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## SWK - Stanley Black & Decker Inc Conference Call to Discuss its Agreement to Purchase Craftsman Brand from Sears Holdings Corp

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**OVERVIEW:**

SWK discussed about its agreement to purchase Craftsman brand from Sears Holdings for a net present value of approx. $900m.

## CORPORATE PARTICIPANTS

**Greg Waybright** *Stanley Black & Decker Inc - VP of IR*

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

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

## CONFERENCE CALL PARTICIPANTS

**Jeffrey Sprague** *Vertical Research Partners - Analyst*

**Sawyer Rice** *Morgan Stanley - Analyst*

**Rich Kwas** *Wells Fargo Securities, LLC - Analyst*

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

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

**Shannon O'Callaghan** *UBS - Analyst*

**Jeremie Capron** *CLSA - Analyst*

**Michael Rehaut** *JPMorgan - Analyst*

**Joshua Pokrzywinksi** *Buckingham Research Group - Analyst*

**Joe Ritchie** *Goldman Sachs - Analyst*

**Jeff Kessler** *Imperial Capital - Analyst*

**Justin Bergner** *Gabelli & Company - Analyst*

**Scott Rednor** *Zelman and Associates - Analyst*

## PRESENTATION

**Operator**

Welcome to the Stanley Black & Decker announcement call on reaching an agreement to purchase Craftsman Brand from Sears Holdings. My name is Kaylee and I will be your operator for today's call.

(Operator Instructions)

I will now turn the call over to Vice President of Investor Relations, Greg Waybright. Mr. Waybright, you may begin.

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**Greg Waybright** - *Stanley Black & Decker Inc - VP of IR*

Thank you, Kaylee. Good morning, everyone, and thank you for joining us on short notice to discuss Stanley Black & Decker's planned purchase of the Craftsman brand from Sears. On the call, in addition to myself are Jim Loree, our President and CEO, and Don Allan, our Executive Vice President and CFO. This morning Jim and Don will provide an overview of the transaction followed by a Q&A session.

Our press release, which was issued earlier this morning and a supplemental presentation, which we will refer to during the call, are available on the IR section of our website and on our iPhone and iPad App. A replay of this morning's call will also be available beginning at noon today. The replay number and the access code are in our release.

As a reminder we will be making some forward-looking statements during our 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 my be materially different from any forward-looking statements that we might make today. We direct you to the cautionary statements in our press release and in our recent 34 Act filing. I will now turn the call over to our President and CEO, Jim Loree. Jim?

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

Okay. Thank you, Greg. Earlier this morning we announced the exciting news that we have reached agreement to purchase the Craftsman brand from Sears Holdings. This is a purchase of the Craftsman brand rights, meaning we'll have the ability to develop, manufacture and sell Craftsman branded products across non-Sears sales channels.

As part of the agreement, Sears will continue to source from its supplier base and sell Craftsman products within its retail channels under a perpetual back-to-back licensing agreement granted by Stanley Black & Decker. Craftsman is an iconic American brand dating back to 1927 that has tremendous consumer awareness, purchase intention, and loyalty, as well as a rich tradition of offering quality products at a great value.

I can vividly remember spending hours flipping through dog-eared Sears catalogs in the 1960s and 1970s, marveling at the scope and the good value of Craftsman tools, the majority of which were American made. Not everyone remembers that 40 to 50 years ago the Sears catalog was the low tech equivalent of what eCommerce is today.

Well the world has changed, but Craftsman is still an incredibly strong brand, albeit one that is largely manufactured overseas and basically situated within one major retailer. I view our purchase of the Craftsman Brand as an investment in organic growth. It will add 1/2 to 1 full point of organic growth annually to our overall Company growth rate, beginning in year two.

It fits squarely within our value creation formula of reinvesting approximately half of our excess capital into strengthening our world class franchises and returning the other half to shareholders in the form of dividends and repurchases. We believe this is an excellent opportunity to invest in, re-Americanize, and revitalize this legendary brand, ramp up product innovation, and broaden its distribution, making Craftsman products more readily available to consumers and growing the overall tool market.

In short, as I said, this transaction centers around organic revenue growth and expansion. Don Allan will cover the transaction specifics in a few minutes, including the very attractive EPS growth profile of the deal, but first, as exciting as this opportunity is, we have been and continue to be acutely aware of the need to manage the potential risks associated with such a purchase.

I can tell you from meeting with him on more than one occasion, Eddie Lampert and his team at Sears Holdings have a compelling vision for the future of Sears, but they also have their share of challenges so there cannot be complete certainty about the future of Sears and what direction it might take. Therefore, it was important to protect our interest by structuring it in a way that minimized risks to Stanley Black & Decker.

