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SWK - Q1 2012 Stanley Black & Decker, Inc. Earnings Conference Call

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OVERVIEW:

SWK reported 1Q12 revenues of $2.7b, up 12% YonY, and fully diluted GAAP EPS, including restructuring charges, of $0.72. Co. reiterating 2012 EPS guidance of $5.75-6.00.

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PRESENTATION

Operator

Welcome to the Q1 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. Ms. Vanek, you may begin.

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

Thanks so much, Sandra. Good morning, everybody. Thank you all so much for joining us for the Stanley Black & Decker first-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 after yesterday's close and a supplemental presentation, which we will refer to during the call, are available on the IR portion of our website as well as on our iPhone and iPad app.

This morning John, Jim, and Don will review Stanley's 2012 first-quarter results and various other topical matters followed by a Q&A session. We encourage you to make one question; you can have one follow up after that. As always, please feel free to contact me with any follow-up questions after today's 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 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.

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

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

Thanks, Kate, and good morning, everybody. Thanks for being with us, excellent turnout on the call.

With the first quarter in the rearview mirror, we remain well-positioned, we think, for whatever faces us in terms of the macroeconomic environment. Solid results across the majority of our businesses and we will get into each and every one on more specifics in just a second.

Revenues, per the release, were up 12% year on year to $2.7 billion, organically up 3%. Our largest segment, CDIY, shipments grew 3% organically. POS is currently outpacing shipments significantly and Jim will talk about that a little bit more when we get into the segment details.

Industrial, the bright spot, clearly, in the quarter, grew 7% organically with strength in all geographies. Security grew 39% due primarily to the Niscayah acquisition; minus 1% organically with a series of low single-digit puts and calls. Again, Jim will provide more detail on that in our segment breakdown.

So from an earnings perspective, ex-charges $1.09, EBITDA was up 11%. On a GAAP basis $0.72, on a fully diluted GAAP basis. That, of course, includes all the restructuring charges.

About a month ago, March 12, marked the two-year anniversary of closing the Stanley Black & Decker combination. All aspects remain on track. We are significantly exceeding our initial targets and reaching our revised targets, providing further validation, as is the Niscayah integration, of a successful, scalable, global integration process.

I will touch a bit on Niscayah in a bit more detail. It's progressing well. We are slightly beyond the six-month mark. All systems go. As Don will discuss in more detail at the end of our short presentation, we are reiterating our guidance for 10% to 15% earnings growth, 20% cash flow growth for 2012.

Looking at the sources of growth, steady organic growth trajectory was established during the quarter as you can see. Volume was up 2%. We did get 1% of price which was primarily carryover of previously implemented price increases later in the year, so 3% organically. Acquisitions, overwhelmingly Niscayah, contributed another 10% and currency was minus 1% unfavorable for a total of 12% growth.

Looking at some of specific businesses. As mentioned, Industrial strong, plus 7% globally organically. Our Professional Power Tools and Accessories business, new product driven, grew 6%. Our Residential Mechanical Access business -- Mechanical Security business grew 6%.

Consumer power tools, which does include outdoor, shipments were up 2%. Hand tools, fasteners up 1%. Convergent Security down 3% at the pro forma with Niscayah and MAS commercial down 4% with the declines focused on our access business and commercial locks and national accounts with some strong competitive activity. And Jim will talk a little bit about that and our feelings towards those businesses going forward. We still feel they are high-margin businesses in very good shape.

Let's look geographically at the first quarter versus prior year. Middle left if we start with the US, which represents 40% of our revenue; it grew 1% in total organically.

Moving to the right EMEA -- Europe, Middle East and Africa -- our second-largest geography, was flat organically but it was really a tale of two geographies. Strong growth in the north, where the majority of our business sits, offset by some significant declines, primarily macroeconomic driven in Southern Europe. But all-in Europe was flat which was slightly ahead of our expectations for the first quarter on a global basis.

Looking and our emerging markets, Latin America up 19%, continuing to show strong growth across all businesses. Asia up 10% representing 5% of our revenue, 13% if we exclude Engineered Fastening in the quarter. Finally, two small but well-established geographies were down low single digits -- Canada and Australia. Lots of competition in CDIY and IAR in both of those markets and some conscious business withdrawal of Security in Australia.

Just a brief update on Niscayah as we have just passed the six-month mark since closing that acquisition. So far so good I think is the best way to summarize Niscayah, but just a little more insight than we have provided in the past that we think will be helpful. No change in our target for $45 million in cost synergies and about $0.20 of accretion this year; $0.45 of accretion on a cumulative basis by 2014.

We are managing this process the exact same way we manage all significant acquisitions, with a fully dedicated integration team and regular rhythms reporting to senior management that includes Don Allan, Jim, myself, and several of our key staff officers.

All regions and functions are on track to meet or exceed their synergies. We do have a leadership team that is now focused on embedding disciplined operating rigor as well as driving growth initiatives for this business. Importantly, 85% of Niscayah is in Europe. We recognized and included a weak European market environment in our original projections and commitments on EPS, and to date volumes in Europe are actually down slightly less than we anticipated when we put the deal together. Jim will talk of little bit about that when he discusses Convergent Security.

Just one last point on Niscayah, 15%, for only 15% of the businesses in the US, but a disproportionately larger percentage of our synergies are coming in the US due to overlap. Those are 90% complete in terms of field office location consolidations, management consolidations. We have -- very capable commercial and vertical market expertise has been added to Stanley's Convergent Security team via Niscayah.

Europe remains on track as well, but as you all know, it's at a slightly slower pace due to the regulatory environment in Europe. So at this stage at the six-month juncture good feelings about Niscayah, both strategically and from an integration perspective.

Let me turn it over to Jim, who is going to take you, with some more granularity, through our three segments.

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

Okay, thanks, John. Let's start with CDIY. CDIY had an in-line quarter and continues to build momentum. Revenues totaled $1.228 billion, up 1%. Operating margin was $171 million, also up 1 point. Organic growth was up 3%. All attributable to volume growth and price was neutral.

The OM rate held flat despite a severe 230 basis point inflation headwind as productivity projects and synergies offset that issue. Along geographic axes, the mid-teens organic growth in Latin America offset EMEA, which was down 2% organically, driven by weak market conditions, especially in southern Europe.

The all important North America region was up 3%, but the encouraging developing story is POS performance. In North America, aggregate POS at are nine largest customers was up 12% with six of the nine in high double-digit territory and one of the remaining three around 10%.

POS for Professional Power Tools and Consumer Products were each up approximately 20% while Hands Tools and Fastening was up in the low single digits. Now, conversely, organic sales by product line were mixed as Professional Power Tools and Accessories were up 6%, Consumer up 2%, and Tools and Fastening was up 1%. Clearly, inventories at retail are lean and below normal levels going into the Father's Day and spring season.

Looking forward, we remain positive on 2012 CDIY growth prospects for both revenue and operating margin despite the European weakness and the timing of US home improvement-related sales. It shouldn't come as a surprise to anyone that sell-in to the channel lags sell-through at POS by a quarter or so when the first-quarter POS gains occurred so abruptly and the markets seemed to firm up so abruptly at POS.

