind we're experiencing in that business. Organic growth is expected to decelerate slightly in the back half on more difficult comparables, but still will be at very healthy levels.

Moving to our Security segment, we still expect to have modest organic growth for the full year. The organic growth in Security North America will complement an improving performance in Security Europe, which continued its good momentum in the second quarter, as you heard from Jim. This growth will be partially offset by declines within the China markets, as we continue to see some pressure in that part of the business.

Profitability will be relatively flat versus the prior year as Security Europe will deliver solid year-over-year profit growth, and North American mechanical will have healthy volume leverage; however these improvements are being offset by negative North America electronics project mix, as well as lower volumes within China. As Jim stated earlier on the call, and we have stated previously several times, the multi-year growth in margin rate recovery trajectory of this business will not necessarily be linear, and we will have occasional timing dynamics to work through, resulting from the ongoing transformational activity.

Now moving to Industrial. We still expect solid mid single-digit organic growth, as engineered fastening strength will be able to more than offset the declines in our infrastructure business. We also expect margins to be flat to up versus prior year, as volume leverage generated by engineered fastening and cost controls will more than offset the deleveraging impact of both of our infrastructure businesses due to the sluggish market conditions that were touched on by Jim.

In summary, our revised EPS guidance range demonstrates the impact of our organic growth strength, combined with indirect cost savings which are more than offsetting the slower margin improvement trajectory within Security. Therefore, we will achieve solid operating margin leverage on a robust organic growth, even with significant currency headwinds, which means we expect earnings will expand 6% to 10% on an overall revenue decline of approximately 1% in 2015.

The last thing to touch on this page is related to our free cash outlook for the year, which we still anticipate to be at least a $1 billion. However, as I mentioned earlier, we are monitoring the relatively higher levels of working capital experienced in the first half of the year to ensure our working capital is adequate to service the higher organic growth expectations for the full year. This dynamic could put modest pressure on our free cash flow estimate for 2015.

So let's summarize the presentation portion of our call today. We delivered a very strong first half of the year, and here are some of the highlights. We are very pleased with another quarter of strong organic growth, our fourth in a row at or above 6%. The proactive tight cost controls and surgical price actions across the Company enabled excellent second quarter operating leverage in the face of $50 million currency headwinds. Progress continues with Security's multi-year transformation, with favorable results in the European electronic and North American mechanical businesses. And then finally, our share count actions we have taken since the start of the fourth quarter of 2014 have effectively satisfied the approximately $1 billion of share reduction plans that we announced in November of 2013.

As we communicated during our Investor Day in May, our focus in 2015 and beyond will be leveraging our world-class franchises and brands, strong free cash flow generation, and continued shareholder friendly capital allocation. This continues to manifest itself through our focus on accelerating organic growth through SFS2.0, advancing our Security multi-year transformation with a portfolio review of this business' fit by the second half in 2016, continuing our disciplined approach to cost and pricing actions to ensure operating leverage is achieved, an ongoing focus on working capital towards our 10-plus turns goal. And finally, resuming M&A activity likely in the second half of 2015 with a focus on Tools & Storage and our engineered fastening franchises. We believe this approach will help position our Company to deliver on the 2018 financial objectives we communicated back in May.

That concludes the presentation portion of the call. Now let's go to Q&A.

Greg Waybright - *Stanley Black & Decker Inc - VP of Investor & Government Relations*

Great. Thanks, Don. Amanda we can now open the call to Q&A, please. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you

(Operator Instructions)

Our first question comes from the line of Tim Wojs with from Robert W. Baird.

Tim Wojs - *Robert W. Baird & Company, Inc. - Analyst*

Yes, hey, guys, great job.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Thanks, Tim.

Tim Wojs - *Robert W. Baird & Company, Inc. - Analyst*

I guess just starting, I guess, my question is more in the Tool & Storages business. Could you just talk about maybe what you're seeing, from a DIY and professional power tools end customer standpoint? Are you starting to see, I guess, on the professional side, are you starting to see employment come back in construction? Is that really a multi-year trend that will really benefit growth as we think about the next couple of years?

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Yes, hey, Tim, this is John. It's a complex answer, in that it varies a lot by geography, and I think that's the only point I want to leave you with. The trends in the US are good, as demonstrated by the numbers that Jim walked you through. We are seeing more end-users, we're seeing both online purchases, purchases through the two-step channel, professional purchases through the big box, all good. You see our large customers numbers the same time we do. They're up nicely 5% to 7%, and we're, of course, we're above double that rate so we're gaining share.