We are pleased that we were able to do that with three key points. First, we are assuming no contractual Sears credit risk in connection with this deal. Second, our financials are not tied to Sears' organic revenue trajectory in any way. And third, we have no contractual obligation to supply Sears beyond what we do with them today, which is relatively small.

And with that said, neither are we precluded from increasing our supplier relationship with Sears if we mutually choose to do so on an arm's length basis in the future. So the risks are manageable and contained, and the opportunity is immense, so I will give you some more color on how we intend to proceed with commercialization.

Today only about 10% of Craftsman tools are sold outside of Sears. We will build on Craftsman's heritage as a high quality, value-oriented brand to rapidly increase sales through non-Sears channels. Our plan to expand the brand includes making it available to the retail, industrial, on-line, and mobile channels.

We have already had strategic conversations with several major US retailers, and while we have not discussed specifics yet, the interest level on their part is extremely high. In this regard, we expect incremental average annual revenue growth of approximately $100 million for the next 10 years or so from the Craftsman initiative.

We see growth on the retail side coming from expanded distribution to big box stores, where the Craftsman Brand has never before been available, along with a major push into eCommerce channels.

And regarding the industrial and automotive repair markets, we believe we can significantly expand Craftsman product distribution through our existing industrial distribution points, again, where Craftsman has historically not been available, and also leverage our Mac Tools mobile distribution model to carry the Craftsman Brand.

To accommodate future growth we intend to increase our manufacturing capacity in the United States, consistent with our philosophy to make where we sell wherever possible. This includes plans to open a new high tech manufacturing facility in the US, location TBD, which will leverage industry 4.0 techniques.

We will also increase capacity and employment at certain of our existing US facilities. In the very short-term we plan to source products similar to Sears' current model. Manufacturing in the US is not new to Stanley Black & Decker. We have made products here since our founding almost 175 years ago. We operate close to 30 plants in the US today, including 11 in our tools and storage business with some 3,000 employees. In fact, we have increased our US tools manufacturing employment level by 40% over the last three years.

While manufacturing in the US is not always an obvious choice to some, it makes good business sense for us. We know our end-users generally like to buy products made in their own countries, especially professionals in the trades.

It also improves logistics and distribution as well as environmental impact. We already manufacture many products cost effectively in this country, and in some cases we've been able to bring manufacturing back to the US at a lower cost than producing overseas.

There are only two major tool companies greater than $1 billion in revenues in the world with an extensive US manufacturing footprint, and we are one of them. And this transaction will only expand our presence here.

The other is a very high end company that specializes in the industrial and automotive repair markets, and this footprint is not only appealing to US consumers and end-users but also will be very helpful to us in dealing with whatever the outcome of the China/Mexico trade relationship uncertainty that is pervasive in today's environment. In addition it also enhances our supply chain efficiencies, lowers distribution costs, improves quality control and reduces our carbon footprint.

We believe this transaction and this strategy is both pro-competitive and socially responsible. It creates real benefits for shareholders, employees, the communities in which we operate, and ultimately consumers and end-users. In addition to customary regulatory approvals, the deal requires the consent of the US Pension Benefit Guarantee Corporation, which has the best interests of the many Sears pensioners in mind.

So in summary, we are very excited that we have been able to come to terms with Sears Holdings on this outstanding opportunity. With that, I will turn it over to Don Allan for some more details around the Craftsman Brand today and insight into the specifics of the transaction.

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

Thanks, Jim, and good morning, everyone. I would like to move to page 5 and review the Craftsman brand as it exists today in a bit more detail. As many of you know, Craftsman is very well known brand in the US tools and storage industry, with high retail and industrial channel customer interest.

Today, 90% of Craftsman sales are through Sears and Sears-related channels, including Sears stores, locally owned and operated Sears Hometown stores, and K-Mart. About 10% of sales are through external accounts, predominantly Ace Hardware.

These existing sales of Craftsman product outside the Sears and Sears-related channels will be assumed immediately upon closing by Stanley Black & Decker. The strategic fit of this transaction is abundantly clear. Craftsman's diverse portfolio of value-based offerings complements our existing tools and storage products.

In addition, Craftsman's strong lawn and garden brand is a leading player in US outdoor products, providing us with an enhanced offering in that highly attractive $12 billion segment. This represents another significant potential future revenue growth opportunity for us.

If you look at the current sales distribution of Craftsman products on slide 6, you'll see all the -- you'll see approximately $1.9 billion in annual retail sales. About 35% are in tools, 25% in storage and related products and 40% in lawn and garden. Craftsman brand in hand and power tools include value based offerings within tool sets, mechanics tools, wrenches, ratchets and sockets.