In our guidance we have assumed continued sluggishness in the US, but based on first-quarter point of sale, the market now clearly appears to be firming for housing and home improvement. If that continues it bodes very well for performance versus expectations as we go forward.

Europe will continue to be a headwind but it will be offset by strong new product initiatives, as well as revenue synergies gaining momentum in the third year of the BDK merger, and we are bullish on CDIY margin rates for the remainder of 2012 as ongoing productivity initiatives will deliver 2% to 3% productivity. We will have very limited unrecovered inflation for the year. Although the tale was an issue in the first quarter, this is behind us now.

Thirdly, a boost from incremental cost synergies related to the merger, plus CDIY's share of the Company's previously announced $150 million cost reduction will impact the next several quarters. And, finally, we are mixing into both emerging markets and new products, both of which have higher than line average margins.

Our new brushless DC and 20 volt cordless product introductions are now underway in the lineup of new Black & Decker branded products. And outdoor and home products is the most impressive in several years. So let's move to Security.

Security achieved excellent revenue and margin growth as the Niscayah integration proceeded in accordance with our expectations. Security revenues totaled $763 million, up 39%. They were powered by Niscayah, which closed last September and put $1.2 billion of idle cash to work. Operating margin was $92 million, up 25%.

The profit rate was 13.4%, as Niscayah mixed it down from 14.2% last year. Excluding acquisitions, the profit rate was 15.5%, a healthy 130 basis point increase over the first quarter of 2011. The increase was driven by strong price inflation recovery as well as ongoing productivity initiatives.

We saw some early analyst notes lamenting low security margins. However, those of you covering us for some time know that first-quarter security margins are seasonally low, so it's important to focus on the year-over-year performance and not the sequential change in rate.

Moving to Niscayah, Europe now represents about 40% of security revenues. And given the European market conditions, this causes some short-term revenue pressures; however, our announced EPS commitment already assumes significant downward pressure. As I mentioned last quarter, up to a 10% pro forma organic growth downdraft can be absorbed with no negative impact to committed EPS accretion. Notably, the Niscayah pro forma organic growth was minus 4% in the fourth quarter and slightly more favorable in the first quarter.

It was a mixed quarter for organic growth in the overall Security segment, which was down 1% in total. Resi Mechanical was a standout for the quarter at plus 6%, benefiting from strong market conditions and share gains. Total CSS, including Niscayah, was minus 3% with legacy CSS down 5%. The latter was driven primarily by legacy international activities, the UK, France, and Canada specifically, as well as the wind down of a leasing program implemented in the US during the capital crunch a couple years ago.

RMR was slightly up in the first quarter and new installs were flat. CSS backlog increased significantly in the quarter as orders were up 6%. Commercial mechanical revenues were down 5% due to weakness in the contract construction channel, which was exacerbated by a shift, a continuing shift, to mid-price point products.

In summary, a big sales and profit growth quarter for security with most of the benefit coming from the Niscayah acquisition and resi mechanical organic growth performance. The overall Security organic growth picture is more promising for 2Q with a growing CSS backlog in the US and strong first-quarter order activity. Europe will remain tepid, but Niscayah will continue to perform in line with our commitment.

Now on to Industrial.

Once again, Industrial delivered a strong performance. Revenues were $662 million, up 10% -- up 7% organically. Operating margin was $124 million, up 19%. Profit rate was a record 19%, up 150 basis points from a year ago. Volume, leverage, productivity, and solid price inflation recovery all contribute to the expansion.

Performance was strong across the businesses with IAR, Engineered Fastening, and Infrastructure all hitting their stride. The Industrial businesses continued to be on a great run with 10 consecutive quarters of margin expansion, cooperative markets in most regions of the world, good organic growth momentum, and above line average profitability levels across the segment.

Now I will turn it over to Don Allan.

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

Thank you, Jim. If you start on page 11 and walk through the working capital performance for the first quarter, you can see that the Stanley Fulfillment System continues to drive progress in working capital where our turns went from 5.6 in the first quarter of 2011 to 6.0 in the first quarter of this year.

Obviously I will remind everybody of the seasonality effect that we experience with working capital from the fourth quarter to the first quarter every year, primarily due to our CDIY business, as we see significant shift in the timing around receivables and inventories in the fourth quarter as they wind down in the later stages of December. Then in the first quarter with a slow first two months and then March volume accelerating and manufacturing activity for the spring season really drives that dynamic.

So we saw a retraction of our working capital turns from 7 turns in the fourth quarter to 6 in the first quarter. But I would expect by Q2 that would be bouncing back very close to where we were in Q4 and then we will continue to make progress throughout the remainder of the year. And I will touch on that in a little more detail when I get into guidance later on.

Looking at the different pieces of working capital, you can see that we continue to make improvements in the area of accounts payable with term changes, process improvements, centralizing sourcing, etc., have really driven significant benefit in that particular area. It's an area of focus, as many of you know in the early stages of implementing the Stanley Fulfillment System.

We have made great progress in receivables. Due to the timing issue, you don't see it necessarily in the first order but you definitely will see that continue as the year progresses. And then inventory continues to be our big opportunity. We have made nice progress in that in 2011, but 2012 is another opportunity for us to reduce days in inventory levels and continue to make progression around process improvements. We definitely feel like we are on our journey to 10 working capital turns by the middle of this decade.

So with that, move to page 12. We would just like to remind various folks about how our performance has been versus our peer group over the last three years. The Stanley Fulfillment System really is a proven competitive advantage for us. As you can see on page 12, for 2009, 2010 and 2011, our working capital turns significantly outpaced our peers in many ways. In 2009, we were close to 8 turns, well above the peer averages.

We look at it in two different peer groups, industrial and tool peers, and then our security peers. And you can see that we significantly outpace their performance in that time frame.

The same thing in 2010, when you look at legacy Stanley at 8.6 turns. And then as we integrated Black & Decker, we were at 5.7. So we kind of had a bit of a restart around the Stanley Fulfillment System, and we made a lot of significant progress as you know in 2011, and got the total combined company up to 7 working capital turns, again significantly outpacing our peer groups which were approximately at 6 turns at the end of 2011.

But even more importantly, if you look at the free cash flow conversion -- and again free cash flow for us is before dividends but includes capital expenditures -- our free cash flow conversion has significantly outpaced our peer group as well. You can see 187% in 2009, 150% in 2010, and then 102% in 2011.

These are GAAP numbers and they do include restructuring charges associated with M&A activity for 2011. If you exclude that, we were actually at 115% free cash flow conversion in that time frame. Again, significantly outpacing our peer group.

So we really feel like we have illustrated our continued ability to outperform in this particular area. Many of you are aware how significant the Stanley Fulfillment System is in our culture and our processes within our company.

So with that I would like to turn to 2012 outlook. We are reiterating our outlook for 2012. We believe our earnings per share will grow 10% to 15% and that is $5.75 to $6, as John mentioned earlier on.

