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SWK - Q3 2012 Stanley Black & Decker, Inc. Earnings Conference Call

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OVERVIEW:

SWK reported 3Q12 revenues of $2.8b, diluted GAAP EPS (including all charges) of $0.69 and diluted EPS (excluding charges) of $1.40. Expects 2012 EPS to be $5.25 and 4Q12 EPS to be $1.45.

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PRESENTATION

Operator

Welcome to the Q3 2012 Stanley Black & Decker, Inc. earnings conference call. My name is Sandra 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 Vice President of Investor Relations, Kate Vanek. Miss Vanek, you may begin.

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

Thank you, Sandra. Good morning, everyone; thank you all for joining us today for Stanley Black & Decker's third quarter 2012 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.

Our earnings release, which was issued this morning, and a supplemental presentation, which we will refer to on the call, are available on the IR portion of our website as well as via the webcast, and also on our iPhone and iPad app. A replay of the call will begin today at 2 p.m. The replay number and access code are in our press release.

This morning, John, Jim and Don will review Stanley's 2012 third-quarter results and various other topical matters followed by a Q&A session. For today's Q&A session we invite everyone to ask one question. You can always rejoin the queue if you have more and if time permits we will come back to you. And as always, please feel free to contact me with any follow-up questions after the call.

And, as I normally have to do, we will be making some forward-looking statements during this call. Such statements are based on assumptions of future events that may not prove to be accurate and as such they involve risk and uncertainty. It is therefore possible that actual results may differ materially from any forward-looking statements that we 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. With that I will now turn the call over to our CEO, John Lundgren.

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

Thanks, Kate. Good morning, everybody. And for those of you who have been able to read the press release this morning, hopefully you have taken away from it that our focus does remain on driving long-term growth and achieving our mid-decade vision of being a $15 billion revenue company with 15% operating margins irrespective of the macroeconomic backdrop.

What we are going to try to cover this morning is what we are doing to counter some of the headwinds in the marketplace in an effort to essentially determine our own destiny, drive organic growth in the face of relatively flat developed markets through, among other things, an increased focus in emerging markets and some I think very, very exciting programs in well developed markets.

Revenues in the third quarter did increase 6% year on year to $2.8 billion, organic revenues were flat. CDIY grew 4% organically with an operating margin rate excluding charges of 15.8%; that is the highest operating margin rate we have been able to achieve since the merger of Stanley Black & Decker almost three years ago.

Industrial and Security were both pressured by certain weak end markets and particularly Europe. And to counter some of those you are going to hear a lot from Jim a little later on in his presentation about some of the investments in organic growth and initiatives that have already begun and will carry on throughout the next 12 to 24 months.

Our third-quarter diluted earnings per share were $1.40; again that is excluding charges, $0.69 GAAP EPS including all of the charges. We do in the appendix of this presentation have a detailed definition and explanation of what is in the charges.

The Niscayah integration continues to go well. Operating margins will exceed 12% this year when it is finished. That is up 500 basis points from fiscal year 2011 shortly -- less than that -- exactly one year after closing that deal.

Importantly we've reached a definitive agreement to divest our Hardware & Home Improvement business, which marks another key step in the continued transformation of our portfolio. We have discussed this a lot over the last two or three years. This is a good business, with a capable management team and it has been under review from day one of the merger.

And our conclusion was that while it may not be the best business long term given our strategic objectives and geographical portfolio, we needed to fix it first. It is a much more profitable business than it was three years ago and we believe we have accomplished a major strategic milestone in placing that business in the hands of new owners.

It brings our US home center exposure not down to too low a level but back to the pre-merger Black & Decker levels in the low teens. It does retain nonetheless the upside to a US housing rebound in that our CDIY business, which is still over $5 billion, is $1.5 billion below the revenue -- pro forma revenue from peak. That is simply the pro forma Stanley Black & Decker revenue 2009-2010 prior to the more recent decline. And as a consequence HHI never factored into that calculation.

And finally, Don will give you some more detail on this in his forward look, but when considered Infastech, some of the smaller acquisitions we have completed in 2012, this divestiture -- and this divestiture, the revenue split geographically around the country will be -- around the world will be roughly 46% US, 27% Europe, 16% emerging markets and, again, to re-emphasize, Jim is going to talk to you about some of the programs designed to drive that 16% to and beyond our 20% objective in mid-decade.

Moving on to the global footprint versus prior year, organic sales, as I said, were flat. A strengthened US and emerging markets was offset by weakness in Europe and some of the smaller developed markets.

You will hear a lot about this in the segments, but quickly looking at the US, which still accounts for 53% of our business in the third quarter, we grew 1%. Europe overall was down 3% organically but with a lot of moving pieces. Excluding CDIY Europe was down about 8%, that is primarily IAR and Security.

Jim will talk about these in the segment detail including Niscayah. Niscayah is down but actually slightly less than our model at the acquisition time. And operating margin, as previously mentioned, for Niscayah is up almost 500 basis points.

Importantly our high-growth emerging markets, Asia up 15%, Latin America up 12%, continue to be strong points growing well albeit at a slightly slower pace. And last but not least some of the smaller developed markets such as Canada, Australia and Japan down low to mid single digits.

Looking at our sources of growth, Engineered Fastening and CDIY were clearly the bright spots in the quarter in terms of organic growth. And as suggested, offset by softness in Security markets, IAR and Infrastructure.

Globally adding all three segments together volume was flat, price was flat, which arithmetically is 0% in terms of organic growth. We added 9% via acquisitions, lost 3% due to currency and as a consequence that gets you to the 6% revenue growth for the Company in the quarter.

Looking at some of the pieces, Engineered Fastening up 7% despite being down 3% in Europe; that is obviously a significant share gain for this strategic business which is what gave us the confidence to add Infastech to this platform to continue to advance that business on a global level.

That organic growth rate is obviously well above the rate of light vehicle production and that is due to increased vehicle penetration across the board. Great work by that team because about 60%-plus of that business still focuses on the automotive end markets and one of the strategic -- the primary strategic rationale behind Infastech was to further diversify the verticals that our Engineered Fastening business serves.

Strength across the board in our tools business -- in our CDIY business, professional power tools up 5%, hand tools and fastening up 5%, in the consumer products group primarily the Black & Decker brand up 4% -- just very, very solid performance in the third quarter, which gave us tremendous satisfaction and obviously strong indication that our -- the new product engine continues to work and share gains continue to be achieved.

Our Mechanical Residential Security business was up 3%, the Commercial Security locking business was down 3% and Convergent Security including Niscayah was down 4%. Jim will talk to you a little bit about MAS commercial and we are addressing an MPP product gap that we think we have resolved. And in CSS it is more about conversion of existing backlog that has been and will continue to be our focus.

