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SWK - Q4 2014 Stanley Black & Decker Inc Earnings Call

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OVERVIEW:

Co. expects 2015 EPS to be $5.65-5.85.

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PRESENTATION

Operator

Good morning and welcome to the Q4 and FY14 Stanley Black & Decker Incorporated earnings conference call. My name is John and I will be your operator for today's call.

(Operator Instructions)

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

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

Thank you, John. Good morning, everyone, and thank you all for joining us for Stanley Black & Decker's fourth-quarter 2014 conference call. On the call, in addition to myself, is John Lundgren, Chairman and CEO; Jim Loree, President and COO; and Don Allan, Senior Vice President and CFO. Our earnings release, which was issued earlier this morning, and a supplemental presentation, which we will refer to during the call, are available on the IR section of our website, as well as on our iPhone and iPad app.

A replay of this morning's call will also be available beginning at 2:00 PM today. The replay number and the access code are in our press release. This morning, John, Jim, and Don will review our fourth-quarter results and various other matters, followed by a Q&A session. Consistent with prior calls, we are going to be sticking with just one question per caller. As we normally do, we will be making some forward-looking statements during the call.

Such statements are based on assumptions of future events that may not prove to be accurate and, as such, they involve risk and uncertainty. It 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 filing. I will now turn the call over to our Chairman and CEO, John Lundgren.

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

Thanks, Greg, and good morning, everybody. We've got a great deal to talk about this morning so I'm going to run very quickly through the highlights, so Jim Loree and Don Allan can get into more detail and then we can jump right into the Q&A. Looking at fourth-quarter highlights, revenue expanded 7% organically, led by CDIY, up 11%, and strong performance in Industrial, up 5%.

But it's also noticeable that Security expanded in the quarter with mid-single digit organic growth in North America and emerging markets and flat performance in Europe.

Operating margin for the quarter was 13.7%, which is up 50 basis points versus the prior year. Volume, sharp cost focus, and pricing benefits were partially offset by the currency headwinds.

The currency issues that you've heard a lot about intensified in the fourth quarter, as we absorbed a headwind of approximately $30 million in the fourth quarter, which was $10 million worse than we expected. That brought the total for the year to approximately $85 million of foreign exchange headwinds; a combination of translational and transactional.

The Security turnaround continues and we were encouraged that the European operating margin rate improved sequentially and, versus prior year, by approximately 110 basis points. Our fourth quarter capped an encouraging year, so let's just take a minute and look at the results for the total year. Revenue is up 5% organically, with CDIY delivering 7%, Industrial 5%, and Security flat.

Earnings per share grew 14% on an adjusted basis and now have converged with our GAAP earnings per share. Free cash flow was a record, almost $1 billion, as the team delivered over one full working capital-turn improvement, up to the level of 9.2 working capital-turns for the total Company. Our cash flow return on investment improved 390 basis points to 13% as our record cash flow, coupled with our decapitalization plan, improved this metric.

It's probably important to note, and Don can cover it in more detail if need be, 340 of the 390 basis points of that improvement is operational, where about 50 basis points of the improvement was due to the FX devaluation impact on equity; so, arguably, one small benefit of the foreign-exchange headwinds that we've been facing. Finally, we're initiating GAAP EPS guidance of $5.65 to $5.85 per share, 5% to 9% growth, absorbing foreign-exchange headwinds currently estimated at $140 million for 2015 versus the $85 million I discussed in 2014.

But it also includes a free cash flow estimate of at least $1 billion and Don's going to cover that in more detail when we get to the outlook. So moving on, let's take a look at where the growth came from in the fourth quarter and for the year. We achieved strong volume growth across developed and emerging markets. Europe remained strong, particularly strong across CDIY, and Industrial performed well.

Pricing actions within emerging markets and surgical pricing actions across the remainder of our businesses are contributing to organic growth. With this being said, currency headwinds intensified as we moved through the quarter and, as a consequence, dampened fourth quarter organic growth performance by about 4 percentage points, as the dollar strengthened against most currencies.