Just a few key operating assumptions embedded in there. As we indicated back in January, we believe our organic net sales will increase 1% to 2% on a pro forma basis. So when you include Niscayah in our revenue base for 2011, it should be approximately $11 [million]. This also includes the impact of the BDK revenue synergies as we continue to make progress in that area.

We have cost synergies related to the BDK and Stanley merger of $115 million or $0.50 this year. That is incremental year over year. And then $45 million due to the Niscayah acquisition that John touched on, which is $0.20 in EPS.

The cost reductions that we embarked on that we completed in the first quarter that are behind us now of $150 million of an impact on 2012 results in $0.70 earnings accretion for 2012. As a reminder, we also gave an indication of geographic organic revenue performance for this year back in January, and we are reiterating those items as well in this particular outlook.

North America, we believe will still be up about 1% so it's reflecting modest market share gains and no US residential construction rebound. Performance is consistent with what we saw in Q1, but as Jim indicated as he reviewed CDIY this clearly indicators that POS is getting stronger and maybe the potential for stronger performance. But we will continue to monitor that as we move forward.

Europe, we have down 3% in the first quarter. They were relatively flat, as John touched on, but we still have concerns about certain areas of Europe, in particular Southern Europe where they are showing significant declines. We believe that Europe for the year will be down 3% given those conditions.

Emerging markets up 10% to 15% so that would be slightly slower growth than what we experienced in 2011 and Q1 was slightly better than 15% at closer to 16% to 17%. So we continue to monitor that to see what types of activities are occurring within these different emerging markets.

The end result from a free cash flow perspective is that we do believe we will be at $1.2 billion free cash flow before various M&A charges and payments. And that does assume a modest working capital benefit within there as we continue to make progress with the implementation of Stanley Fulfillment System versus our achieving 7 working capital turns in 2011.

On page 14 a little more color on our thoughts around outlook associated with the different segments. CDIY, for revenue we believe we still are looking at a low single-digit organic revenue growth performance. At this stage, we continue to monitor POS to see if that will change in the second quarter.

We feel very good about the successful launch of our 18 and 20 volt cordless products that occurred last year that continue to carry over into the first half of 2012. And there will be various new products launched later in the year for the back-half performance that will allow us to continue to gain share in different channels.

We do believe weakness in Europe will continue, but it will be more than offset by modest growth in North America and then continued strength in both Latin America and Asia. In Security, we are looking at low single-digit organic revenue growth performance, so even though we had a slight revenue decline in Q1 we expect that to change in Q2, as Jim indicated, and continue through the remainder of the year.

We have embedded a negative retraction for Niscayah revenue within our earnings or EPS accretion estimate of $0.20, up to a 10% decline, as Jim also stated. Despite the drag on the segment margins due to Niscayah, due to the various cost synergies and cost containment actions, we do expect the operating margin rate to improve significantly in Q2 and continue to perform better throughout the second half of this year.

The Industrial segment, really strong performance in Q1 from a revenue perspective. We do expect that to slow down slightly as the year continues as the comps get more difficult as the year progresses. Our IAR business continues to be strong in emerging markets, so we expect that strength to continue, although it will begin to slow down a little bit from a growth perspective in North America. Although we will continue to see growth, but we do expect to see some weakness and slight retraction in Europe in that particular business.

In our Engineered Fastening business mid single-digit organic growth for the year as the recovery in Japan continues and that continues to be a strong growth performer for us. We do expect to see slower auto production in Europe, although results and growth -- it will be much less growth than what we experienced in 2011.

So to summarize the presentation portion of the call this morning, we continue to be focused on margin accretion and top-line growth. They are our top priorities for 2012, along with focusing on the integration of various acquisitions, primarily Niscayah. We have taken proactive cost actions. We are prepared to respond to market growth with greater than what we are anticipating. We are also rolling out new products to try to gain as much share as possible in all our different businesses.

Our long-term capital allocation strategy continues to be the same. We indicated back in January that we were evaluating a meaningful dividend increase in 2012. We believe that we will have a significant, meaningful dividend increase. It will be anticipated in the second half and it most likely will be in July as we want to get back to our normal timing around dividend increases that we had before the merger.

The Stanley Fulfillment System, as I touched on, continues to drive great improvement and we are focused on our mid-decade goal of 10 working capital turns. As a result, we believe we will have $1.2 billion in free cash flow for 2012, which will be a 20% increase for 2011.

That concludes the presentation portion of the call.

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

Great. Sandra, if we could open up for Q&A now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Feldman, UBS.

Jason Feldman - *UBS - Analyst*

Good morning. So if we use the historical 18% to 19% of annual earnings for the first quarter, the first quarter seems consistent with your full-year guidance. But you seem to be very confident that security markets will kind of progress over the course of the year and improve from the Niscayah synergies kind of better than normal seasonality.

What is the offset in the other direction? Why shouldn't the first quarter actually be smaller than that 18% to 19% or the full-year number be higher?

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

Jason, it's Don. I think the 18%, 19% clearly, as you indicated, represents the historical view of the two different companies, primarily driven by a lot less volume in the first quarter versus the other three quarters. We tend to have $250 million to $300 million less volume in the first quarter as a result of that seasonality. Primarily in CDIY, but also in our security business that drives a lot of that.

So we do expect continued operating margin rate expansion and additional growth in our Security segment as the year progresses, so we do expect that to improve significantly versus the first quarter. I wouldn't necessarily expect that our Industrial segment would continue at a 19% operating margin rate that we saw in the first quarter. We are really pleased with that performance, but as we look at investments we are making in that area as well as a slightly lower volume growth as the year progresses, I would expect that that would return back to levels that are closer to 17%.

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

Jason, this is John. Just to be very specific because a lot of folks on the call have not followed the Company for 10 years, as Jim alluded to. The two specific seasonality items to which Don referred in CDIY has been quite evident over the years.

January is always a very soft month in terms of shipments as the big-box retailers wind down their inventory in anticipation of their year-end close in January. It does ramp up in Feb/March, but first quarter for CDIY is always a relatively soft quarter as Don suggested.

Within Security there is the seasonality to which you referenced, but I guess for others' benefit, normally that is within Access and in MAS, Commercial MAS. Within Access there is often weather-related delays in terms of snow, rain, flooding. Far less of that this year than in the past, but most of that is focused on national accounts. And a lot of retrofits aren't scheduled until the second quarter, so they don't face weather delays.

On the MAS business we do a tremendous amount of business on university campuses, also more and more business with our Convergent Security Solutions. It stands to reason the overwhelming majority of that business happens in June, July, and August when there are fewer students on the campus. So second and third quarters for years have been better quarters than first and fourth for Security.

So hopefully that adds just a little more color to what I think is fairly well understood, but if not it's an important clarification.

Jason Feldman - *UBS - Analyst*

No, that is very helpful. Then, lastly, I think given positive commentary from some of the big retailers in first-quarter construction activity I think some people may have thought that CDIY from a revenue perspective could have been a little bit stronger.