Now that being said, and that's 50%, as you know, or 52% of our revenue is in North America. Europe's relatively flat. So our organic growth in Europe is representing growth of 2, 3, 4 times the rate of the market. It's certainly hit bottom. We don't see it getting any worse. But in Europe, it's far from robust.

And the rest of the world, I think Jim talked about it pretty nicely. There are certain emerging markets, Russia way down, China relatively flat, the rest of the world doing okay. But in the North American market, we are cautiously optimistic that the signs are positive. They could be better, but they are certainly more positive than they have been. That shows up in our customers' numbers, and it certainly shows up in our numbers. So that's helping us maintain a cautiously optimistic outlook.

Operator

Thank you. Our next question comes from the line of Jeff Sprague from Vertical Research.

Jeff Sprague - *Vertical Research - Analyst*

Thank you. Good morning, gentlemen.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Hi, Jeff.

Jeff Sprague - *Vertical Research - Analyst*

Phenomenal performance in Tools & Storage, forces me to a question on Security. So North American convergent, can you just elaborate a little bit more on what's going on there? Is there an issue of not pricing properly for complexity? Or is there an issue of just kind of experience and competency on bigger jobs, and a learning curve? Any additional color there would be helpful.

Jim Loree - *Stanley Black & Decker Inc - President & COO*

Yes, it's Jim. I think the issue is more of a learning curve issue. It's also a little bit of an organizational issue, in terms of exactly how we're organized, and the types of people we have -- experienced, and level of experience we have with people installing these very complex jobs. Because we're getting into highly engineered solutions with Internet-of-Things and software, and it's much more complex than the typical historical access control and intrusion type systems that we used to have.

So there's a learning curve there, and there's also a bit of a talent, kind of training and development issue. Now pricing, I think we're gaining experience on pricing. We're creating a lot of value with many of these solutions, and in some of the verticals we're doing a really good job capturing the price -- the value in the form of price. And then some of the other verticals, we need to improve as well. So I think we'll see continued progress, in terms of the moving up the learning curve, but it's not an overnight kind of a process.

Operator

Thank you. Our next question is from the line of David MacGregor from Longbow Research.

David MacGregor - *Longbow Research - Analyst*

Yes, congratulations on a great quarter as well. In Security, you talked last quarter about seeing an increased order rate, and then that came through strongly this quarter. And now you're talking about seeing, the ordering rate in Europe continuing to grow. I guess, the question is really just, what's the rate of growth that you're seeing in those orders? Does that order growth have a long tail, or do those orders come through much more immediately?

Jim Loree - *Stanley Black & Decker Inc - President & COO*

The order growth definitely has a long tail. It typically averages about six months in terms of its tail, and the backlog is growing in North America. And in Europe, it is growing as well. I'd say, growing even more in North America.

The European folks are doing a better job efficiently installing the backlog. The North American folks have a growing backlog, and have the opportunity to install at a faster rate, but are experiencing some learning curve issues as we just discussed. So it's all encouraging from an order rate perspective, and we just need to do a better job in North America on the installation side.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Yes, David, this is John. Just to add-on because it ties into Jeff's question earlier, and I think he, Jeff, you're on the right track, and Jim I think explained very well what it is. Within that long tail, you have a mix of obviously size of projects as well as margins. And in a perfect world, we'd install higher margin projects first, which is not always an option, obviously given contractual commitments and customer needs.

But it's one of the more difficult businesses when we just look at open orders or backlog to forecast that on a quarterly basis, because the six plus months of time to get these things installed. So Jeff's earlier question and yours are right on. And I think Jim described it as accurately as we are able to. And we continue to learn more about it every day, and we're getting better every day, at both prioritization, pricing, cost estimating. And it's all part of the learning curve to which Jim spoke.

Operator

Thank you. Our next question comes from Robert Barry from Susquehanna.

Robert Barry - *Susquehanna Financial Group / SIG - Analyst*

Hey, guys. Good morning.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Good morning.

Robert Barry - *Susquehanna Financial Group / SIG - Analyst*

I wondered if you could comment on the benefit to Industrial, of revenue and margin in the quarter from the large oil and gas equipment sale? And then more broadly, what is your outlook for the oil and gas, or infrastructure business? Thank you.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

This is Don. I'll take that one. As Jim mentioned, we did have a large order in the second quarter associated with equipment, which does happen occasionally in this business. In particular, in the Far East, we do get an occasional situation, where there's a large pipeline being constructed, and we're just primarily selling equipment, and then training them on how to use the equipment effectively in the construction process.