And finally IAR and infrastructure -- IAR in Europe was down 7%, tough market conditions. We continue to have a very valuable business there. IAR North America, Mac continues to perform well, a tremendous improvement in that business.

And the infrastructure sub segment of our Industrial platform was impacted by very little offshore activity in our CRC-Evans business -- onshore activity, pardon me. Offshore is doing well; it's growing rapidly but it is a very small part of the business and there is virtually nothing happening currently in the onshore market.

And of course in our hydraulics business, scrap steel prices are tremendously depressed and that has a significant and direct impact on our hydraulics business.

So that is the view from 36,000 feet. I'm now going to ask Jim Loree to take you through some of the segment details looking backwards. But of equal or greater importance, Jim is going to introduce the highlights of some of our organic growth programs -- new organic growth programs that are coming into play right now.

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

Okay, thanks, John. I'll move through the segments fairly quickly today as the story is relatively clear. And I would like to spend more time outlining the details of our new organic growth initiatives, which will enable us to achieve our long-term objectives with no help from the environment.

But starting with CDIY, CDIY had a respectable organic growth quarter with impressive margin rate expansion. Revenues totaled $1.38 billion, up 3%, the OM rate was a record 15.8%, up 260 basis points versus a year ago, organic growth was up 4% with unit volume up by the same percentage. The majority of OM rate accretion was driven by merger synergies, volume leverage and variable cost productivity.

Along geographic axes, mid-teens organic growth in Latin America once again, more than offset EMEA which was flat, the latter a laudable achievement given weak market conditions especially in Southern Europe. The US was up 5% organically.

Sales by product line were solid as professional power tools were up 5%, consumer up 4% and tools fastening up 5%. Each sub segment had its own success drivers to overcome what was on balance a tepid market environment.

Professional tools continued to exploit its ongoing cordless launch success; consumer enjoyed growing momentum from its highly innovative Gyro and Matrix product introductions and tools; and fastening benefited from Latin America revenue synergies and the DeWALT hand tool launch.

Looking forward we expect continued solid organic growth performance in the segment despite ongoing external market issues and we also expect the fourth quarter margin right to hold in the same zip code as in the third quarter.

Now moving to Security, Security margin rates continued strong sequential progression as Niscayah synergies are realized. Security revenues totaled $790 million, up 22%; the OM rate was 16.5% and 18.8% excluding Niscayah. The operating margin rate including Niscayah is up nicely for the third consecutive quarter. As a refresher, 1Q was 13.4%, 2Q was 15.3% and 3Q again was 16.5%.

Organic sales were down 3% with Convergent down 4%, mechanical up 2 points and healthcare a small percentage of the segment under some pressure. CSS Europe was down 6% organically or 5% on a pro forma basis which more than offset legacy CSS North America which grew 2% organically.

A solid performance in Resi Hardware up 3% was partially offset by Access Technologies and Commercial Hardware, which were down 6% and 1% respectively. Access continues to experience declines at its largest customer associated with reduced remodels and store openings which was responsible for all of its decrease.

Commercial Hardware markets are weak in the retrofit segment including healthcare, education and municipalities, Stanley's traditional strengths. New construction markets are modestly stronger but rely upon -- more upon MPP or mid price point products which are currently a gap for us, as John mentioned. The Tong Lung acquisition, which is near completion, will quickly address this gap.

And just to clarify, part of the Tong Lung acquisition will be going with the HHI disposition and an important part, including a Taiwanese plant and an important engineering center in Taiwan, will stay with us in the commercial hardware business.

Healthcare continues to bear the brunt of lower hospital CapEx spending levels as well as its customer's propensity to defer ordering until its next-generation patient security products are released in 2013. And when the AeroScout acquisition anniversaries in mid-2013 and the legacy product updates are complete this business should become a robust organic growth driver.

Moving to Niscayah, the integration continues to progress well and it appears the cost synergy realization will be in line or better than expected and should be sufficient to protect EPS secretion in light of the difficult European market. In this regard the Niscayah OM rate will exceed 12% for the full year 2012 and we expect its run rate to approach segment line average rates by the end of 2013 with a mid-teens performance for full year 2013.

And now on to Industrial -- in the face of difficult global markets Industrial maintained a solid OM rate performance. Revenues were $621 million, down 2% both organically and in total. The OM rate was 15.4%, down 150 basis points versus a year ago and up 30 basis points sequentially.

For Industrial and Auto Repair, Europe and the US were down organically 7% and 4% respectively. Emerging markets were a bright spot with a mid-teens organic growth rate and Mac also delivered a solid growth performance.

Once again Engineered Fastening demonstrated why it is a growth platform, with an impressive 7% organic growth performance. Emhart Europe was contained to a 3% organic decline and the Americas and Asia both kicked in for double-digit organic performances to enable a strong overall 7% result. This was achieved with only a 3% increase in global auto production as well as very weak Industrial markets, especially in Europe.

So across the Company in summary, weak markets with Europe by far the weakest and with slowing but still strong demand in the emerging markets and policy uncertainty in the US, this was anything but an easy quarter. CDIY, benefiting from favorable US conditions and strong product introductions, clearly outperformed. Both Security and Industrial maintained respectable margins in the face of market related growth issues.

However, one thing became crystal clear as we moved through this quarter, now five years into a sluggish macro environment, and that is that we must take our growth destiny into our own hands. And during the July conference call I introduced a major organic growth initiative that we are pursuing which will do just that. Today I will expand on that further to give you a lens into what we are doing to drive growth with no help from the environment.

So, on the organic growth slide, in 2Q we identified close to $1 billion in organic growth programs over a three year period, which we shared with you during the July call. Since then we have refined our approach by staffing the programs with leaders and building the programs out with detailed project wins and resource requirements.

And on this page you can see the six programs provide $800 million to $900 million of annualized growth building over a three year period. We expect the growth to phase-in as follows -- 2013 $150 million and 2014 and 2015 $350 million each year. An operating expense investment of about $100 million will be made to drive the growth which will be at about a $65 million level for 2013 and also will commence in the fourth quarter.

The $100 million includes $20 million of brand development expense for the emerging markets. There will also be about $50 million of CapEx required to support the programs which will be included within the Company's normal CapEx run rate levels. So let's take them one at a time.

First, Emerging Markets, a $400 million opportunity in addition to the robust growth that we are already enjoying in these regions. And I will come back to emerging markets in a page or two and expand upon this because we have a fair amount of information on that, but let's cover the other ones.

Advanced Industrial Solutions, the objective here is to create a market, the smart tools and storage market using RFID and RTLS technology. There are several elements to this; we have electronic [tonbons], we have an MRP vending business and several other elements to it that all basically have one thing in common, that is that they utilize technology to drive productivity on the factory floor.