Storage products include garage and work area storage and shelving and door openers, and within lawn and garden, there's a strong offering of tractors and mowers as well as lawn and garden equipment. We believe by applying the organic growth elements of SFS 2.0., especially digital excellence, commercial excellence and breakthrough innovation, we can offer more Craftsman Branded product choices, greater availability to consumers, and create significant value for our shareholders.

This is truly a unique opportunity to acquire an iconic brand which has similar characteristics to our own. And we believe we can leverage our proven capabilities across manufacturing, distribution, product development, and engineering to build on the great Craftsman legacy.

Craftsman, along with our recently announced plans to acquire Newell Tools, will add significant depth to our strong portfolio of tools and storage brands. Over the years, we've proven our ability to invest and grow valuable brands, and this is our plan for Craftsman.

Let's move to the transaction summary on page 7. We believe the strategic rationale of the transaction is very clear. As Jim mentioned, Craftsman is an iconic brand that complements our current portfolio, allowing us to continue to broaden and deepen our offering in the global tools and storage space with products targeted to consumers which are distinct from our other brands.

As I just previously mentioned, the Craftsman brand offers a broad range of product categories that play across a wide range of channels, and we believe there is plenty of space for this brand in the broader marketplace. Putting our financial resources, deep relationships with retailers and channel partners, as well as proven ability to innovate behind the Craftsman brand will allow us to drive significant sales growth and expand product availability outside of Sears.

While only 10% of Craftsman sales today are non-Sears, Craftsman is a leading player in the US tools space and also in lawn and garden. As a result we expect sales of Craftsman Branded products to add to the Company's organic growth by contributing $100 million of annual revenue growth for approximately the next 10 years.

With respect to the key terms of this transaction, we will make two fixed cash payments to Sears Holdings Corporation, $525 million at closing and $250 million at the end of year three. We will also make annual payments related to the new sales of Stanley Black & Decker Craftsman products through year 15. These annual payments will be a percentage of these sales.

They will approximate 2.5% through 2020, then at 3% through January 2023, and at 3.5% for the remainder of the term. All together, the net present value of these various tranches of payments is approximately $900 million.

We will grant Sears a perpetual license agreement to continue selling Craftsman in its stores, which will be royalty-free for the first 15 years and 3% of sales thereafter. I'd also note, consistent with what Jim stated earlier, we are assuming no contractual credit risk with respect to Sears Holding Corporation as a result of this transaction.

In terms of earnings impact, excluding one time costs, we estimate the transaction will add approximately $0.10 to $0.15 of EPS in year one, increasing to approximately $0.35 to $0.45 by year five, and then $0.70 to $0.80 by year 10. Our cash flow return on investment is projected to reach mid teens by year 10, which is very similar to an investment return trajectory of opening a new plant or a new line of business, as we essentially will be building a Craftsman branded business from the ground up.

I'm sure many of you are wondering what the impact of this organic growth investment will have on our operating margins. We expect operating margin rates to be in low teens in year one and to match or exceed those of our tools and storage business on average by year two or three, as we ramp our own manufacturing capacity and gain increased efficiencies as a result.

In regards to one-time P&L charges related to the transaction, we estimate them to be approximately $20 million which will be primarily incurred in year one. Additionally, approximately $80 million of capital expenditures will be incurred in the first four years, including the new manufacturing plant in US, as Jim mentioned earlier.

We expect the transaction to close during 2017, subject to customary closing conditions and regulatory approvals, and it is important to note that there are no break-up fees in the event that the regulatory approvals are not obtained.

One final comment related to this transaction. We remain committed to a strong investment-grade credit rating and plan on using cash on the balance sheet, short-term debt, operating cash flow generated in 2017 and the expected proceeds from the sale of the mechanical security business to fund the 2017 payment on this transaction and the funding requirements related to the Newell Tools acquisition. We expect this capital allocation, combined with the incremental EBITDA from Newell, will bring our credit metric back in line by early 2018.

I thought at this point it would be important to spend a little time and reemphasize our well-established value creation model that has produced and will continue to produce exceptional shareholder value over the long-term. It starts with our world class brands, attractive growth platforms, and scalable and defensible franchises. Then we leverage the power of our SFS 2.0 operating system with its growth elements of commercial excellence, breakthrough innovation and digital excellence to generate out-sized organic growth, operating margin rate expansion, and strong free cash flow conversion, enabling the achievement of our long-term financial objectives.

We then utilize our long standing investor-friendly capital allocation approach to return approximately 50% of our capital to shareholders in the form of dividends and or opportunistic share re-purchases, and utilize the remaining 50% for acquisitions for further strengthening our existing business portfolio.

This allows us to feed the cycle by continuing to invest in our global franchises, where we have world class brands, attractive growth platforms, global scale as well as differentiated product and service offerings through innovation. We will continue to build upon this model to drive value to our shareholders over the long-term.