Can you elaborate on, I guess, two points? How much of a difference was there, how much of an impact did the difference between POS and your shipments make in the quarter? And also how much of a lag -- I think you have talked about this before, but if you could kind of refresh our memory on how much of a lag there is between any pickup in construction activity and when you actually start to see the benefit for CDIY sales? (multiple speakers) couple of quarters typically.

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

I think I covered a lot of the POS versus shipments, but I will hit the numbers again very quickly. The POS was up 12% for the quarter, and as you know, organic growth was up about 3%. So, clearly, there was a significant lag in terms of the sell into the channel.

It is not surprising to me at all. When you think about how the quarter unfolded in the sense that the fourth-quarter POS was probably in the neighborhood of 1% positive and then all of a sudden in January it's up 10% and it's up 10% all quarter. It didn't get stronger, it didn't get weaker, it just stayed up 10%. So it was almost like a switch was flipped and POS was up 10%.

Given that, if I were a retailer and given the warm weather, I would be sitting there saying with the weather-related pull in at first -- certainly don't want to bet a bunch of inventory on the fact that that might be the case or not the case. So normally we would have a lag of probably about 60 to 90 days anyway, and if you listen to some of the commentary from the retailers they were clearly citing the weather as a factor.

Now whether that was just an attempt to kind of tamp down expectations or whether that was a real issue or how much they attributed that in reality to that phenomenon I think is up for discussion or debate. But there was clearly -- that piece of it had a big impact and I think they were maintaining a cautious stance in terms of throughout the quarter with regard to buying additional product and building their inventories. We know that they ended the quarter with some of the leanest inventories we have seen in a long, long time at retail.

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

Next question, Sandra.

Operator

Stephen Kim, Barclays Capital.

Stephen Kim - *Barclays Capital - Analyst*

Thanks a lot, guys. I wanted to just follow up, Jim, on what you were just talking about. I thought I heard you say in your opening remarks that, in your view, given the POS data that it seems like US housing is -- I think you used the phrase, clearly recovering, but I might have misheard you.

I guess my question relates -- given the strong POS that you have seen here, I was wondering if you could give us a sense for why you are still sort of waiting for 2Q to shape up and if there is something that maybe you haven't mentioned that gives you pause and makes you think perhaps there is, let's say, a weather-related effect or something about the mix of what kinds of products you are seeing very strong POS versus what kind of products you are not or if there is something like that?

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

Yes, the POS was very strong in Power Tools and in Consumer Products, including Power Tools and Outdoor Products. So Outdoor, while it may have been weak last year -- if you recall the weather was extremely unfavorable last year -- it certainly reversed itself this year. And the POS in outdoor was up close to 30%. But Power Tools was up to about 20% in the aggregate, a little bit less if you take accessories and put them into the equation.

Now I think some of that is clearly share again. I don't think you are going to see a home-improvement POS numbers around 20% for the tool category. Some of that was clearly weather and there is no doubt in my mind -- we had somewhat weaker POS last year in the first quarter and I could attribute that to some very, very cold and negative weather conditions.

However, I think it would be foolish to assume that all of it is weather or even the preponderance is weather. I think that clearly if you look at almost any housing-related statistic in the country you will see some modest improvement. I think people are going back to work gradually in construction.

Projects I think may be even a bigger part of it, home improvement projects where you had several years deferral of do-it-yourself projects. We clearly have heard from some of the retailers that they believe that is a factor.

So I think it's a mixed bag of things but general economic conditions are better, confidence is higher. There is, in my opinion, a clear indication that the home improvement market is getting better and it's not just due to weather. Now some of it is absolutely due to weather.

Stephen Kim - *Barclays Capital - Analyst*

Okay, that is really -- that was really great. I appreciate that.

I guess as a follow-up, can you give us an indication for how your Bostitch business or your Fastenings business did? Specific I am talking about the Bostitch type business. And accessories, you had mentioned -- I think you just mentioned that accessories POS was not up as much as 20%, but I just wanted to make sure I heard you. I am really interested in how accessories and Bostitch, particularly the nail sales, performed in the quarter.

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

The Accessories business was -- POS was up about 8% in the quarter, so not the stunningly positive performance that you saw in Power Tools but still very respectable performance at plus 8%. Then the Bostitch business was down in the low single digits. I couldn't give you the exact number but it was probably in the 1% to 2%, 3% kind of a range.

The Bostitch business, and the nails in particular, will be much more tied to home construction as opposed to do-it -- improvement projects than, say, the Power Tools. I think that is probably why we had had some increase in home construction but it wasn't as notable as I think in the home improvement area.

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

Steve, because you will get cut off, I mean just two specifics that we have shared and we are happy. The largest single use, as Jim suggests, above fasteners is structured housing. The second-largest use is palate repair.

So to the extent that the economy is good and industry is good and product is moving on pallets, very large use of Bostitch or large consumption of Bostitch products is in palate. More palate repair than palate making, but it's very important in that segment, in that vertical market.

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

Sandra, next question.

Operator

Michael Rehaut, JPMorgan Chase.

Michael Rehaut - *JPMorgan - Analyst*

Thanks. Good morning, everyone. Sorry, I don't want to necessarily beat a dead horse, and I have -- my follow-up is on a different topic. But just to understand CDIY and the POS lag, which is helpful to point out, we did notice that you aren't necessarily at the same time raising our full-year guidance.

To the extent that a 12% type number comes through or of a similar type of magnitude comes through in the second quarter that could certainly drive some upside to the overall guidance for the full year. Is that just kind of initial caution and you want to see how things continue? Because I think, Jim, you had just mentioned that you think there is something more than just weather at work.

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

Michael, it's Don. If you think about it from the perspective of how Jim described it, POS is a fantastic statistic for us to look at. It helps us as an indicator of where we see what is happening in our major customers, but we also have to look at order trends.

And if order trends are not exactly in sync with that, which they are not yet, it's not necessarily prudent and intelligent to raise your guidance based on an indicator that, although very positive and we feel good about it, we want it to continue. We want to translate it into orders and, ultimately, into revenues.

If that trend does continue at that pace, and we clearly anticipate that the revenue performance would be stronger in the second quarter than currently anticipated. But it's something that we believe in our philosophy and our approach that we actually need to see it translate into orders versus POS.

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

And as I mentioned last year or last quarter on the call -- I guess it was -- well, it was January. But, in any event, we really wanted to position the Company to outperform in the event that we have a construction market or home improvement market recovery.

The reason being that, first of all, it's a good stock to be in for that type of a recovery. What happened was the European cloud that was hanging over Europe was causing some dissonance in that respect. So people, investors, couldn't really feel comfortable with betting on a housing recovery by putting their money in this stock because of the European issues.

So we felt that we would simply take the recovery off the table and then the cost reductions were really put in place to make sure that we could cover the European issues. And so now the Company is still positioned to outperform in the event that this home improvement and housing recovery issue or opportunity is real. And that is where we are today.

Michael Rehaut - *JPMorgan - Analyst*

Just as a follow-up to that maybe just so I can better understand, with the inventories -- so kind of two parts, if I could cheat a little bit, but just to clarify in the first and then second. The inventories you did note are fairly lean so I was surprised that you didn't see at least some level of an increase in order trends given the strong POS. That is kind of the follow-up.