Again, Don's got some more granularity on that, so I will not dwell on it at this point in our presentation. From a regional perspective, demand in the US was healthy in both retail and industrial. Importantly, in retail, we had strong sell-in as well as strong sell-through in our retail channels. Jim will discuss that and where we stand in terms of inventories as we kick off 2015.

Europe showed some exceptional share gains, most noticeably in CDIY, but also in Industrial, both within IAR and the automotive end-markets, as those markets are likely tracking flat to slightly up at best. Jim's going to talk more about the drivers of that performance. Emerging markets were heavily influenced by strong shipments in our engineered fastening electronics business in Asia, but also experienced good, solid growth in our tools business in Latin America.

When we put it all together for the full year, our organic volume growth and performance outpaced GDP in each and every region where we do business, and that's a testament to the organic growth initiatives that we've discussed on previous calls. Let me turn it over to Jim Loree to get into some more detail on the segments and some of the programs that are driving those results.

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

Okay. Thank you, John. Along those lines, we have made a very determined effort over the past two years to ramp up organic growth and, importantly, translate it into operating leverage. It's fulfilling to close out 2014 with a record 7% organic growth quarter, our highest full-year OM rate since the Stanley Black & Decker merger and record full-year EPS and cash flow.

We also, as John mentioned, achieved 9.2 working capital turns, a first for us, which contributed to a 130% cash conversion ratio for the year. It's especially encouraging that all this was accomplished in the face of $85 million or, about, a little more than $0.40 a share of unplanned currency headwinds amidst a slowing global growth environment outside the US. It's clear that our operating management team is executing at a high level and it's charged up and more than prepared to continue to drive results in a challenging environment.

For the business level commentary, I'll start with CDIY, which served up another outstanding quarter. Organic growth was 11% against a 6% comp in 4Q 2013. All major geographies contributed, with North America up 14%, Europe, once again overcoming challenging end-markets, up 7% organically, and emerging markets up 7%. Total revenue was also up 7% and operating margin grew 18%, demonstrating impressive operating leverage.

Gains resulted from cost leverage, modestly positive price, operations productivity, and tight SG&A cost management, which more than offset severe currency headwinds. Across the global CDIY product lines, organic strength was, once again, broad-based with professional power tools up an exceptional 20% and tools and storage up 10%, fastening and accessories up 7%, and consumer products up 2%.

CDIY new product development momentum, in concert with a business-wide commitment to commercial excellence and continued exploitation of the revenue synergies from the merger, are driving both revenue and profit growth. The DeWalt DC brushless line, powered by electronically commutated motors, is off to a very strong start. This fast-growing category, in which we enjoy a substantial lead, already represents 20% of the cordless market.

Putting the Company's leading array of brands to work across categories, also continues to further enhance our strong customer partnerships, as well as produce favorable POS results. Examples abound, such as DeWalt storage, adhesives, and hand tools, Stanley FATMAX power tools, and Bostitch hand and power tools, which are all producing meaningful gains.

CDIY's robust supply chain capabilities, developed through many years of continuous improvement via the Stanley fulfillment system, have continued to support its commercial successes and also enabled CDIY to achieve 10 working capital turns for the first time. While global growth has been decelerating in most areas outside the US, underlying US tool demand remains solid as DIY fundamentals are strong and new construction markets are moving in the right direction, albeit with some choppiness.

North America, once again, enjoyed the benefits of combining excellent commercial execution in a market with solid fundamentals; the result being 14% organic growth at a positive-share trend. Shifting over to Europe, where the markets remained weak but the performance continues to be impressive, here, our team acknowledges the market realities and understands that strong growth is only possible with our commercial engine hitting on all cylinders.

We call it commercial excellence; that is what they have accomplished over the past seven quarters, accumulating a 7% organic growth track record during that time. Their success has derived from robust new product commercialization, brand leverage, growing customer partnerships, and excellent sales and channel execution. The other CDIY growth story for the quarter was emerging markets, up 7% organically; notable in the face of high volatility and continued downward revisions to GDP estimates, most recently in Argentina, Brazil and Russia.