The Craftsman transaction aligns squarely with our value creation model, and when you consider the recently announced sale of the mechanical security business, it is a great example of an effective use of capital re-allocation where we have freed up capital from a trapped low growth asset and will be reinvesting it wisely in meaningful future organic growth and earnings accretion from the Craftsman Brand.

In closing, we believe the purchase of the Craftsman brand is an outstanding opportunity that enhances our existing tools and storage portfolio. The transaction offers significant organic growth opportunities through increased availability of Craftsman branded products to US consumers. It provides immediate and long-term financial benefits to shareholders, with its substantial contribution to organic growth and EPS accretion, and as I just mentioned, it's an effective allocation of capital. That concludes the presentation portion of the call, and we'll now move to Q&A.

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**Greg Waybright** - *Stanley Black & Decker Inc - VP of IR*

Don, thank you. Kaylee, can we open the lines for Q&A please?

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## QUESTIONS AND ANSWERS

**Operator**

Thank you, we will now begin the question and answer session.

(Operator Instructions)

Our first question comes from the line of Jeffrey Sprague with Vertical Research. Your line is open.

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**Jeffrey Sprague** - *Vertical Research Partners - Analyst*

Thank you. Good morning, everyone.

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

Good morning.

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**Jeffrey Sprague** - *Vertical Research Partners - Analyst*

Very astute-looking transaction here. Jim, you kind of obliquely addressed this in one of your comments. I think in the back of everyone's mind is, kind of the possibility of this border adjusted tax and what that might mean for various businesses. You know a lot of your made in the USA is, you know, with the tag line, with global materials.

I just wonder if you could, you know, put some of that in context, you know for us. Clearly starting with a clean sheet of paper, you're looking to kind of inoculate some of that risk with this move. So what might you be able to do elsewhere in the portfolio and anything you could give us to help frame that would be very helpful?

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

Sure. Well I think we all know that the border adjusted tax is a concept at this point and not a done deal by any stretch. We view it more as one of several political movements or concepts that really drive us to this concept of make where we sell, and another thing that you didn't mention, but I'll just put on the table is, the FX sensitivity that we've experienced over the last few years.

We've done a great job offsetting FX exposure and strong dollar exposure, but reality is, it has cost us over $400 million to $500 million of operating margin over a four-year period. So that and, you know, the possibility that there could be, you know, other forms of trade, tariffs and things like that, lead us to a -- a student body kind of right shift in strategy, which is to accelerate the localization of manufacturing across our entire Company.

So this is, as you point out, an important step in that regard. But there is a lot more happening in that regard already. We do have a lead as I alluded to in the comments, we do have a lead, vis-a-vis our competitors in doing that.

So whatever, from a competitive standpoint I think we're in a great position relatively speaking, but, you know the reality is, it's going to be advisable to have more manufacturing in the US. It's going to be advisable to have more manufacturing localized in all the geographies that we have around the world where it is practicable.

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**Operator**

Thank you our next question comes from the line of Nigel Coe with Morgan Stanley. Your line is open.

**Sawyer Rice** - *Morgan Stanley - Analyst*

Hello, good morning, guys. It's actually Sawyer Rice on for Nigel.

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

Good morning.

**Sawyer Rice** - *Morgan Stanley - Analyst*

Just a quick one and then a follow-up if I could. I guess kind of going off Jeff's question there, how should we think about manufacturing capacity for the Company and what's needed for these products? Would this be kind of excess capacity that's already existing in plants or would we need to see more footprint built for these products?

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

As Don mentioned we have approximately $80 million of capital included in the plan. About $35 million of that or so is for the new plant that I referenced and then there's another, the rest of it, you know, $45 million or thereabouts is for capacity increases.

Now, having said that, the power tool business is, and there's a substantial amount of power tool volume associated with this, is not terribly capital intensive. It's -- effectively we buy components from suppliers and then it's, it's more or less an assembly type manufacturing operation, so it is not capital intensive. Hand tools depending on the type of hand tool can be somewhat capital intensive. So for instance making pliers, you know, it requires a fair amount of equipment. Making a screwdriver requires a lot less. So there's different, there's a continuum for hand tools of capital intensity.

With that said, we have plenty of capacity to ramp up our manufacturing for hand tools, but the -- over time, this is a long tail kind of a growth initiative, and over time we will consume that $80 million of capital that Don referenced.

**Operator**

Thank you. Our next question comes from the line of Rich Kwas with Wells Fargo Securities. Your line is open.

**Rich Kwas** - *Wells Fargo Securities, LLC - Analyst*

Hello, good morning, just a question on the regulatory front. Anything that we should look out for here in the coming months as it relates to this? And then in terms of Sears, any litigation issues in the future that may be related to the Sears enterprise that could potentially impact the relationship or the transaction in the future? Have you protected yourselves from anything that may affect Sears at the enterprise level?