Those things range from occurrence, from anywhere, from six to 12 months on occasion they happen, but they are very sporadic and we don't tend to plan for those types of sales. And it just happened to occur in the month of June, which we were all very pleased to see.

As far as our outlook of oil and gas, I mean our outlook continues to be similar to what we've been saying for the last almost year now, where the level of activity of construction of pipeline is really- onshore is really non-existent at this stage. There continues to be a lot of activity, within the industry, about a potential kind of ramp up of activity in 2016.

We have not seen specific orders or quotes or things that are of that nature at this stage, that would give us a high level of confidence. But then we've also seen a downturn lately in oil prices as well. So there's still volatility in this space, but ultimately we do feel that we are going to see some type of ramp up in activity in the next 12 to 18 months of pipeline construction, because there's a great deal of pent-up volume that needs to be dealt in that particular space.

Jim Loree - *Stanley Black & Decker Inc - President & COO*

We're also seeing, on the oil and gas onshore -- it's the onshore business that looks like it might get some legs next year, because we're doing a lot of prep work with specifications right now. Our concern is, and the reason Don is very circumspect about it, is because there's a good chance that these types of projects will get delayed if the oil prices don't recover. And again, the gas prices are also a factor here, because the onshore market is about 70% gas. The offshore market, which is another big piece of our business, doesn't look to be too favorable any time soon. So it's kind of a mixed bag, and we expect probably double-digit declines in the oil and gas for the next couple of quarters, and then we'll see what happens when the comps get easier, and the activity picks up.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

The other thing I would want to, just go back to in the first part of the question, just to make sure people don't get a view that this order was a huge impact for the second quarter. The impact at margin, or at profit for EPS, was less than $0.02 of EPS in the quarter.

Operator

Thank you. Our next question comes from Jeremie Capron from CLSA.

Grace Lee - *CLSA - Analyst*

So this is Grace Lee sitting in for Jeremie Capron. Congratulations on a good quarter.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Thank you.

Grace Lee - *CLSA - Analyst*

We hear quite a broad based strength in automotive end market. Could you give us more color around engineered fastening business, in which market do you see the strongest growth has been? Also how would you envision the growth trajectory going forward?

Jim Loree - *Stanley Black & Decker Inc - President & COO*

Well, when you say which market? I mean, generally --

Grace Lee - *CLSA - Analyst*

Geographically.

Jim Loree - *Stanley Black & Decker Inc - President & COO*

Yes, geographically, okay. So -- we're generally outpacing light vehicle production wherever we're operating geographically. I will say, that I think the North America and European markets were a little stronger than the Asian markets in this particular quarter, but it's all over the map in terms of quarter to quarter. So I would say that our growth is less market related, and more just penetration of platform, auto platforms as we go here. But the overall production was about flat for the global light vehicle, so it wasn't a particularly strong quarter at all for the market.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

And our long term view of that business, in answer to the second half of your question, is we think it's a business that fits into our long term organic growth vision of 4% to 6%. And it's demonstrated a good track record to be within that range, and as it adopts more of the commercial excellence activities, and innovation activities of SFS2.0, we think that will only assist in that ability to continue that on a long term basis.

Operator

Thank you. Our next question comes from Rich Kwas from Wells Fargo Securities.

Deepa Raghavan - *Wells Fargo Securities - Analyst*

Good morning. This is Deepa Raghavan in for Rich Kwas. Two questions, two parts to it. Oil and gas business, I know you mentioned 11% organic growth spike, from one-time spike. But could you share with us what the revenue growth for the total industrials would have been on an organic basis ex the spike? And also what the margin number might have been ex this one-time item? I am just trying to square up the strong margins you printed this quarter with the forecast.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

I'll make it very clear. It was $7 million of revenue, and $3.5 million of operating margin.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Which translates to less than $0.02 a share, due to the large, relatively large for oil and gas. It's less than a $300 million business. So when you get a $7 million order shipped in a quarter, that's large on a very small base. On our $2 billion-plus Industrial segment base or $1.7 billion engineered fastening base, however you want to look at it, but within oil and gas, it was large, within the segment it was tiny.