Nonetheless, Latin America was up 9% organically and the Middle East Africa region was also very strong, a combination more than offsetting weakness in Russia, Turkey and China. Our major NPD initiative and to mid price-point tools, across all these developing markets, is coming at a time when end-users tend to be more cost conscious with their purchases. The program is tracking to plan and is expected to contribute greater than $50 million of incremental revenue in 2015 as it continues to gain momentum.

As we look ahead for CDIY, we anticipate continued strong performance. The winning formula of organizational agility, global scale, robust NPD, great brands, and tight control of costs should more than compensate for a lackluster markets in Europe and some of the emerging regions, as well as a strengthening dollar environment. In this regard, with our CDIY and IAR business both operating from positions of strength, after an extensive evaluation, we recently took the action to combine these two businesses into one global tools and storage unit, with revenues totaling about $7 billion.

While there are meaningful cost savings associated with this consolidation, the overwhelming rationale for this move is to harness the extraordinary go-to-market potential of our total tools franchise. This unified approach will enable us to capture the benefits and competitive advantages of being the world's largest branded tool company.

We are the only player with major positions in each of power tools, hand tools, accessories, and storage, as well as significant global channel presence in all four major end-markets: construction, DIY, industrial, and auto repair. In addition, we intend to leverage the unique organizational strengths of both CDIY and IAR, including technology, product development, and global footprint across a larger base. This exciting next step in our evolution should be viewed as a growth enhancer and a logical extension of the Stanley Black & Decker integration that has produced stellar results over the last five years or so. Turning to Industrial, Industrial this quarter, once again, logged a solid organic growth quarter, up 5%, and maintained its margin in the mid-15% zone. However, FX pressures weighed down total revenue and operating margin growth, which were up 1% and flat, respectively.

For IAR, organic growth of 5% benefited from good performances in both developed and developing countries. North America was up 8%, Europe was up 3% organically in the quarter, capping off a plus-7% performance for the year, and IAR emerging markets came in up 5% with dynamics very similar to those experienced in CDIY. Engineered Fastening grew an impressive 10% organically in 4Q, with automotive up 11%, demonstrating market penetration gains in view of light vehicle production levels, which were up 1%.

The Industrial portion of Engineered Fastening was also a good organic story, with growth up at similar levels as we supported a major customer's very strong new product launches. We continue to love this Engineered Fastening business, which grew to $1.5 billion in revenues, produced full-year operating margin growth of 20%, and achieved a record 18% operating margin rate. Infrastructure was down 10% organically, as lower oil prices and deferral of pipeline projects began to take their toll on our oil and gas business, which represents 3% of total company revenues. All in all, it was a solid quarter for Industrial in view of the currency issues and downward pressure on GDP outside of the US.

Moving to Security, it was a very important and modestly successful quarter for Security which, in addition to its third consecutive quarter of stable OM rates in the 12% zone, achieved positive organic growth with a plus-3% performance.

Total Security revenues declined 1% as FX weighed down total growth and North America emerging markets was up 5% organically, with strength from both the vertical market initiative and from access technologies. Security Europe was flat organically the first time since 2011, the year Niscayah was acquired, that the organic rate was not negative. While that is admittedly comparing against a low bar, the trend is in line with our turnaround plan and thus encouraging.

Europe OM percent was up in the mid to high single-digit range, up 110 basis points versus a year ago and representing the third consecutive sequential quarterly improvement. Order rates in both North America and Europe continued on their positive trend and attrition in Europe remained on target at 12%. The organization has responded well to the leadership adjustments made in the fourth quarter and both North America and Europe are poised to deliver organic revenue growth and be accretive to operating margin in 2015.

While we expect the overall security recovery to be slow and steady during the next several quarters, we do expect it to continue to gain momentum as 2015 progresses. The decision to divest Spain and Italy, previously announced, will remove structural obstacles from the European recovery. In summary, Security has achieved stability during the last several quarters and appears to have bottomed.