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

Well, the answer is, yes. I'd say the one, the one thing that we need to be clear about is that we protect -- there's certain risks that you can protect against and certain risks that you can't.

And the one that, perhaps the one that we can't protect ourselves against, couldn't, you know is the possibility that between signing and closing, if Sears were to file for some -- if Sears Holdings were to file for restructuring under the bankruptcy, either chapter 11 or 13, that the, the bankruptcy plan would include a, a right to either accept or reject the contracts that we've entered into, so the damages to us under those circumstances would be that there would be, whatever we've invested to date, which is principally investment banking and legal fees, and then there would be no deal. So that, you know, if it was rejected.

Now we don't think it would be rejected because why would the folks at Sears have spent all this time and effort, we literally spent months, you know, putting this transaction together and to cover each other's needs and manage the, you know, the risk profile for both parties, so why would they have invested that amount of time and effort into it if that was their intent? So I think it's, you know, we expect to get this approved before, before there's any indication whatsoever that there would be any restructuring of that nature from Sears. So that's, I'd say the biggest risk.

You know, there's also a risk of, in the event that Sears, as an organization, was not an ongoing concern at some point in the future, there would be some warranty expenses that, or claims that might be promulgated against us by consumers but we're not contractually obligated in that regard. We might take the position that, you know for good commercial sense we would cover those. They wouldn't amount to more than, you know, $5 million or $10 million a year in all likelihood based on, you know, the run rate exposure, so you know, those are the, those are the big risks.

I guess the last one would be, there's always a risk when you, when you do a transaction with a, another party that there could be some form of claim regarding fraudulent conveyance. That would only be possible, that would only be an issue for us if it were determined at some point that when they entered into the agreement, that they were, in fact illiquid or insolvent. We don't believe that is the case based on everything we know at this point in time.

So this has been a challenging transaction from the standpoint of risk management. We've had excellent, excellent legal support, and we think we're in a very good place.

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**Operator**

Thank you. Our next question comes from the line of Robert Barry with Susquehanna. Your line is open.

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

Hello, guys, good morning.

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

Good morning.

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

Congratulations. Two quick questions. One actually a quick housekeeping question since you have us all here, I wondering if you would be prepared to reaffirm the outlook for the year? And then on the transaction, on the $100 million per year in organic sales growth, it seems like you've assumed that straight line. But in reality what would be the factors that govern that pace and given the product and channel relationships you start with, could that ramp to add $1 billion of sales in ten years actually be fairly front-end weighted? Thanks.

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

Okay. I'll take that intriguing question. The first part of it, you know, we feel, we feel good about our guidance that we provided back in October.

The second part of the question is the ramp up is fairly steady, actually, over time, and so as you look at the ten-year horizon, it is, you know, we're going to take on some existing non-Sears channel business day one, as I mentioned. That will equate to roughly $100 million in revenue for us. Then we will build upon that, and you know, we think we can grow about $100 million per year over that ten-year period.

So we don't really see it being this huge ramp in the first 3 or 4 years. It's a very methodical steady climb. And it actually makes sense, because we're really trying to roll this out through various different channels, to different customers and we want to be strategic in our thought process in how we do that.

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**Operator**

Thank you. And our next question comes from the line of Tim Wojs with Robert W. Baird, your line is open.

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

Hey guys, good morning.

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

Good morning.

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

I guess maybe just a step further on that last question. How do you think about just the potential for any sort of cannibalization you know with your existing retail partners and the existing brands you have. Can you kind of talk through what you assumed with that in the guidance?

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

We've actually, you know, we have factored in cannibalization into our modeling. It's not an exact science but we think the way we've approached it is reasonable, and it represents, it doesn't represent a large growth in the overall industry or market.

It really represents a continued shifting within the market. As Craftsman comes more available across broader channels, there will be others that will be impacted by it, and we think the bulk of cannibalization will be outside of our portfolio. It will affect our competitors. But we have factored in a little bit of cannibalization into our numbers.

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**Operator**

Thank you our next question comes from the line of Shannon O'Callaghan with UBS. Your line is open.

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**Shannon O'Callaghan** - *UBS - Analyst*

Good morning, guys.

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

Good morning.

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**Shannon O'Callaghan** - *UBS - Analyst*

In terms of the additional manufacturing capacity in the US, you know, you talked about high tech manufacturing and industry 4.0, how is this new capacity that you add going to look different than your existing capacity and the way you're doing things currently?

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

Well, some of it will be very similar to what we do currently, but the new plant in particular will be a lighthouse kind of plant, where we take all the latest and greatest breakthroughs in industry 4.0 and apply them so that we can really have the most cost effective US manufacturing in the world for, for tools. And you know there's a lot going on in that industrial 4.0 area as you know that can make high labor cost environments much more cost effective in totality because of that, that technology.