Jim Loree - *Stanley Black & Decker Inc - President & COO*

And just for analytical purposes, we understand why you're trying to get to a run rate. But please don't think about it as a one-time item because it's part of the ongoing piece.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

As we said many times as it relates to oil and gas, it's one of our few businesses -- infrastructure in general, and oil and gas in particular, where it's a long cycle business with large lumpy orders, unlike our Global Tools & Storage business -- and even the Security business the way we install and recognize revenue, you get large orders, and depending on when they're fulfilled in a quarter has tremendous variation. So it's one of our few businesses where quarter to quarter, the numbers can vary dramatically due simply to timing.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

And as I said earlier, in answer to the first question, we've seen this -- roughly every six to nine months we have some type of large order like this. So it's not a one-time item. It's maybe one-time in a specific quarter. But when you look at a year, you can have one to two of these, and even occasionally three that happen every year.

Operator

Thank you. Our next question comes from Liam Burke from Wunderlich.

Liam Burke - *Wunderlich Securities, Inc. - Analyst*

Yes, thank you. In the Tools & Storage business, you talked partially about the construction. Outside of construction, both on the Industrial and on Mac tools, how have those markets been for you?

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Well, the markets have generally been good. In terms of Mac tools end markets, as you looked at some of the numbers that come out, they've been very good. The statistics very recently published, in the last 10 years in the US, which is overwhelmingly where Mac tools is, of course, car ownership, the average age of cars on the road, has gone from slightly under 9 to slightly over 11 years, which means cars are being built better. But it also means they're on the road longer, so, there is a generally healthy environment for automotive repair and automotive after market.

That's clearly helping Mac. But what's also helping Mac is just the benefit of it being part of our Global Tools & Storage business, with a great product development, product introduction, good sales rhythms, good forecasting. A lot of the newer cars, of course, require a lot of diagnostics. It's something where we're relatively underdeveloped, compared to some of the competition. But in general, Liam, those markets are healthy, and we've benefited from that, but we clearly believe we are growing faster than those end markets which implies share gain, of course.

Jim Loree - *Stanley Black & Decker Inc - President & COO*

And then on the Industrial side, clearly, there is a big differentiation within the Industrial markets by segment, and so the oil and gas issues within the Industrial marketplace are weighing on growth. You've got Ag weighing on growth and mining as well, and hydraulics, so mixed bag in Industrial. I'd say the MRO channel is a little weaker than it has been, maybe inventories are a little higher. We aren't sure about that, but it feels that way. We don't have great data on the MRO channel. It seem like there might -- won't call it a correction, but sort of an inventory build may be going on there. So in general, the Industrial markets are a little weaker than they have been over the last year or so.

Operator

Our next question comes from Stephen Kim from Barclays.

Stephen Kim - *Barclays Capital - Analyst*

Yes. Thanks very much, guys. Strong quarter. I guess, just a couple questions, but let me just ask the one. Essentially this quarter, in terms of the guidance, you are talking about your year coming in about $0.20 better, due to the strength of the organic growth. And then I guess, a $0.15 headwind due to the Security issues that have been discussed. I guess, I'm curious as to -- what happened in the quarter? If you can give us a sense for, how much better the organic growth in terms of cents -- I'm not saying basis, $0.20 and net -- less the $0.15? If you could give us a sense for what happened in quarter in those two buckets? How much better was the organic growth in terms of cents, and how much worse was the Security relative to your expectations going in, in the quarter? Thanks.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

I'll take that, this is Don. I think the -- if I look at our organic growth, it was about 2 points better in the second quarter, versus our beginning of the quarter expectation. And most of that was driven as you might imagine in Tools & Storage, and a little bit in engineered fastening.

At EPS level, what, how does it play out [$0.20] versus [$0.15]? The way, my view would be, Security was about $0.03 to $0.05 off expectation in the second quarter, and you can do the math the rest of the way. But clearly, Tools & Storage helped performance. If you -- depending on how you look at our outperformance as a Company, we look at vast majority of that $0.10 as operational outperformance, and a lot of that being driven by Tools & Storage. There is some pluses and minuses below operating margin, but the bulk of that nets to zero. And really what you're looking at is a $0.05 to $0.08 operational outperformance, that if you factor that $0.03 to $0.05 in, then Tools & Storage was somewhere around $0.08 to $0.10, a $0.12 outperformance.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Tools & Storage, plus Industrial.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

Plus Industrial, thank you, John.

Operator

Our next question comes from Nigel Coe from Morgan Stanley.