The second thing is on the hand tools and fasteners I was wondering if you could remind us about percent of hand tools, how that is in terms of total CDIY, a rough sense of the magnitude. We have heard that there is -- Home Depot is doing a private-label on hand tools that might kind of alter dynamics or competitive or pricing dynamics in that category; if you have any thoughts around that.

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

I think this is absolutely typical. There is nothing new; the private-label thing has been going on as long as I have been around and long before I even arrived here in 1999. It comes in ebbs and waves.

Ultimately, in hand tools -- hand tools there is only one company in tools that has the brands in hand tools that overarching brand that spans all the categories that we sink a lot of money into, has more brand equity than any other hand tool brand. We support it and we have great end-user demand for it. We back it up with innovation.

We are not private-label. We do very little private-label so let the home centers and the mass merchants do all the private-label they want. What happens when private-label grows, the marginal brands get squeezed.

Ultimately, we are at the high price point, the mid price point. We don't really play at the opening price point. Private-label plays at the opening price point, tries to come up into the mid price point. Runs right up against the marginal brands and runs right up against us; we tend to win.

So we are not terribly concerned about private-label. We focus on our value proposition, which really is all about what the brand stands for. We feed that brand and we feed the innovation and we are happy to participate. That is the life we live in hand tools. Hand tools and Fastening is about 20% of CDIY.

Operator

Mike Wood, Macquarie Capital.

Mike Wood - *Macquarie Research - Analyst*

Thanks for taking my question. Can you elaborate a bit more in terms of what changed with the organic decline in CSS and the order growth that you are seeing? And what gives you the confidence that you will have that organic growth going forward?

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

As Jim indicated, we clearly have seen different trends in the CSS, North America business in particular. Due to some timing of some of the larger projects, we did see a revenue flat performance to slightly down performance in that particular business.

But the order trends are positive. We had a built in our order book in the first quarter, so we just currently -- we believe it's a timing issue and it's not something that is necessarily reflective of economic market conditions at this stage.

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

Just to elaborate a little bit, obviously you don't get denied your follow-up, a logical conclusion if orders are picking up why wouldn't you jack up your organic revenue growth rate forecast.

The issue, of course, particularly in Convergent Security where so much of it is first install and then ultimately recurring revenue related, it is really hard -- it's a much longer cycle business than CDIY where we have all POS that ultimately leads to orders that ultimately leads to shipments.

Quite often we will see the order backlog pick up, but it's for projects to be installed or things to be delivered three, even six months in the future. So to translate that to a quarter is very difficult for our Security team and obviously for Don's finance team to do.

So we are encouraged by the order pick up. Not to suggest that it's all going to show up in the second quarter or even the third quarter as it relates to organic revenue growth.

Mike Wood - *Macquarie Research - Analyst*

Okay. Then in the Engineered Fastening side, are you hearing anything from customers given that resin shortage that was in the news recently about anything that might curtail auto production there?

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

Really nothing more than we read in the newspapers. I think they are scrambling, they are all scrambling to make sure that they don't run into production issues. We couldn't tell you one way or the other whether, ultimately, auto production is going to be impacted by that.

But I will say that, because we really didn't get a chance to talk about Engineered Fastening in the prepared remarks, that we are really pleased with the progress in that business. And that the kind of growing content of aluminum-based cars in auto production is a huge positive for Engineered Fastening because of their self-piercing riveting product line. There is only one other competitor in the world that really has that. And the content in the aluminum vehicles is dramatically higher than in other types.

So they have got great secular momentum in terms of penetration. Of course, the industry remains reasonably strong this year, perhaps not as strong as it was last year, but still pretty darn strong. I think the global auto production was up about 4% in the first quarter and I think we are going to continue to see, notwithstanding some exogenous interruption like you referred to, we are going to continue to see good production in the auto industry and, therefore, good results from our Engineered Fastening brands.

Operator

Dan Oppenheim, Credit Suisse.

Dan Oppenheim - *Credit Suisse - Analyst*

Great, thanks very much. Was wondering in the (inaudible) business you talked about the strong orders and the weather issues there in terms of holding back some of the order trends. As you think about -- if you were to think about that improving, do you think we will then see a slightly less promotional environment there as there is a bit more confident that it's not just a weather issue? Is that sort of what is driving the expectation of the better margins coming through in CI through the rest of the year?

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

That is a significant factor, yes. You said orders; Don was very specific, we have not seen the orders yet or we would be more aggressive with our forecasts. We have seen the POS and, as dawn normally follows night, orders normally -- and shipments normally follow POS, but until we see them we are not going to be encouraged. So I want to be sure you understood Jim's comments. But I think that is a very logical assumption or conclusion, Dan.

Dan Oppenheim - *Credit Suisse - Analyst*

Then, secondly, was wondering about with the $115 million in terms of the cost production where [it has been enacted]. When should we start to really see the benefits of that coming through, should it be second quarter and then beyond?

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

Yes, second quarter and beyond. We were, I think, pretty granular last quarter, but it's absolutely worth repeating and I am glad you asked the question.

Essentially none of that showed up in our margin in the first quarter. We were off and running by late January, early Feb, but precious little, if any, showed up in the first quarter. We expect more than half of it, three-quarters of it to show up the remainder of the year. And some of that will, of course, carry into next year.

Operator

Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Good morning. Can you talk about the strength in IAR? Obviously I think in the US you are still gaining share. Europe was kind of surprisingly strong. With (inaudible) it seemed to me you were making a distinction between the north and southern markets.

Then the strength you are seeing in emerging markets; how is that different than mature markets given the aftermarket exposure? Thank you.

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

First of all, was that one question, Ken?

Ken Zener - *KeyBanc Capital Markets - Analyst*

Absolutely.

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

Just teasing. Let me start with Europe. Europe I was really -- I think we were all really pleased with the European performance. I don't think that the distribution channel in Europe has as pessimistic a view of the economy as some of the people I listen to on CNBC over there, but I do think it's getting more pessimistic as the days go on. Maybe more realistic in terms of what is happening overall in Europe.

But as we know, basically Italy and Spain are really, really down significantly. Like, down as much as 20%, in that territory. Then the rest of Europe is much more sanguine.

So, in fact, the Nordic region, for instance, is quite positive in Europe right now. As we know, Germany, where we don't have much volume but just to kind of completely the journey, Germany is slightly positive too. Largely driven by, I think, the auto industry but exports in general.

So I would expect it to get marginally worse as it sort of spreads, as the malaise spreads around Europe and the reality of the austerity and so forth sets in in some other countries. The UK is a bright spot, I might add. UK for IAR was quite positive. So mixed bag in Europe.

Then the emerging markets, the distribution channels are -- it's interesting. The CDIY and IAR distribution channels in many markets around the world there is a lot grayer and blurrier lines between the channels than there are, say, in the US or in Europe or the developed countries. And so, whereas in the US you clearly have well-defined channel separation, sometimes in the emerging markets it gets kind of blurry.