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**Operator**

Thank you. Our next question comes from the line of Jeremie Capron with CLSA, your line is open.

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**Jeremie Capron** - *CLSA - Analyst*

Thanks, good morning, and congratulations, guys. I would like you to maybe expand a little bit on the deal structure. It's quite elaborate, the transaction here in terms of the cash payments and the, and the future payments. So maybe expand on your thinking around, you know, what drove that?

And also where do you see your leverage ratio at closing of the transactions that you have ongoing right now and I think Don, you've said you expect to be back into the more reasonable credit metrics by early 2018, so where would that take your leverage to? Thanks very much.

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

Sure. So I'll take the first part of the question as far as our, you know, general thought process of the structure. Yes, there's three different, there's three different payments. There's an upfront payment, payment at the end of year three, and then there's payments annually related to the sales that we generate related to the Craftsman brand.

Our thought process was that we weren't looking to make a large upfront payment for a business that we were going to have to build over a ten-year period, but we did recognize there would have to be some form of upfront payment. We ultimately decided that around $500 million was the right number, and we landed on $525.

And then we recognized there was probably a need for a payment out in the future as we built it up in the first three or four years, and then there was a variation of, as we build our business and that potentially impacting, maybe potentially impacting Sears in a negative way, that there was a component of, kind of a variable payment related to the sale that we generate. That's really how we came to that type of structure and over that type of time frame but, you know, we could have simply paid $900 million upfront, but frankly we didn't think that was the smartest thing to do. We thought it was better to structure something that had a more of a longer term payment structure but also had some variation to it to how well we performed.

On the debt question, yes, I do believe by early 2018, with the sale of SMS, or mechanical security, the cash flow we're going to generate in 2017, the cash flow we'll have on our balance sheet at the end of 2016, we can -- we can handle the funding of Newell, the first payment of this, assuming it closes in 2017, which we expect that to happen, and by early 2018 we'll be back to, you know, kind of the metrics we look to have, which is for debt to EBITDA is in the low 2s and that's really our objective.

It's difficult to say what will happen with debt to EBITDA ratios during 2017, because it really depends on the timing of all these different transactions and when they close. So you know, it will be hard to really estimate that at this point. But we've run various scenarios, and we're comfortable that we're not going to create a difficult situation where we have a quarter that's just a dramatic outlier for those ratios.

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**Operator**

Thank you. Our next question comes from the line of Michael Rehaut with JPMorgan, your line is open.

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**Michael Rehaut** - *JPMorgan - Analyst*

Thanks. Good morning, everyone, and congrats on the transaction.

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

Thank you.

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**Michael Rehaut** - *JPMorgan - Analyst*

Just wanted to take a step back for a moment and, you know, with this transaction. Obviously the, I guess Craftsman, Craftsman the majority is still through Sears, which wouldn't be through your own channel, but, you know, with the incremental roughly $100 million revenue that you're getting off the bat, and then, you know, thinking also about Newell, and those brands, you know,

I was hoping maybe to just provide a bigger picture update on, you know, your market share and your market position within the US. And maybe more broadly North American power tool and hand tool markets, you know, maybe where you were, you know, pre-Newell in both of these markets in terms of, you know, rough, you know just kind of a rough gauge of share and now with Newell and Craftsman, you know, where that might put you, and the overall dollar size of both power and hand tools?

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

Yes. We're not going to get into, you know, market share conversations at this point, Michael, but I will say that the tool market, in particular the hand tool market is incredibly fragmented and the competition is brutal, so our market share is not that high in relation to the overall market. Sometimes there's categories where there are, where, you know, we have pretty substantial share, but in general there's lots of room for, there's a lot, a lot of room for acquisitions in the tool business.

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**Operator**

Thank you. And our next question comes from the line of Joshua Pokrzywinksi with Buckingham Research, your line is open.

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

Yes.

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**Joshua Pokrzywinksi** - *Buckingham Research Group - Analyst*

Yes, just one question. Kind of related to what you were mentioning earlier, Don, on maybe some of the upside or some of the growth being at Sears' expense on some of these independent sales. You know, is there any, I guess, you know, minimum pricing or harmonized pricing between yourselves and kind of inside Sears Craftsman sales or any kind of, you know, anticompetitive element there that says, you know, hey if you're going to sell Craftsman here's a price floor that you have to abide by?

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

Yes, first of all, I didn't necessarily say that we would be taking business away from Sears. What I said was, when we were talking about cannibalization, we had assumed cannibalization, the reality is we believe the bulk of that cannibalization will be impacted more not on us but with our competitors, so I did say that Sears could potentially be one of them, but we're not specifically going to say that we're going to definitely take business away from Sears. We actual hope we're both successful and we grow our businesses successfully going forward, we see that very much a reasonable possibility.