What we are going to be doing in this business -- since we've already assembled the pieces with CribMaster and with AeroScout, what we are missing at this point is a really sizable field force and we put a leader in charge of this, we created this as a business and we are going to put 30 to 40 commercial resources on the street in the US in 2013 and get going by really scaling up this business.

The next item is the RTLS penetration in healthcare and some Security verticals such as education and financial services. Taking healthcare as an example we are creating an RTLS based ecosystem stitching together the other parts and pieces that we have in our healthcare business today such as patient security, asset management, asset tracking, storage.

And we are going to again add about 30 to 40 high-level sales executives on the street to blanket the US with folks that can call on the C suite folks in the acute care facilities and present to them our differentiated value proposition, which can help them take out cost, improve their safety and security and also help them with the revenue recognition and compliance with the new and changing regulations that Obama Care and other legislation brings to bear. This is a very high value added business, it leverages our technology and it will be growing at a very fast rate within several quarters.

The next area is the US government. It seems like a strange time perhaps to be scaling up to go after US government business, but quite the opposite for us since we haven't really ever earned our fair share of US government business primarily because historically our go to market strategy has not been aligned properly.

And after intensive study of this issue we have determined that we can make significant progress despite whatever spending cuts might be coming along in this area, in Healthcare, Security and Industrial. And so we are redefining our go to market strategy and basically the idea is here is instead of having a few people sitting in Washington hunting elephants we are going to increase coverage at the local level at the bases and the other places out there across America where the purchase decisions are actually made.

And the Washington teams will be repurposed to go after market and business development and provide leads and provide intelligence to the folks out in the field. And not only that but the government specialists in the field will be working hand-in-hand with the regular sales reps in those businesses, so it's really going to be quite a different approach. And we are already kind of organizing around that as we speak.

The next area is offshore oil and gas, this is an exciting opportunity in the CRC business, which already has a pretty strong -- the number one position in what we do in welding and coating and inspection in offshore. And this simply takes it to a new level by growing both in the areas I mentioned, but also by establishing portable factory coating units and portable spool-based capabilities, which nobody else has today.

And we have some terrific know-how and innovative ideas here as to how to do that and we have actually developed some prototypes. And we already have the strong customer relationships with customers such as Subsea 7 and Technip, the big pipeline companies out there and they are excited and we are excited about this pursuing this opportunity together. And each one of these opportunities that I've talked about so far has about a $100 million runway to it over the period.

And then finally, we will continue to capture the BDK integration revenue synergies that have been out there the whole time and we have been working on them. And we have done quite well, we are already at about a $315 million level and you can see some of the organic growth that I did discuss derived from that.

However, with the integration coming to a close here over the next quarter or two, we want to make sure that we capture the remaining $50 million that we think is left there. And so, there are a few things there on the page such as expanding Black & Decker hand tools, the DeWALT hand tool expansion and so forth that we will pursue.

And it would be remiss of me not to mention though that frankly the entire emerging market opportunity derives from putting these companies together, because prior to that time we really didn't have sufficient scale to go after the emerging markets the way we have -- are able to now. So I will talk about that more in just a minute.

But in any event, we have a solid list of initiatives here with a high level of confidence that they can be executed effectively. And why do we have this level of confidence? Number one, because the market opportunities are real; and secondly, in each case we are uniquely qualified to exploit them; and third, we are applying what I think is a very sound approach to execution here.

And the first part of it is that we are funding the initiatives through what I will call long-term productivity improvements or strategic cost initiatives. We have embarked upon a journey to implement design to value techniques in our CDIY business which will enable us to take out something in the order of about $100 million of cost over a three year period.

And then we are also elevating the capabilities of our global sourcing team to go beyond traditional sourcing and really take it to the next level, which includes things like clean sheet analysis that we take to vendors and we explain to them that their costs are not in line with where they need to be from a world-class standpoint or --.

And so either they are getting too much margin in our relationship or they don't have the capability or the designs that will achieve the clean sheet objectives in which case we can help them in that regard. So that too will generate $50 million to $100 million of benefit and then there is -- in addition to that there are some structural reductions primarily as we adjust our factory footprint in Europe that will take place over time.

And most of these benefits will kick in in the 2014 and 2015 time frame. But they will be sufficient to fund the growth initiatives that generate the $1 billion of revenue over three years with some timing issues, of course, as the cost benefits are realized.

So that's the first element is that we want to make these programs self funding through some cost takeouts because the dilemma here is how do you invest in growth at the same time that you have a low growth external environment and that is what we are trying to solve here.

And then the other part of this is that we are attacking this challenge to drive growth the way we have discussed here with a methodology that is very, very similar to what we have done with our acquisition integration which is become a core competency of the Company.

So we are program managing this with the integration methodology. We've got a small dedicated corporate team that is overseeing these initiatives and coordinating with the business units that are actually driving them, helping allocate resources and removing the obstacles to growth.

We have seasoned team leaders that are in the field reporting to the businesses that are accountable for execution. John Lundgren, myself, Don Allan, our senior HR folks, will be conducting biweekly steering committee meetings beginning in the fourth quarter.

We have robust scorecards and tracking tools exactly analogous to the ones that we utilize for acquisition integrations. And we have a very controlled and efficient resource allocation review and approval process, but it is also one that has kind of a fast track so that we don't end up with big delays.

Now I promised to talk a little bit more about the emerging markets and I will right now. This is a great opportunity; frankly, we are doing pretty well at it already. This page just outlines how -- what the numbers are by region. You can see the largest is Latin America, then the Middle East and Africa, then China and so forth. As you get into Southeast Asia, India, Russia you can see we clearly have a lot of opportunity there.

But when you add it all up it has been a great growth story. This is excluding HHI and pro forma for Infastech, but it just shows you that if on that basis 2012 would be about $1.6 billion or 16% of the Company and almost 17% growing at about a 20% rate over a three year period with 20% operating margin and that is driving over $300 million of growth a year. And obviously it is a nice compounding effect that actually increases the percent of total, particularly given the fact that the developing countries are not growing anywhere near this rate.

So I think kudos to the people that have been working on this for years and also the Black & Decker strength that they brought in Latin America and Middle East in particular. We have got a great team working on it already. The approach is generating good benefits.

But with the growth initiatives that we are now embarking upon we will -- actually it will enable us to increase the CAGR of our efforts here by somewhere in the neighborhood of 5 to 10 points over run rate and almost certainly ensure that we blow through the goals that we set on a long-term basis for the Company.

So, we are actually undertaking a radical change to the approach to the emerging markets and I will go through this fairly quickly. But we are going from incrementally investing in these markets to a major commitment to resource to the size and the scope of the opportunity. We are funding it, as I described, through the initiative.

We are moving from a business unit centric center of gravity to a regionally led center of gravity and we are appointing a corporate officer to lead all of the emerging markets.