And so, for instance, in Latin America sometimes it's tough to figure out when you call on a distributor whether they are a CDIY distributor or an IAR distributor. So for us -- and it's true in Southeast Asia. Not quite as true in China, but even in China we see it to some extent.

So anyway, for us it's actually an advantage, I think, to have our IAR and CDIY businesses because we can kind of go into the channel leading with -- if the channel leans towards one or other of those strengths, then we can go in with those products kind of as the lead and then bring our IAR products or our CDIY products, depending on which is the stronger, kind of in there as well. I think that is one thing.

The second thing for us, and one of the reasons I think we are making a lot of progress, is that when we put the companies together, Black & Decker and Stanley, we really got a much more significant scale in the emerging markets and we put a lot more emphasis at our business unit level as well.

So, for instance, now IAR -- we have actually split the management of IAR where we have Europe and Latin America is run by one gentleman and North America and Asia is run by a woman executive.

The reason we did that is so that they could spend a significantly bigger portion of their time on specific emerging market regions. So Joanna, for instance, who runs IAR North America/Asia spends a fair amount of her time traveling to Asia and working hand in hand with the regional people over there, making sure that they have all the resources, making sure that the products are tailored to that particular market and so on. Then Jim, the gentlemen that Europe and Latin America, does the same thing in Latin America.

So they are running their businesses, which are pretty significant businesses, within the developed regions, but then they also have much more time than if we ran them as one large business unit. And so I think -- there is different strategies that we are undertaking in every business to attack the emerging markets, but I think in IAR it's going to be a unique one where it's an experiment to see if it works. But it's so far so good.

Operator

Eric Bosshard, Cleveland Research.

Eric Bosshard - *Cleveland Research Company - Analyst*

Good morning. Just give a little bit more color on the margin trend through the year, specifically two points. One is a little bit more color on -- I didn't totally understand how much of the 2012 cost saves showed up in 1Q.

And then secondly the CDIY margin, I know that there is a price versus cost improvement that takes place during the year; if you could just provide a little bit of sense of how that margin should improve as we work our way through the year?

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

I am assuming you are talking specifically CDIY, Eric, in your margin comment?

Eric Bosshard - *Cleveland Research Company - Analyst*

Yes.

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

So, obviously, the first quarter as I mentioned is the lowest volume quarter for CDIY. It is significantly lower by about $200 million of revenue. And when you look at that and you think about the leverage opportunity where a business that was performed at 13.1% in Q1 probably had, as John mentioned, a little bit of the cost reduction action in the first quarter but not a great deal; that the vast majority of that is going to happen in Q2, Q3 and Q4.

Recognizing those two items and recognizing that our company based on our current outlook, we are going to achieve very close to 15% operating margin for this year, the CDIY business needs to achieve at that type of level as well from an operating margin rate, which means it is going to get to the levels that are around 15% and above as the year progresses.

So when you look at price inflation, that is another positive factor associated with that. The inflation is clearly higher in particular in the first quarter, and it begins to go down significantly in the second and then becomes very small in the third and the fourth quarter. And the price benefits of what we did associated with different actions last year will be a positive that rolls into that as well. And then there's ongoing productivity associated with just normal productivity that occurs every year.

Eric Bosshard - *Cleveland Research Company - Analyst*

And then the underlying margin in the business, is there anything other than inflation? Is that the reason why there is cost savings, there's Black & Decker cost savings, and the profits in CDIY are flat in the quarter? Does inflation explain that is what is offsetting all of the cost saves and the underlying margin is stable? Is that something you could help us with?

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

That is exactly what it is. I mean it is inflation, and then the positives that we have are pretty much offsetting that which is why we have a flat operating margin rate versus last year in Q1. But then like I indicated, that dissipates significantly in Q2 and beyond.

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

Volume leverage, 50% of the $150 million cost reduction over the next three or four quarters, and what we feel will be, at worst case, neutral price inflation arbitrage, those three things all should and will contribute positively to the CDIY margins for the next three quarters.

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

I think if you think about the first-quarter margin and CDIY without the inflation it was a 230 basis point impact. It would have been an incredibly positive story for a first quarter in CDIY. So, yes, we had the inflation; so, yes, we absorbed the productivity and we absorbed the synergies in the quarter.

We are not going to have that in the second quarter anywheres near that magnitude, as was pointed out, and then you have the positives that were just mentioned. I think it's going to be a good story as we go forward.

Operator

Sam Darkatsh, Raymond James.

Sam Darkatsh - *Raymond James - Analyst*

Good morning, John, Jim, Don. Two questions. First off, as it relates to CDIY market share, I know we talked about POS a lot but I am specifically looking at sell-in and reorder rates.

The commentary in the channel was such where some of your primary competitors are looking at growth rates considerably above 3% for their sell-ins. So if you could give any commentary around that or if you are seeing any cannibalization with your new products, maybe the 20 volt is cannibalizing the 18 volt or the DeWalt hand tool line is cannibalizing FatMax, something like that. And then I have a follow-up question also.

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

Sam, we could talk all we want about sell-in, all that is is -- the change in inventory, if it doesn't have anything to do with POS. 20% POS in Power Tools seems to indicate share again from everything I can derive. Really I can't even begin to fathom why there would be major differences is sell-in. That is just something that is going to have to sort itself out in the inventory line.

Sam Darkatsh - *Raymond James - Analyst*

Okay. My follow-up question. Last quarter the valuation of the stock was more like 6 or 7 times expected EBITDA, which probably precludes a lot of acquisition appetite on your behalf. Now the valuation is a little bit -- you get an extra turn there, maybe it's closer to 7 or 8 times. Does your appetite now increase a little bit and what does the pipeline look like for deals this year?

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

I guess three things. I don't give six seconds thought to what our multiple is relative our -- that is assuming an all-stock transaction. And as Don pointed out, we generated $1.2 billion in cash, of which two-thirds is going to be deployed towards acquisitions. So, if you will, our multiple being up or down a turn, Sam, is not a significant factor in our thoughts about acquisition.

Our balance sheet is strong, our cash generation capability is strong, thus from a financial perspective our ability to acquire is strong. What will be the governor is organizational capacity. The good news is our two large integrations are going extraordinarily well.

But if you think about Security they are digesting an acquisition and integrating one that is almost 50% of their size pre the acquisition. Their plate is full so obviously we can look to some bolt-ons that will make sense, but we don't want to overstress the organizational capacity.

Small opportunities in other areas were less of the organization is focused on integration that is where you could expect to see some modest activity. But if you combined two integrations, neither of which are fully complete, Don has very publicly stated and we have -- we have got a couple $300 million of deleveraging that we intend to do.

The pipeline is very full. It will be more organizational capacity than financial capacity that will govern our appetite speed and size for acquisitions.

Operator

Nicole Deblase, Morgan Stanley.

Nicole Deblase - *Morgan Stanley - Analyst*

Good morning, guys. So I want to dig in a little bit to this Security seasonality issue. You guys went through a pretty big effort last year, if you go back to your 1Q11 slides, to reconcile why you had margins down in the first quarter from the fourth quarter as well as year on year.