In this regard, it should no longer be viewed as a major downside risk, but rather as a modest earnings growth opportunity in the near term. The next step in the evolution is to demonstrate a sustained ability to generate organic growth while further improving cost efficiency. This will play out over the coming quarters. Depending on the success of that trajectory, it is possible to envision OM rate expansion moving toward Company line average over time.

While Security still has a way to go, especially in Europe; the turnaround is on track and we expect it to become an earnings growth contributor in the very near future. With that, I will turn it over to Don Allan for commentary on the financials, including our 2015 outlook.

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

Thank you, Jim. We are very pleased with our 2014 cash flow performance, which resulted in $991 million of free cash flow, just shy of $1 billion. The free cash-flow-to-net income conversion ratio was a healthy 130%, as you just heard from Jim. As we experienced during the majority of 2014, our free cash flow benefited from increased operational earnings, lower restructuring payments, and reduced capital expenditures.

The Q4 free cash flow was stronger than expected, due to these factors, combined with an outstanding working capital turn performance. Due to certain seasonality aspects of our CDIY business, we experience a significant positive working capital benefit in the fourth quarter of every year. As a result, we tend to generate approximately 60% of our annual free cash flow in the fourth quarter.

However, our business has performed above and beyond this seasonality trend and drove working capital turns to 9.2 times, which is up more than a full turn versus 2013. We indicated in October that our objective was to push toward the year-end goal of 9 working capital turns and our businesses did an excellent job exceeding this expectation, due to the continued use of the Stanley Fulfillment System.

It is exciting to see our long-term objective of 10 working capital turns very close on the horizon, hopefully within the next two years. This strong cash flow performance allowed us to achieve our debt deleveraging goals for 2014 and we were able to commence the previously communicated share repurchase program in the fourth quarter through the use of some equity forward share repurchase derivatives.

Now, let's review our 2015 EPS and cash flow outlook on page 10. As indicated by John earlier, we are establishing 2015 guidance at $5.65 to $5.85 of EPS and free cash flow of at least $1 billion. As indicated throughout 2014 by myself, John and Jim, we are changing to GAAP guidance in 2015, due to the lower levels of M&A and expected one-time charges. However, we recognize all your current 2015 estimates are before these one-time charges.

Therefore, to provide transparency in this conversion, we have disclosed on this page that our EPS guidance range includes approximately $0.25 in restructuring charges. On a comparable basis to our adjusted 2014 results just reported today, our EPS guidance range, excluding restructuring charges, is $5.90 to $6.10 EPS. Greg and Dennis will work with all of you over the next several days to ensure this conversion in guidance is clearly understood.

There are several factors within our annual guidance which we consider significant and I would like to explain in some detail, starting with some key tailwinds. The first item is we expect organic growth to be up 3% to 4%, which will be translating into EPS of $0.45 to $0.55, which is a similar leverage ratio we have seen over the past few years. The organic growth is slightly lower than the 5% organic growth we just experienced in 2014, as markets outside the US will likely be challenged in 2015.

Specifically, we expect emerging markets to be volatile and organic growth in many emerging countries will be muted by the strength of the US dollar or political unrest. Additionally, we expect several European markets we serve to be challenged and the outsized share gains we have achieved in CDIY over the past few years, although, have been fantastic; we believe it will become more difficult to repeat those on an ongoing basis.

Also, we do anticipate a slowdown in our oil and gas business from lower crude oil prices. The next item related to tailwinds is the execution of various costs and customer pricing actions during 2015, which will be a tailwind of approximately $0.50. The SG&A cost actions represent a further cost rationalization of certain areas in our company.

Specifically, in the Security business, we are reducing back-office costs and overhead costs to improve profitability while, at the same time, we want to enhance our SG&A investments to stimulate growth within the verticals. We also have taken surgical cost actions in a few functions in other businesses and at corporate headquarters. Additionally, as Jim mentioned, we have decided to combine our CDIY and IAR businesses to better serve our various tools and storage customers and further accelerate growth.