Now I have said that we are doing a good job already and we have got good people leading these efforts and teams already today. So we are simply overlaying a corporate officer over that structure to make sure that we coordinate and we actually execute effectively and maximize and optimize the resource allocation and the best practices across these markets.

Then we are moving from high price point western designed products, which generally represent about 10% to 20% of the market in most of these markets, to a mid-price point product approach which is on the average about 70% of the these emerging markets.

And we need to be able to do this, to have the products designed by folks that are in these regions because the western engineers really don't have it within their DNA to scale down the products and to kind of orient the products to the local markets the way they need to be, especially as it relates to the mid-price point products.

So we are moving from a kind of tweaking our designs to conform to what we think are the needs in the emerging markets to actually completely redesigning new products to attack the mid-price point segment of the market.

We are also going from reinventing the local MPP product lines in each emerging market to one global globally coordinated effort, again with the help from that corporate officer. But also through three new product SBUs with global emerging markets responsibility, one in power tools, one in hand tools and one in Commercial Hardware. All of these SBUs are located in the emerging markets, the leaders have already been appointed and they are off and running.

We are also going from a limited product line in MPP and one that was generally sourced to one -- to full product lines in the MPP segment internally manufactured in local markets. And to do that we need to blanket China, India, Brazil and Turkey with local plants.

We just acquired Bajaj in India, which is a power tool plant in India; that was our first foray into that. We have a plant in Brazil; we have a plant -- several plants in China so we are in good shape there. We need plants in Turkey and some of the other areas; in some cases we need a hand tool plant in addition to a power tool plant, et cetera. But that is all captured within either our acquisition strategy for emerging markets or the $50 million of CapEx that I'm mentioned earlier.

And then we are going from and under-resourced commercial organization to one that is sized to the market opportunity. What that implies is the addition of 300 to 400 commercial resources throughout the emerging markets over the next year or two.

And finally, we are going from an approach where the CDIY business is separately going after these markets and the IAR business is separately going after these markets. And they are kind of running into each other sometimes because the channels in many of these markets don't recognize the distinction between the two -- the one unified effort focused on gaining profitable market share.

And to do that we are actually creating an internal joint venture between the IAR business and the CDIY business where we can marshal the resources from both of those organizations and really focus on what is important to driving share gains in those regions and not into internal discussions about who gets credit for what.

So we are going to have a little Board of Directors, internal Board of Directors with governance from CDIY, IAR and corporate and should work really well. So a really exciting initiative, which is already in progress and will be in full gear by mid-2013.

And I will finish this by saying that we have put this Company in a position to execute this opportunity through the Black & Decker Stanley merger. We are now the only tool and hardware company with sufficient scale to exploit this opportunity to its fullest. And now I will turn it over to Don Allan.

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

Thank you, Jim. Before I move to the 2012 outlook I just want to touch on free cash flow on page 14. As you can see, our free cash flow for the third quarter was approximately $170 million and year to date almost $465 million. For those of you who are familiar with the trends and the seasonality of our working capital and cash flow, you are well aware that a large part of our cash flow does occur in the fourth quarter of each calendar year.

And so, in this particular case working capital through nine months, or September 30 of this year, is a negative of $286 million. So it is a little larger than we would normally see in this time frame but, however, it is on track with our expectations, because we do believe that we will be at somewhere between 7.5 and 8 turns by the end of this year. And as a result will see anywhere from $400 million to $500 million of free cash flow in the fourth quarter just from working capital.

Pretty much in line with what our expectations as well as the seasonality that does occur had meant a large part of the revenue in particular in our CDIY business occurs in the month of October and into early stages of November and then it slows down in the month of December, which allows for reductions of inventory as well as collection of many of our receivables by the end of the fourth quarter.

Another thing to keep in mind as you look at the trending and where we are through nine months is if you look back in history, I have reminded folks of this over the last few years, is that the fourth quarter tends to represent anywhere from 50% to 65% of the total year's free cash flow. If you look at those factors that would just extrapolate to approximately $1 billion to $1.3 billion of free cash flow for the year. So based on our forecast, based on our plans for working capital we feel comfortable that our $1.2 billion of annual free cash flow is achievable.

So with that I would like to move to the 2012 outlook and give an update on our latest assumptions. As you saw in this morning's press release, our new estimate for EPS this here is $5.25 versus our prior range of $5.40 to $5.65. It is based on the following key assumptions.

The first one is organic revenue and this is pro forma organic revenue so it assumes Niscayah was part of the base in 2011. We previously had guided 1% to 2% organic revenue for the year; we believe now that it will be approximately 1% from many of the pressures that you heard about from both John and Jim earlier in this call.

In particular though our Industrial European businesses are seeing a great deal of revenue or organic revenue pressure as well as some of our MAS businesses, in particular our MAS commercial businesses. That combination of those businesses, which are very high profitable businesses, with lower volumes as well as having a negative mix because of the high profitability of those businesses is resulting in a $0.30 EPS pressure or headwind to our previous estimate for 2012.

This revised estimate -- what that implies is that for the fourth quarter our organic volume will actually be slightly down, probably approximately a negative 1%.

Looking at the segments to give you a little sense of what they will be for the year, we still believe that CDIY will continue to be approximately mid-single digits, Security will be down low single digits as we previously indicated in July, but Industrial will be flat for the year for organic growth where we were expecting to see some low single-digit growth back in July. And that is really where we are seeing a significant amount of the change versus our July expectations in today.

The second factor that we are updating is based on all the growth initiatives that Jim just walked you through; we will incur approximately $15 million of operating expenses in the fourth quarter. And so that is really beginning to get these initiatives started; Jim talked about some of the hires that we have already done so it is reflected in those numbers. It is really about getting more feet on the street as well as creating some more infrastructure in emerging markets.

The third area that we are updating is we do expect the slight positive associated with FX rates. When we talked in July we had seen a big drop in the euro, the Brazilian real, the Canadian dollar in particular that drove about a $0.35 negative to our expectations for the year.

We think we will claw about $0.10 of that lack in the fourth quarter if rates stay where they are today. Because we have seen a tick-up of about 5% to 6% in those three currencies in the later stages of September. We didn't experience much of a benefit in Q3, but if the rates hold we would expect about a $0.10 benefit for Q4.

We are maintaining other assumptions specifically when you look at organic growth by region. We are relatively in line with our expectations, but the mix within North America and Europe is quite different, as I just mentioned.

The emerging markets will be at the low-end of our range but still growing nicely, but just at slower paces than we had seen in the previous two years but in line with our expectations that we created in early January.

Cost synergies were both related to Black & Decker and Niscayah continue to hold firm at $115 million and $45 million as well as the other cost actions we completed in January and July of this year that totaled $200 million. Our tax rate in Q3 was a little bit lower than our expectation, but for the year we still expect to be at 22.5%, so in line with our previous guidance in July.