It looks like you guys -- you should be benefiting this year from the lack of HHI issues, from the lack of some of this acquisition dilution, from the lack of MAS inflation. So if you could just walk me through that that would be great.

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

Nicole, it's Don. I would say that you have to think about a couple of the comments that Jim made around, in particular the commercial mechanical business and the product gap that we are looking to fill related to certain products in the back half of the year. That has certainly caused some pressure to the profitability of that business, particularly this quarter and previous quarters as well.

Then also some timing around some of the access technologies or automatic door business, around that particular business and some of the ordering trends related to national accounts as well. And then there is the seasonality aspect related to what John described, which is there is really three businesses in there -- two of which I have mentioned. One is also the residential lock business that for the first quarter is very similar to a CDIY type business from a revenue perspective. So they certainly feel pressure from profitability in the first quarter as well.

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

I guess of equal or greater importance, first quarter 2012 versus first quarter 2011 we bought a billion-dollar business with single-digit operating margins. It's math. It's up 130 basis points, excluding Niscayah, quarter on quarter on quarter so I am a little bit puzzled as to the need to rationalize the margins.

But between the two -- remember the 13.4% excludes Niscayah. It's a $1 billion business with single-digit operating margins that we will improve over time, but that is why we carved out ex-Niscayah. It's 130 basis point improvement versus same quarter last year, which is the one that was referenced in the question.

Nicole Deblase - *Morgan Stanley - Analyst*

Okay, thanks. Secondly, can you describe how the NiCad promotional activity trended during the quarter? I guess I just don't understand why CDIY margins would be flat Q on Q. It seems like price costs should be getting better. Volumes are clearly getting better and you have -- so just can you talk about that?

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

It really goes back to what I said earlier and I think John and Jim touched on it as well, is we have -- we are not completely covering inflation with price in Q1 in CDIY. As a result, we have 240 basis points of pressure in there associated with inflation that virtually goes away in the second quarter.

But as we talked about for two or three quarters now, that has been a pressure point in that particular business. We didn't have that type of inflation in Q1 of last year. It began to -- the commodities began to trend up late in Q1 and we began to feel an impact of that significantly in Q2 and a rest of the year. So that its anniversarying as we go into the second quarter.

That is the main driver for why you are seeing that flat performance.

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

I think you are seeing a lot more or a lot less promotional activity in CDIY. As you may have noticed, the price was neutral. It was not positive, but it certainly wasn't negative, and I think from a trend perspective that is a good trend.

I think in that business we have spent a lot of time with them. John, Don, and I have spent a lot of time with the CDIY folks walking through promotional strategy, level of promotion, promotional payback, and a number of other things, and how important it is to keep the gross margins moving in the right direction. I think they have listened and have made some changes that are going to be positive as we go forward.

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

Just to add on, Nicole, because you will -- to Jim's point, which I think is an important one, because you won't get another follow-up. We are very pleased with the increased level of sophistication, albeit from a high base of the CDIY team's ability to analyze the effectiveness of its promotions.

If you think about it, you took two do serious players in CDIY with hand tool and power tools strength and maybe different drivers. I give the team a lot of credit. As we shine the light on margins and the impact, sometimes negative, of promotions on margins, which promotions made sense, i.e., did the volume lift more than compensate for the sacrifice in margins and which didn't, they have done great work in the last six months.

So that is just a long way of saying we think we are a lot smarter about which promotions are effective and which aren't. That takes some time with two organizations coming together with different databases and different strategies. And so I think we are cautiously optimistic that by us putting the focus on it, the team taking it very seriously, and internally developing significantly improved analytics we think we have got a better handle on it than we did six months ago.

Operator

Rich Kwas, Wells Fargo.

Rich Kwas - *Wells Fargo Securities - Analyst*

Good morning, all. Just two questions; on auto production you talk about Japanese production and the rebuild here in the second quarter, but if you look at North American production trends it's much higher here in North America versus the beginning of the year. So is that factored into the guidance for Industrial?

Then my second question is, Don, what is the FX assumption now? I think you had a pretty conservative assumption at the beginning of the year. Euro is certainly tracking a little bit better than we all kind of expected, and I know there is still a risk out there, but what is the assumption now embedded in the guidance?

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

On the Engineered Fastening business, yes, we have factored in auto production forecasts in different geographies around the world, both -- obviously there is three major ones for us in North America, Europe, and Asia/Japan, both of them. We have factored that into our particular guidance in that space.

From the beginning of the year we felt that the Engineered Fastening business would be strong. Not necessarily as strong as it was last year given some of the significant increases in penetration and market share gains that they have had, but based on where we are at this point in time we feel good about projections for them for the remainder of the year. But we will continue to watch that closely as the second quarter evolves.

As far as FX, yes, the euro has improved slightly. As I indicated back in January, we were using roughly a EUR1.29 to $1 exchange in our assumption. At this stage it's about EUR1.30 to EUR1.31.

I indicated that basically a $0.01 movement in that would equate to $.015 of EPS on an annual basis, so that could be about $0.03 of positive, if you look at it from that perspective. But you also look at a few other things, like shares outstanding, which is a bit of a negative versus what we originally estimated, it's pretty much a wash.

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

And weaker yet.

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

And weaker yet.

Rich Kwas - *Wells Fargo Securities - Analyst*

Okay, that is helpful. So just follow up just to clarify, the North American you have got 600,000, 700,000 units of increased production versus January forecast. That is in the guidance or embedded in the guidance?

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

Yes, we look at those every month and every quarter as we get new information around auto production forecasts that is factored into the Engineered Fastening business ongoing forecast process.

Operator

David MacGregor, Longbow Research.

David MacGregor - *Longbow Research - Analyst*

Good morning. I had a couple questions on the Security business. Clearly without Niscayah 130 basis point margin lift is a pretty strong performance, but, John, in your opening remarks you mentioned that the Security business was feeling some competitive pressure. I was just wondering if you could go back and talk about that if possible.

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

Doug, yes and no. No, I talked about two things and I may have confused you. When I talked about Canada and Australia -- two established markets; relatively small geographies, but I wanted to touch on them -- I said there was a tremendous amount of competition in IAR and in CDIY.

What I mentioned was in Australia we have had very small Security business, as well as South Africa, that we are deemphasizing. It's that specific. Call it a conscious business withdrawal because it's below line average margins. I may have unintentionally misled you.

No, there is no abnormal competition in the security business, either in the US or Europe. The major players remain aggressive, our focus remains on commercial, but nothing abnormal. And if that was your takeaway, I apologize; I unintentionally misled you.

David MacGregor - *Longbow Research - Analyst*

Good, thanks for the clarification. Because the other question I just had was kind of tying back to the earlier question on acquisitions. As you answered that question you made reference to bolt-on acquisitions, but I guess my question is maybe a slightly different angle here.

As you move through the integration of Niscayah and you approach the completion of that process, can you talk about where you can go strategically from that point in terms of further acquisitions in Convergent Security? Sort of larger acquisitions as opposed to bolt-ons.