As far as pricing we're not going to get into specifics. They really have their own pricing program. There's nothing in these agreements that says they have to follow certain pricing and certain restrictions around product innovation.

The only restriction they really have is they have to meet certain quality standards of the product through the license agreement, which means they have to be up to a certain standard. Other than that they can innovate, they can price at whatever they think is appropriate in the marketplace, and therefore, we actually think we're creating a more competitive dynamic versus what exists today because primarily Craftsman is sold through the Sears channels. And with us selling through various other customers and channels, with our own pricing structure and our own innovation, we're going to create a more competitive dynamic.

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**Operator**

Thank you.

(Operator Instructions)

Our next question comes from the line of Joe Ritchie with Goldman Sachs, your line is open.

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**Joe Ritchie** - *Goldman Sachs - Analyst*

Thanks, good morning, guys.

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

Good morning.

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**Joe Ritchie** - *Goldman Sachs - Analyst*

So two quick ones. I guess the first one, just to be clear, when you guys think about your long-term growth, you guys had given us a kind of 4% to 6% long-term growth rate for the Company about a year ago. And so now are you starting to think about a slightly higher growth rate or at least toward the higher end of the range?

And then my second question is really around the portfolio. Clearly you're doubling down on the tools and storage business. You've had a propensity to really want to try to transform the portfolio in recent years. How should we be thinking about the longer term trajectory of the portfolio?

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

Sure. I'll take that. It's Jim. Long-term growth rate 4% to 6% organic. That is what we're shooting for. We've been able to accomplish that in a pretty slow growth global environment over the last few years, and we will continue to strive for that 4% to 6% organic.

We have great momentum in our tool business with our FLEXVOLT initiative, with our DC brushless, with our incredibly innovative hand tool product assortment, and our commercial excellence in digital initiatives. That's helping us drive growth in tools.

We have a great business in engineered fastening that also is capable of driving growth rates in that 4% to 6% kind of range whenever automotive production is, is positive. And we penetrate new automotive platforms in that business on a regular basis and that drives above market, above GDP or above auto production levels of growth. So the combination of those two businesses really helps power the growth.

Now, this Craftsman initiative will help the tool business kind of continue as it faces tougher and tougher comps over time, but on a one-two punch of FLEXVOLT and this Craftsman initiative I think will help keep us in that growth rate, kind of band that I described.

But it is important to note that we are an acquisitive Company as you indicated, and we've made some significant acquisitions here in recent years but we've also made almost 100 acquisitions over the course of about 15 years, and we've gone from a, you know, $2 billion Company 15 years ago to, next year we'll undoubtedly be crossing the bridge into $12 billion territory in revenue. So that growth has not solely come from organic performance.

Organic is a big part of it, but in addition we take, as Don mentioned, about half of our excess capital and allocate it to acquisitions and that will enable, has enabled us and will continue to enable us to get the total revenue growth rate at least 10%, maybe even slightly higher, and so that's the growth formula for the Company. As far as the portfolio strategy, we are continuing to pursue the strategy that we pursued for quite some time, which is to be a diversified, a great diversified industrial Company.

And the fact that we've made several tool acquisitions in recent months should not be misconstrued as a departure from the strategy but more a reality that these transactions became available and we were opportunistic and was consistent with our strategy and we executed. So yes, it drives the concentration of the tool business up temporarily, but we will allocate capital to the other parts of portfolio on an ongoing basis and continue to be a diversified industrial Company as we strive to double, you know, the revenue by 2022.

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**Operator**

Thank you. And our next question comes from the line of Jeff Kessler with Imperial Capital, your line is open.

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**Jeff Kessler** - *Imperial Capital - Analyst*

Thank you and congratulations on the transaction.

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

Thank you.

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**Jeff Kessler** - *Imperial Capital - Analyst*

I'd like to ask, get a little bit more micro on the portfolio, and that is in looking at the brands that you've had and the brands that you've acquired over the last year, you know, there was Stanley, then there was DEWALT, Black & Decker and looking at the list of, of names that, you know, that are in front of us in this sector, you're now adding Craftsman, how are you going to position, and how are you positioning right now Newell and positioning Craftsman against Stanley and Black & Decker and DEWALT, how are you going to sell these in effect and stratify them if you want to call it that, to your channel?

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

Yes, well it's early days, you know, in that regard, because we don't even own either of the companies yet. So it would be nice to be able to, you know, have some conversations once they, once we're able to go talk to customers on a detailed basis. But the Craftsman Brand is principally a domestic brand, it does have some legs internationally in some geographies near the US, but really once you get outside -- into Europe or Asia it really has very little brand power, so it probably will be a certainly a domestic brand.