So you can see at the bottom of the page if you take the midpoint of the previous range, add the three factors or major changes, it gets you to that $5.25 which is an implied fourth-quarter EPS of $1.45.

So moving on to thoughts about 2013 -- and one of the things that we need to consider is the effect of the portfolio transformation of divesting HHI, the acquisition of Infastech and what that impact will be. We have not factored that into our 2012 guidance that I just reviewed with you as we will wait until these particular transactions close which will either be late -- in late December or early January of next year.

So to start with HHI -- as you know, $1.4 billion of cash receipts associated with that, which is a 7.5 times multiple of LTM which is approximately $186 million through June 30 of this year. The after-tax proceeds are expected to be about $1.3 billion, so a relatively small tax due to the tax basis we have in the United States in particular. So the tax is primarily related to the small international piece of the business. And we believe on an annual basis the dilutive impact to our company will be approximately $0.60 in EPS.

The proceeds that we will actually receive here in the US of that $1.4 billion is approximately $1.1 billion. And what are we going to do with those proceeds; how are we going to utilize them? As we have indicated previously, we wanted to make sure that we took a large portion of it and did some share repurchases. So we are going to take approximately $700 million to $750 million of those proceeds to repurchase shares once the transaction closes, like I mentioned, in late December or early January.

If you utilize a $75 stock price, which was our stock price when we announced the transaction in early October, it is approximately a $0.30 accretive benefit of buying back those shares.

The other areas is utilizing some of these proceeds for the Infastech acquisition, in particular the US portion of the acquisition. So, approximately $300 million of that $1.1 billion will go towards that transaction, which we expect to close roughly in the same timeframe.

As a reminder, the accretion associated with Infastech is approximately $0.15 in 2013, assuming a full year, and $0.35 by year three. The remaining $550 million of purchase price will be financed by overseas cash as well as some of the HHI offshore proceeds that are included in the $1.3 billion. And then a modest deleveraging of approximately $100 billion is the remaining portion of that $1.1 billion that we'll utilize.

The net result of this on EPS is approximately, if you utilize the numbers I just went through, it will be about $0.15. We have provided a range of $0.10 to $0.20 of annualized dilution given that there are some factors in here such as what will the stock price be when we purchase the stock back, as well as the dilutive impact could move slightly related to HHI?

So it is going to range somewhere between $0.10 to $0.20, which is in line with our expectations of it not being a significant dilutive transformation of the portfolio. The good news from my perspective is we are taking approximately 70% of the uninsured proceeds and utilizing that for share repurchase.

So some other thoughts associated with 2013 here on page 17. At this stage we feel it is too early to comment on our 2013 views of organic growth. However, there are a few tailwinds and headwinds that are very apparent which are in our direct control and that is really what this page tries to highlight.

The first is the tailwinds; we've taken various actions, as you know some of them are associated with acquisitions such as back in July we indicated that we have $50 million of Black & Decker cost synergies that will occur in 2013, approximately $0.23 of EPS. We will have incremental Niscayah cost synergies of $0.15 or $35 million in 2013. And then incremental cost actions -- the actions we took in July that carry over into 2013 of $50 million.

Strong tailwind is you'll go into an environment that is still very difficult from an organic growth perspective. The headwinds will really be what I just reviewed with you which is the net dilutive impact of HHI, Infastech and the share repurchase, which is anywhere from $0.10 to $0.20.

Another factor to consider is we certainly expect commodity deflation to occur in 2013 based on current commodity prices. However, we do think that is primarily going to offset some of this mix headwind that we are experiencing that we will experience probably in the first half of 2013, if these trends continue. So that will be a net neutral impact.

The net of all that is approximately $0.40 to $0.50 of net tailwinds going in 2013, which is not a bad place to be considering the difficult macroeconomic environment we are in today.

Now Jim touched on the growth initiatives and I just want to reinforce some comments that he made about the revenue for 2013 specifically. He mentioned $115 million in revenue in 2013 associated with these programs.

We will probably have approximately $50 million of investments -- operating cost investments in 2013, which means it will be a neutral impact to 2013. It is really 2014 and 2015 that we would expect to see the benefits of both the cost initiatives that are funding this as well as the continued growth of these growth initiatives of $350 million incremental in 2014 and 2015.

So to summarize this morning's presentation, we are investing in organic growth initiatives. We continue to look at the environment as difficult and we don't see it changing significantly at least in the next few years. As a result we are responding with these various initiatives that Jim went through in a great amount of detail earlier today.

The continued volume retractions we see are affecting our profitable businesses; therefore they have affected our guidance for 2012. We feel that we have taken very sufficient cost actions in both January and July, but they were not enough to offset this deterioration. However, it is not time now to take more cost out; it is time to invest in areas where we can really spur some organic growth in this Company.

And we are investing in $15 million of organic growth initiatives in the fourth quarter that will help kick start and jump these programs that we just walked through. The focus here is really on the long-term benefits for the businesses and ultimately our shareholders; and we really think this is an important step to move forward in the attainment of our mid-decade goals.

And the last thing I will mention is Niscayah and Black & Decker integrations continue to be very successful and we are pleased with where they are at this stage. So, with that, that concludes the presentation portion of the call and we'll move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jason Feldman, UBS.

Jason Feldman - *UBS - Analyst*

First just briefly, I understand it is early for you to be willing to comment on organic growth. But on the headwinds and tailwinds for 2013, there were two that were absent that I would have expected. One is FX headwinds based on current rates, kind of what you think that could be. At least in the first half I would expect kind of some sort of modest headwind. And also I think you talked about AeroScout and power fasteners being accretive next year to some degree or another, I think it was $0.10.

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

I would say the FX component actually, we are pretty much back to the levels we experienced early in the year for most of the major currencies. So we don't see a lot of FX headwinds based on current rates going into 2013.

As far as the other acquisitions, I would say, yes, they are kind of in that net neutral category. We didn't call them out because it is a relatively small number. But when you look at the impact of commodity deflation, the mix headwind and those acquisitions they would all be in that kind of bottom category that I called net neutral.

Operator

Michael Rehaut, JPMorgan.

Michael Rehaut - *JPMorgan - Analyst*

Really appreciate the -- all the comments and detail. Had a question about the emerging market strategy. You mentioned that the 2012e was also pro forma for Infastech. It looks like that Infastech revenues and I believe you said Asia Pac was about $270 million or so. Are there any other acquisitions in that number?

I am trying to get to the organic growth number. And I guess looking forward as you continue to expect to build that business I assume there would be -- it would be good contribution from acquisitions as well as organic growth?

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

Yes, I mean the numbers are pro forma, so the -- whatever Infastech was in 2012 would be in the base as well. And as far as the acquisition strategy for Stanley right now, it is almost exclusively on emerging markets. And we tend to be looking for power tool, hand tool, Commercial Hardware and electronic security acquisitions which are very -- relatively small, in most cases less than $100 million, but very strategic on a one-off basis in a given market.