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

Sure, sure. I will have Jim take it; I think we are all on the same page.

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

I think we have -- and clear when we stated our strategy about capital allocation, John mentioned that about two-thirds of our free cash flow typically would be allocated to acquisitions. It has been lower over time.

So when you look at $1.2 billion you are talking about a meaningful amount of acquisitions. When you look at the revenue objectives for the Company, we try to get the revenue growth up into the double digits, maybe on top of an average of about 3% to 4% organic growth. So we are adding about 8, 9 points of acquisitions a year with that money that we generate.

And so John also mentioned the organizational capacity being a gating item. It's one of the reasons we have growth platforms, because we have multiple growth platforms.

So we have Security as a growth platform. We used to say electronic and mechanical now we just say Security because we run it as one business.

We have Engineered Fastening as a growth platform. You can see we really like that business a lot. As growth characteristics it tends to be a little focused in automotive OEM, which is great right now, but it's not always great. So there is other growth markets in aerospace and electronics that are really -- other verticals that are interesting to us in Engineered Fastening, so you can expect us to be working on a pipeline there.

Then we have two exciting new growth platforms in healthcare and infrastructure. In infrastructure we did CRC-Evans a while back. It has been a good story for us as the offshore business has grown significantly in that. We have had a weak market in onshore, but that hopefully will change as time goes on.

At some point, we probably will add to our oil and gas activities in infrastructure, maybe branch out beyond oil and gas to some extent. We are looking at some opportunities in that regard.

In healthcare, healthcare -- the value proposition in healthcare is bring productivity to acute care facilities and bring patient safety to acute care facilities and security. We have a small, but growing, business there that we will probably buttress up with a few bolt-on on acquisitions to improve our value proposition, to improve our distribution reach, etc. Those are the types of areas.

Now as it relates to Security, when you start to evaluate the available opportunities in Security, especially in electronic, there is one very, very large company out there that, while it's not for sale, it could be for sale. I highly doubt we would ever do anything to acquire a $10 billion security company, so it doesn't look like that is in the cards.

Once you get beyond that you are into regional players in North America. You are in resi security. Resi security in North America we don't really like that. We like it better in Europe, but there is nothing really meaningful for sale in Europe right now.

So there is not a ton of opportunities. I think we would like to beef up our Security business in the emerging markets, especially Asia, maybe Latin America. Over time you might see something there.

Then, finally, in Mechanical Security today our Mechanical Security business is too focused on North America. We have been trying to globalize that for several years. It has been challenging just due to actionability of assets outside of North America, but that there is always (multiple speakers) commercial locks and access, both.

There is a whole series of different areas that we can play in. We can also work on bolt-ons in the CDIY business to the extent that they aren't home center focused or to the extent that they are not power tool or hand tool focused. So, for instance, accessories is a great opportunity for us -- higher than line average margins, higher than line average growth in general over a long period of time. And we are about half of market share in Accessories versus where we are in Power Tools.

By the way, the opportunities in Accessories are plentiful because it's a very fragmented marketplace. So I think you could see something in Accessories. Then also in some of the blurry areas between Industrial automotive repair and CDIY you might see some activity where it didn't have home center content, and then you might see some geographical expansion in IAR as well.

Operator

Josh Chan, Robert W. Baird.

Josh Chan - *Robert W. Baird - Analyst*

Thanks. Hopefully, two quick ones for you. You mentioned a really strong POS in CDIY. The one category that was not as strong was hand tools.

I was just wondering what caused that. I know you have less share gain opportunities there, but anything else that you would highlight?

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

Clearly, I absolutely believe that the market is stronger for power tools than it is for hand tools right now, and that is one thing clearly our product development, our new product vitality in power tools is exceedingly strong vis-a-vis hand tools. Hand tools is -- if you think about the innovation opportunities in hand tools they are at the margin, whereas in power tools you have lithium-ion which we came out with. Now we have brushless DC, which we are coming out with as we speak. These are big game-changing kinds of product innovation areas, whereas in hand tools we kind of go out into the marketplace.

We go to construction sites; we evaluate how we can inch up the productivity of a worker by changing the tape rules at the increment. It doesn't drive the same level of excitement and so forth in the marketplace, but it supports the brand and the value proposition, etc.

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

I think part of it is just math too. If you think about a history of innovation in hand tools, much lower ticket item, $15 to $25 ticket item. Far less pent-up demand in hand tools we would think or suggest than there has been in power tools. So all of those are contributing, I think, to the spread between power tools and hand tools.

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

It's more of a replacement -- hand tools is really more of a replacement market than it is a new product market.

Operator

Michael Kim, Imperial Capital.

Michael Kim - *Imperial Capital - Analyst*

Good morning. Just to expand a bit on Niscayah, in your Security guidance are you assuming somewhat greater headwind through the balance of the year than what we saw in the first quarter? Is that driven primary by project delays, are you walking away from certain business, or are there vertical markets? Any color you can provide would be helpful, thanks.

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

Sure, Michael. It's a combination of a few different things. Clearly, whenever we acquire an electronic conversion security business there is a bit of a shift in the model. We like to achieve certain levels of profitability around installations and service and monitoring, and Niscayah is not any different in that sense.

So as we look at new installation revenue and new installation projects there will be certain project that we will pass on because they don't achieve certain levels of profitability. And that is really what we are saying when we built in a bit of a revenue retraction associated with that.

Combined with there isn't -- obviously 85% of the business is in Europe. Although there is a large chunk of it that is in the Nordic region and the northern part of Europe, which is Jim indicated, is performing relatively well in many of our businesses, there also is a decent amount of that business that is in the southern part of Europe, in particular Spain and Italy, that we do expect some retraction associated from an economic perspective.

Those are the two main drivers that would really be associated with why we would see a revenue retraction in year one related to Niscayah.

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

Just to add a little more, and hopefully it was clear in what Don said; maybe to say it in a different way. Remember that Niscayah's business, they are extremely capable with demonstrated skills and installation systems integration, a much lower percentage of their business is recurring revenue and monitoring than our model than our base business.

And I think Don said it quite clearly, but just to amplify as the Niscayah business mix shifts from a little bit less systems integration and a little more service and monitoring as a percent of the total, some of the lower margin installs, although they are very good at it and very effective at it, if it doesn't come with the service or the recurring revenue that is what we will pass on. Therein is the, if you will, top-line headwind. But needless to say, it's favorable from a mix perspective, thus the margin accretion assumption that goes into the numbers.

Michael Kim - *Imperial Capital - Analyst*

And just to clarify in the margin accretion is the mix shift roughly half of the overall expectation for accretion or is it primarily on cost synergies that you are (multiple speakers)?

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

No, it's -- Don could give a better. No, it's 80/20 cost out mix shift. Cost out will happen within a 12- to 24-month period. The mix shift is a very gradual thing. That is going to be a one to three or plus year project, so at least 75% of it's cost out and say 25% mix in the short term.

Operator

I will now turn the call over to Ms. Vanek for closing remarks.

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

Thank you all for joining us today. Please feel free to contact me if you have any questions.

Operator

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