We would like to revitalize the brand as the great American brand that it once was, and still is, but it can be enhanced in terms of its innovation, in terms of its brand power, and so forth, but we have to have conversations with our major retailers that involve, you know, what would the programs looks like? How would we go to market? How we, you know, what would the commercialization strategies be? And we expect that the large retailers will be very receptive to that.

It also will get us into the lawn and garden market, which I think Don mentioned, that's actually a bigger deal than we probably made of it, because the lawn and garden market is quite substantial in terms of size.

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

$12 billion.

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

$12 billion, and our technology that we have in FLEXVOLT ultimately can play in the lawn and garden market we believe. So this is an entree into that I think would be very, very helpful.

Going to Newell for a minute, the, what we get with Newell is the iconic Lenox brand which really is a cutting, you know, like saw blades, band saw blades and linear edge cutting, it's really a niche brand in that area, but it's incredibly powerful, very strong in the industrial markets. So we expect that Lenox will certainly retain that strength and kind of be leveraged outside, you know into some adjacent areas probably.

And then Irwin, which was a brand that was created by the Newell folks over the last 13, 14 years was really a conglomeration. It was an umbrella that was put over about 25 or so brands such as vice grips for example, which is, you know, now a sub brand of Irwin. So we think that Irwin plays extremely well in home centers and it plays extremely well with the trades, so that's an area, the trades in particular, an area where we will gain strength.

It also is -- Irwin in particular in the pliers area is very strong. And that's an area where Stanley historically has been under weight, and accessories as well, where the legacy Black & Decker business was under weight, accessories, we still are under weight, and so that fills that gap right there.

There's nothing concrete at this point in time. We have strengths in areas where these brands are strong and we have retailer relationships that we're going to have some really great discussions with over the coming months and then our strategy will crystallize and we'll probably be able to share more at the analyst meeting that we have coming up in a couple months.

**Operator**

Thank you. Our next question comes from the line of Justin Bergner with Gabelli and Company, your line is open.

**Justin Bergner** - *Gabelli & Company - Analyst*

Good morning, everyone and congratulations on today's announcement.

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

Thank you.

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

Thank you.

**Justin Bergner** - *Gabelli & Company - Analyst*

A couple clarification questions if I may. First off, do the royalty payments or the percentage payments of sales pertain to the inherited $100 million or so of sales? And then are the EBIT margins that you're quoting, do those include these 2.5% as a percentage of sales payments?

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

Yes, they are technically really earn out payments is what they are, related to a purchase price. So as a result, the accounting would put it up as purchase price so it won't be affecting the P&L over the next 10 year, 15 years. The other question you had was related to the, I'm sorry. What was the second -- first part of it?

Oh, related to ACE. The customers that we take on, which is primarily ACE, but it's various other smaller customers, we will not be paying a royalty on that. It's only the, it's only the new, the new customers that we create, and it's really of that $100 million, and it's as that grows, we would not pay a royalty on that, but we would pay it on all the new business that we create.

**Operator**

Thank you, and our next question comes from the line of Scott Rednor with Zelman and Associates. Your line is open.

**Scott Rednor** - *Zelman and Associates - Analyst*

Hello, good morning. I just wanted to know, what's has been the trend for Craftsman outside of Sears? I know they've been experimenting with clearly ACE, but at one point Costco, so what gives you guys a confidence that the consumer still values this brand for someone who's not shopping at Sears?





THOMSON REUTERS

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

Well, we've, we do a lot of brand research in this Company, independent brand research, and I can tell you that Craftsman is a heck of a strong brand. I mean, it's, it is compelling how iconic the brand really is in relation to tool brands in general. So we, we know quite a bit about the Craftsman brand.

It probably plays better with older folks that have been around when, you know, the brand was in its, in its heyday; however, the ability to introduce that brand to younger generations using our eCommerce capabilities and our distribution channels and so forth to penetrate those channels with that brand will be very high.

We have no doubt that with our, the commercial resources that we have in this Company that we will be far more capable and better positioned with no conflicts like Sears would have or has had trying to commercialize the brand, and just -- it's what we do for a living. We manage brands. We commercialize products, we innovate, all that capability --

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

We manufacture.

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

And manufacture -- can be applied to the Craftsman Brand and that's what gives us the confidence that we will be successful.

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**Operator**

Thank you, and we have no further questions at this time. I would like to turn the call back to Mr. Waybright for closing remarks.

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**Greg Waybright** - *Stanley Black & Decker Inc - VP of IR*

Kaylee, thank you very much, and thanks to those of you that were able to join us on the call this morning. We appreciate it, and as will always please follow-up with me with any questions. Thank you.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference, this does conclude the program and you may all disconnect. Everyone have a wonderful day.

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