We really feel that some of these companies have strong local distribution which, when combined with our product and manufacturing expertise that we are developing or the manufacturing expertise that we have and the product expertise in the emerging markets that we are developing, can be very powerful.

So, yes, it will be supplemented through some acquisition. None of that is included in the organic growth rate numbers that I shared. Obviously that would be incremental to that.

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

And, Mike, this is John. Just so you don't get cut off -- I mean, Jim referenced a plant acquisition which was really a manufacturing base in India. That is a good example of the kind of things Jim is talking about. And collectively we have spent a lot of time on target identification and development.

Jim has spent with mine and Don's and our Board's full support a tremendous amount of his time focused on emerging markets in the last three to six months. Because, as you know, these relationships, large or small, have a far longer incubation period than say a North American acquisition.

So that is all part of the thought process. But importantly, the focus is in emerging markets on business development, but it is small. Our hiatus on significant acquisition activity going forward remains because we are going to focus on organic growth and, as I say, we are going to run it. I think Jim explained it really well, we are going to run it like we run a large integration because that is a model that is tested and proven within our four walls and it works well for us.

Operator

Eric Bosshard, Cleveland Research.

Eric Bosshard - *Cleveland Research Co. - Analyst*

The CDIY growth number was in line, a good performance. Can you just give us a little more color on what you are seeing in that market in the US in terms of growth, in terms of your share performance, in terms of price competition and promotions? Just a little more color on what you are seeing in that important business?

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

Yes, basically I think we are outperforming the market for sure in the US. Probably market may be up 1 to 2 points at this point and I think given our performance a couple points higher than that. Most of it is coming from the things that I referenced; the cordless in particular in professional power tools and to some extent in CPG.

But also the -- now we are getting the introduction of the very innovative products that we have in CPG, the Matrix and the Gyro, I think that will definitely be again outperformance in the marketplace.

And then revenue synergies from hand tools in particular with respect to the DeWALT tool are also kind of differentiating us from a share point of view. So we are probably outperforming by a couple of points, Eric.

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

And, Eric, the second part of your question, we are seeing no abnormal level of promotion or price activity comfortable at that level. As you know, there has been some commodity deflation, which is helping margins but not so much that it has placed tremendous pressure on price. And fourth quarter there is a tiny bit of seasonality in the consumer piece, but that isn't what is driving our business.

So right now I think the thing that's always an area of interest, our best view in our top meetings with customers is inventories are at a very normal level. The data is so much better both at the customer base and internally and the ability to share it transparently because nobody wins when the channels are stuffed and nobody wins when there is out of stocks as you well know. We see inventories as of mid-October approaching a busy season prior to say I will say the December doldrums as quite normal.

Operator

Dan Oppenheim, Credit Suisse.

Dan Oppenheim - *Credit Suisse - Analyst*

When you're talking about the emerging markets you had shown that Latin America and Middle East being 75% of the emerging market revenue. When you think about the growth initiatives how much is going to be focused on those regions versus the rest of the world in terms of emerging markets and thinking about sort of what we'd need to achieve than in terms of growth there? And also what you think you can get in organic revenue growth in Latin America and Middle East without more initiatives?

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

Well, clearly, the resource allocation will be towards the larger markets that are that we are currently underweight in today. I think where we -- in Latin America and Middle East, Africa -- well Middle East I will say, we have excellent coverage -- sales coverage. And really the key there is just we can -- and we have pretty good MPP products that we have developed locally in both of those cases.

However, in some cases the products are sourced. So the products that we will manufacture in local markets is -- that's part of the strategy of there and then just to leverage the resources that we have in the market today in those large markets that we are already pretty overweight in.

In the underweight markets it is -- the absolute majority, probably 70% to 80% of the resource allocation will go there. It is all about getting the right products with our SBUs and then basically flooding the market with feet on the street that can develop the distribution channels to drive share growth in those markets.

China, India obviously are the two biggest, but I will tell you I just got back from Russia, Turkey, Dubai and some other countries earlier in the year and some of these kind of medium-sized markets that I am talking about really offer enormous potential and it is really just about getting the right products and getting the feet on the street. The brands that we have are phenomenal; the recognition of the brands is amazing. The markets are hungry for some market development and we are going to provide it.

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

Dan, this is John, just to follow up, it certainly hopefully just expands what Jim just said in a very simple manner. As you know or some of you know, I have spent 14 years of my career living and working abroad.

And as Jim, myself, the business leaders huddle to talk about the opportunity -- the organic growth opportunity, I guess we always knew but we have come to the realization that one size doesn't fit all and that has really been the model that we have been using, which is why we elevated as a corporate priority.

But, simply said, it is going to be different in each and every one of those markets. But I think Jim just said it well -- it is what's the customer focal point? It is going to be different in each of those markets depending on its degree of development. What is the product design? We can't simply design one product in Towson, Maryland and dummy it down a little bit and sell it all over the world. So there is three engineering centers around the world that are going to drive this activity.

And last but absolutely not least, how we are organized. And Jim described that in great detail. But who is accountable, who is accountable in the region, what is his or her relationship with the relevant business and with corporate and then, finally, how do we track it?

And so that is nothing different than what Jim said, but I think to summarize it, it is a new approach for us but it is one that we believe is tested and proven. We have got a lot of experience behind it and I think we just validated it with the work we have done with consultants, advisors and, most important, our own team over the last three or four months.

Operator

Nicole DeBlase, Morgan Stanley.

Nicole DeBlase - *Morgan Stanley - Analyst*

I just want to ask a little bit about 4Q, the implied 4Q guidance. So it looks like you are now looking for a modest organic decline in 4Q and the bulk of that is driven by a little bit of weakening within the Industrial segment. So it would we be really helpful to get some color on your expectations Q on Q for IAR versus Fastening, what is driving the weakening?

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

Yes, Nicole, it is Don. What I mentioned was that we saw in the third quarter that all of our Industrial European businesses retracted. We expect that to continue at a slightly worse trend, so we would imagine that IAR would retract a little bit more than what we saw in Q3.

Engineered Fastening will probably -- it saw a 7% growth rate overall, in Europe they were down 3%, that will be slightly larger as the Industrial European piece of that business, which is not tied to automotive manufacturing, will be down high single digits, maybe double digits at this stage. And then we will see probably a flat performance with the European auto business for Engineered Fastening.

So those businesses are expected to experience a fair amount of pressure. There is a little bit of our infrastructure business in Europe as well which will be pressured but that is not a significant number.

Operator

Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Just a follow-up on the last question, which you addressed for the European businesses. How much of the cut is kind of related to what you are referring to in the US in locks and doors? And are you really seeing a delay of backlog so you have it? Or is it just that it is kind of weaker backlog?