Mike Sang - *Morgan Stanley - Analyst*

Hey, good morning, guys. It's Mike Sang for Nigel. Could you comment on just how the quarter phased? We're getting conflicting data points with oil and gas dipping, and EM is volatile, and I think even construction has been a little bit lumpy. So if you could talk about growth exiting June, and how that's trending to July that would be great. I'm just trying to get a feel for back half visibility. Thanks.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

This is Don. I'll take that one. We actually, when you look at the second quarter, we saw a pretty balanced level of growth across the quarter, especially in tools, actually in all our business. If you look at all our businesses, you saw relatively healthy growth in all our businesses in each one of the months across the quarter. And so, we didn't see an accelerating trend or a decelerating trend in the month of June.

Our guidance is reflective, obviously, we feel good with what we've experienced in the first half of the year and the momentum as we exited the first half of the year, which allowed us to increase our organic growth assumption from 5% to 6%. So we're clearly seeing trends that make us feel at least reasonably good about the markets. Now we will be the first ones to admit there's a lot of conflicting data and information out there, across the construction and industrial space, as to what might happen in the back half of the year. And as a result we've evaluated that, combined with a very healthy organic growth performance in the first half, and think we put forth a very balanced view of the full year.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Yes, and just to add briefly to that, I think as Jim pointed out in his piece of the presentation, our largest business obviously, is GT&S, Global Tools & Storage, where we have the best data. Inventories are at or slightly below normal levels. That bodes well for the future. That's partially offset by relatively weak industrial markets, compared to what we would like to see. But simply said, a very smooth quarter, and a very good position in terms of inventories at the customer level, which has led to our guiding the second half of the year the way we have, versus importantly, if you look at the details, some very very steep and difficult comps. So keep that in mind as you look forward.

Operator

Our next question comes from Mike Wood from Macquarie Capital.

Mike Wood - *Macquarie Research - Analyst*

Hi, congratulations on the organic growth. My question was -- on the Security business, you returned to the organic growth in Europe. Can you give us some color in terms of what the margin range is now, the improvement in Europe? And is that, is your decision on what action you're going to take in Security dependent upon the execution of the business, or the valuation, kind of how that parses out within Stanley? Thank you.

Don Allan - *Stanley Black & Decker Inc - SVP & CFO*

So as far as Europe goes as Jim mentioned at a nice level of detail, the business continues to progress forward. It's turned the corner in the sense of organic growth over the last two or three quarters. We're starting to demonstrate a modest level of 3% in the second quarter, which we were pleased with. The profitability continues to improve. It's still in the range of mid to high single-digits. And as it exits this year, it will certainly be at the high single-digit level as it continues to progress in the back half of the year through its transformation.

So we really- and that's really what we've communicated in the past. So it's consistently performing with our expectations. As far as our view, as to our decision associated with the fit in the portfolio, it will be a combination of factors to evaluate. And certainly, the one that probably drives the most -- the largest part of the decision will be valuation. As the valuation improves, based on a certain outcome that we make related to that decision, and ultimately, we believe we're here to drive shareholder value over the long term. And if we think -- whatever decision we make is going to achieve that result, that will be the big driver of the decision. Certainly, evaluating how it's performing is a factor, but I don't think it's the primary factor.

John Lundgren - *Stanley Black & Decker Inc - Chairman & CEO*

Yes, this is John. Let me just add to that. I certainly agree with everything Don said, but as we've had a lot of focus again, on the 15% of our business that's performing slightly below our line average specifically, I think Jim pointed out European Security and North American convergent.

We're focused on improving the performance, but I think it's fairly important just to note that while it's -- that subsegment of that segment are performing at a level slightly below our OM average, they're performing right in the middle of the fairway, relative to their peers. This is not a broken business. It's a business that's performing not as well as it has in the past. There is some industry trends, as well as some internal executional issues that Jim spoke about I think in great detail. I guess, I just, we need to be on record, this is not a broken business. It's a good business. It's been better and it will be better going forward, and our assessment of it will be based on both the trends. And as Don said, we're here to create shareholder value. That's ultimately going to be driver this time next year, as we zero in on its fit in our portfolio relative to elsewhere.

Operator

Thank you. I'll now turn the call back over to Greg for closing remarks.

Greg Waybright - *Stanley Black & Decker Inc - VP of Investor & Government Relations*

Amanda, thanks. We'd like to thank everyone again for calling in this morning, and for your participation on the call. Obviously, please contact me, if you have any further questions. Thank you.

Operator

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