And sticking on the US the recent transfer of Apex to a new owner. You guys have had stellar results in a business that had problems if you go back five years ago. So do you think Apex's new owner is likely to bring more margin pressure as they seek to regain market share? Thank you.

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

Two points. Ken, the backlog I referred to is primarily in convergence security, not mechanical locking. The issue that Brett's team is dealing with, the mechanical locking, is as the market got smaller and faced tough economic times there was a tremendous move from premium to mid-price point.

And full disclosure, our mid-price point offering was not up to snuff and the teams worked very hard to get that developed in the marketplace and it is there. That is on the mechanical security side. The backlog conversion is simply the orders are there, we have got to get them converted, we have got to get the installations done, we've got to get them done right the first time.

And that is one of the things that led to a management change within our Convergence Security business where within the last six months we have -- two internal, one external -- have added three senior leaders to Brett Bontrager's team to accomplish that.

Regarding Apex, it is not our role to speculate on competitors and what their new owners will do. It is quite a I will say diverse portfolio of brands, many of which are secondary and tertiary. That in and of itself is a challenge, joint ventures are a challenge.

And so, as a consequence we felt that -- we don't think that was a major factor, the Apex joint venture, in our ability to gain share. And I would think that's not going to be a major factor going forward. It is an interesting business, it is in good hands from very professional private equity owners. Talk to them about their strategy as opposed to us, it is not our place to speculate.

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

I think the only thing I would add is that of all the various outcomes that could have occurred it is probably the best for us because they are rational people. They are highly levered and they will pursue some growth opportunities for sure, but there is plenty of opportunities out there for two of us. So I think it is probably in a very good place and it will probably be for sale in a couple of years too. So we will have a look at it then.

Operator

Mike Wherley, Janney Capital Markets.

Mike Wherley - *Janney Capital Markets - Analyst*

I was just looking at Latin America and it has been very strong for you guys despite some slowing of GDP growth in Brazil. And I was just wondering how much of your growth in Latin America is from the BDK revenue synergies and how much is from countries outside of Brazil?

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

There is -- BDK revenue synergies are not just Brazil, Mike. You have kind of asked two questions that are hard to answer. Brazil is 65% of our Latin American business and roughly 65% of the growth has come in Brazil and 35% has come outside.

The overwhelming majority of all of that growth -- think of it as BDK revenue synergies, specifically Black & Decker. Legacy Black & Decker had a very capable manufacturing plant with a very capable local leader and well established commercial teams and distribution channels in all markets in Latin America and a very capable business leader in Jaime Ramirez.

And what we have been able to do is leverage two things -- production in Brazil but for all -- that serves all of Latin America through Uberaba plant where we have been able to do some simple hand tool assembly and production there, number one.

And number two, take very, very popular but previously cost competitive black and yellow Stanley products that were imported that are now managed and sold locally through a well-established distribution channel. That has been the big lift.

So simply said, the business is pro rata with the size of the markets and you can contribute the overwhelming majority of that to what we do refer to as a Black & Decker revenue synergy.

Operator

Mike Wood, Macquarie Capital.

Mike Wood - *Macquarie Capital - Analyst*

Security margins are tough for us to model given the mix shifts that you mentioned and the Niscayah integration. Last quarter on the conference call you talked about flat operating margins in Security for the full year. It looks like that may have come down. So can you walk us through what has changed in the Security side since last quarter on the margins?

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

Yes, I would say the big thing that has changed is really the impact of what we are talking about around MAS commercial. So that is clearly creating what we are calling a negative mix impact for the Company. But it is also true for the Security segment.

So we saw, as Jim mentioned, a really solid performance in Security from a rate perspective given those pressures. But we would expect it to sequentially from third quarter to fourth quarter retract a little bit more given those pressures and probably be down -- obviously it would be down slightly total year when you look at it versus expectation of flat back in July.

Operator

Dennis McGill, Zelman & Associates.

Dennis McGill - *Zelman & Associates - Analyst*

As you guys think about the organic growth initiatives, historically obviously they've been focused on acquisitions and that is a bit of a cultural change. Can you talk about what you are doing internally either from an incentive compensation structure or other initiatives to change that culture or shift that culture to an organic growth focus that can be sustainable even beyond when you go back to M&A?

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

Yes, Dennis, it is a very fair and I think appropriate question. Eight or nine years ago I implemented, with obviously the tremendous support of Jim Loree who was already here as our Chief Financial Officer, Mark Mathieu, our Head of HR, organic growth as a significant portion of the short-term incentive for the entire management team.

It made good sense, there were very specific goals for each and every business. And we carried on for four or five years I think with tremendous success, both organically and via acquisition, which is where we deployed most of our -- two-thirds of our cash flow.

As we faced what was clearly going to be some really tough economic times, 2008, 2009 -- 2007, 2008, 2009, quite frankly some very thoughtful and experienced Board members led us to the conclusion or helped us to the conclusion that it was going to be very difficult to grow organically in that environment and protecting our balance sheet, focusing on cash flow was a very important thing to do to weather that storm.

It is exactly what we did. That was the initiative or the driver, if you will, behind SFS, which has generated tremendous amounts of cash and, quite frankly, I think it is why Stanley was in a position to acquire Black & Decker.

As Jim pointed out, we didn't think that would last five years, but it has. And rather than continuing to work focused just on cash flow, on income conversion, we have decided, if you will, to take organic growth into our own hands.

So the simple answer to your question is, yes, anyone and everyone involved in this, a significant portion of their short-term compensation will be based on profitable organic growth. The exact specifics of that I'm not going to reveal at this stage; it will be in our proxy that we publish next February.

But it will be a specific part and there will be a select -- a precious few number of individuals -- when Jim talked about how this team was staffed and organized -- there will be a handful of individuals that the overwhelming majority of their incentive will be based on that. But that will be specific to the initiative.

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

Yes, another element to this which is not compensation related -- or at least it is indirectly, is that we are a very, very tightly managed company when it comes to P&L's, and especially at the business level and the region level. In both cases when there are revenue shortfalls the initial reflex in the organization is to cut costs.

And frequently the businesses we are attempting to make emerging market growth investments, but when the cost cutting kind of came to bear typically emerging markets were not unscathed, although we directed them to minimize that, they just couldn't help themselves because they're now measured on P&L and they are very capable people when it comes to delivering those kinds of results.

So the overlay that we have created here by absolutely making the investments at more of a corporate level or at lease corporate oversight level, we can protect those investments and we have to kind of put our armor on and kind of get through if the environment gets tough we have to protect these investments and we will. And that will be a big difference.

The other thing is with respect to kind of creating a center of gravity at the region level, you don't have the same incentive to cut costs that you would in the emerging markets if you were running a business that had a global footprint because -- and you were measured on a quarterly P&L.

In the emerging markets you are measured -- the measurements of these individuals are going to be, well, yes, they are going to be P&L focused, there's going to be a clear understanding between them and us at the corporate level that our expectation is that we achieve organic growth and we do that with investments and the investments are protected.

So there is a couple of other subtleties there beyond just direct compensation that we are addressing through this change.

Operator

Sam Darkatsh, Raymond James.

Sam Darkatsh - *Raymond James & Associates - Analyst*

A question regarding the sale of HHI, receiving a 7.5 multiple on EBITDA whereas at least the housing pure play comparables that are publicly traded are considerably above that. I know you guys are very savvy as it relates to capital markets, you are very thoroughly advised.

I was just curious as to the reasoning behind selling it privately versus a potential carve out or going to public markets for that. Was it because the market wouldn't bear it based on your research or the fact that you were getting immediate cash created that decision? Just a little bit of background would be good.

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

Yes, I think 7.5 times when you really look at that business I think is a very fair price. And spinning it didn't make a whole lot of sense given all the extra costs and the fact that it was a very tax efficient transaction.

If you look at the composition of the portfolio, the one thing that is perhaps under-appreciated is that $200 million of that business was Pfister. And Pfister we attempted to sell on its own and, frankly, couldn't get it done at anything over a five times multiple and that would have been -- that would have been a victory if we could have gotten that and would have required seller paper and a number of other things.

And we finally just said, the heck with that, let's mix it in with HHI, locks and so forth. So you have to kind of think of it in terms of we got -- for what really is the heart and soul of that portfolio we got something closer to 8.5 times. And that is a pretty good price in relation to -- especially the after-tax proceeds that we received for that.

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

It is also a highly profitable business, Sam, but I mean it is just math. One of the reasons 7.5 doesn't look meteoric relative to some of the costs that you are comparing to is this is a $186 million or $90 million EBITDA business. There aren't a lot of housing pure plays, to use your words, with those kinds of EBITDA margins.

And lastly, not so much the multiple or the margin or how to sell it, we wanted as disruptive a process as possible because this is an ongoing business that if we didn't sell it successfully we wanted as little disruption as possible because it was a business that had been turned around nicely and was performing well.

But lastly, remember, this is primarily a source -- a design source and ship business. And to Jim's point, Pfister is 100% a design, source and ship business. Not that we can't do that, we are a manufacturing company and we think we do it pretty well between global sourcing, product design and production.

And that lever for us and ability to further improve the business really didn't exist in this business and that was part of the driver. But at the end of the day we are real happy with the (multiple speakers).

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

Yes, and there is also a misperception with respect to HHI being so tied to the housing market. When you look at the Company's exposure to construction before and after HHI, it is still right in the 30% zone. And the fact is that HHI is a replacement business for the most part, it is not a new construction business.

You look at the channels that it sells into, they are not going into the builder market for the most part, they are going into replacement, remodel, those types of markets. So we haven't really changed the complexion of our portfolio dramatically as it relates to exposure to the construction market and the market would not have viewed this business as a construction pure play, very important point, which would indicate that we got a very fair price for it as was mentioned.

Operator

Rich Kwas, Wells Fargo.

Rich Kwas - *Wells Fargo Securities - Analyst*

Just a follow-up on 2013 in terms of your initial outlook. What are you assuming for Europe? And I know it is early and you are giving formal guidance in January, but should we assume that Europe is down similarly in 2013 or is that how you are thinking about the business right now and that could be offset by the US and then some of the revenue and cost synergies that you have factored in? Is that the right way to think about it?

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

As I mentioned, Rich, we are not really giving thoughts on organic guidance for 2013. There's just too many factors out there that are going to change most likely over the next 90 days. There's things in Europe, there's things in the United States, et cetera, and as a result we are not really giving thoughts.

But I think if you look at what is happening to us in Europe this year there is no reason to suddenly indicate we are going to see growth in the first quarter of 2013 in Europe. So I think you can use it from that perspective and look at our overall portfolio.

But there is going to be variations that happen in the next 90 days, things like the fiscal cliff in the United States that we don't know the impact of that on the US economy. The continued crisis in Europe and the euro zone as to what will happen with Spain and how that might impact business in that particular area. And then slow growth in China and emerging markets as well.

So it all goes back to the theme that we started with which is that we don't -- the macroeconomic environment is not real robust. And overall when you look at it, it doesn't feel like you are going to see a lot of growth beyond 1 or 2 points.

So we are looking to stimulate it with these growth programs, which is what we have tried to focus on this morning and get people to recognize that we are taking action in response to an environment that we don't see changing or improving dramatically going forward.

Operator

Michael Kim, Imperial Capital.

Michael Kim - *Imperial Capital - Analyst*

Just specific to Niscayah, can you talk a little about the organic growth profile and how much of that headwind is from project rationalization versus the macro environment, particularly in Europe? And what you guys can do on your own actions to keep more of a flatter growth or flatter organic profile and potentially gain some share?

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

Sure. I think when you look at the pro forma Niscayah business being down roughly 5%, I think it is an actual -- it is a pretty good performance given the macro environment and Europe in particular, given that they are really shifting to a more profitable business model around installation revenues as well as trying to drive more recurring revenues into the business model long-term.

To be down 5% versus our expectation of 7% and even possibly 10% we think is a great story. But we would imagine that that type of situation would continue probably into the early stages of next year. And then depending on the macroeconomic environment would start to improve. If you look at the 5% today, I would say that probably least half of that is due to the macro environment and the other half is more due to the model shift.

Operator

Peter Lisnic, Robert W. Baird.

Peter Lisnic - *Robert W. Baird & Co. - Analyst*

Lots of moving parts here, but if we could look at 2013 and, Don, if you could maybe give us a little color on the puts and takes for the free cash flow conversion for the year, maybe if you could include any sort of pension impact and what the preliminary outlook there might be would be very helpful.

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

Sure. I mean I don't have a precise view on free cash flow for 2013. But if you want to get a little input, I would expect that we would imagine we would have continued improvement in working capital next year. Our expectation is usually about half a turn as we go into the year.

We will be making some working capital investments related to emerging markets to make sure we have the right products in the different countries that we walked through this morning. So that could be a little bit of pressure. But even with that I still think we will have improvement in working capital turns in 2013.

There are no major pension fundings beyond the current run rate that would pressure 2013, that would be a new item. So I would expect based on continued accretion in our earnings, continued improvement in working capital we would expect that our free cash flow would go -- be accretive to the $1.2 billion that we are experiencing this year.

Operator

Thank you. This concludes the question and answer session of today's call. I will now turn the call back to Kate Vanek for closing remarks.

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

Thanks, everybody, for joining today. Please feel free to reach out to me if you have any questions following the call.

Operator

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