This combination is generating some solid back-office cost savings, as you would expect. All of these cost actions commenced over the past two months and will continue to be implemented in the first half of 2015 to ensure we achieve our profitability objectives. The 2015 impact of these cost actions represents approximately 50% of the $0.50 EPS tailwind.

The remaining 50% of this tailwind relates more directly to actions we can take in response to FX pressures; specifically, key strategic pricing increases for products that we import into the Canadian, Brazilian, and European markets, as well as pursuing commodity deflation opportunities with many of our suppliers. The commodity deflation we are currently focused on is in the areas of diesel fuel, resin, and copper; however, we continue to monitor this area for other future opportunities as the year evolves.

The final tailwind shown on page 10 is the continuation of the share repurchase program in 2015 and we expect the EPS benefit to be approximately $0.09 to $0.12 during the year, as the repurchase program will be staggered throughout 2015 and in line with our cash flow generation as it occurs during the year. Many of you know a large part of our cash occurs in the back half of each year.

Now, shifting to headwinds, John mentioned the FX headwind we've experienced in the fourth quarter. We, like many other US multi-nationals, have a significant headwind for 2015 related to foreign currencies as they weaken versus the US dollar. As a result, we now expect approximately $140 million of currency pressure, given the strengthening of the US dollar over the past 90 days. This will generate a $0.70 to $0.75 EPS headwind for 2015.

I will provide more detailed insights relating to FX impacting our company on the next slide and more importantly, how we hedge these risks and respond operationally. A few other items of note related to annual EPS on the left side of the page you can see; the first is, the tax rate will be relatively consistent with 2014, which means approximately 21%. Also, I want to remind everyone to recognize the seasonality of revenue and profitability in the first quarter, as it is historically the lowest revenue and profit quarter for us.

We expect the normal operating profit seasonality again this year in 2015; however, additionally, we will expect higher levels of restructuring charges and higher levels of impacts of foreign currency in the first quarter of 2015 versus the first quarter of 2014. Specifically related to restructuring in Q1 2015, the charges will approximate 60% of the full year $50 million restructuring estimate. Therefore, Q1 2015 EPS will approximate 16% of the full year EPS.

Let's turn to the right side of the page and discuss a little bit of details around our segments for 2015. We expect mid-single digit organic revenue growth and solid operating margin rate expansion year over year in both the CDIY and Industrial segments, due to volume leverage, price actions, and cost controls, which will more than offset the significant currency impact. Our Security segment will have a modest organic growth number for the full year.

The organic growth in Security North America and emerging markets will complement an improving performance in Security Europe, where we anticipate growth to begin to emerge in the second half of the year. Profitability in security will continue to improve from volume leverage and cost actions, which will more than offset the foreign currency impact. We expect solid year-over-year profit improvement as we continue to progress forward with our Security Europe multi-year recovery plan.

Although the currency challenges have been unrelenting and they are causing a significant 2015 headwind, we believe we are taking all the correct actions to combat these headwinds through our cost control actions and customer pricing initiatives while, at the same time, ensuring we continue to strategically invest in organic growth. This approach will allow us to achieve solid operating leverage on healthy organic growth, but muted total revenue growth due to FX.

Specifically, earnings will expand 5% to 9% on an overall revenue outlook of flat to a decline of 1% in 2015. Moving to the next slide and a little bit of discussion on foreign currency; as you are all aware, the US dollar strengthened during late September and October against the four major currencies which impact us: Canadian dollar, European euro, Brazilian real, and the Argentinian peso.

At the time, this created a negative currency impact of approximately $45 million to $55 million for 2015. However, we have all seen the additional devaluations in most currencies versus the US dollar since mid-November through the last several days. This included other currencies which impact us such as the British pound, Australian dollar, Swedish krona, and Japanese yen.

We have finalized our key currency hedging activities for 2015 over the past several months and, based on yesterday's spot rates, we estimate the 2015 negative currency impact to approximate $140 million versus 2014. This includes the impact of these currency hedges. The expected 2015 impact is approximately 50% translational and 50% transactional. The transactional impact is due to our extensive global supply chains and primarily related to the importing of finished goods and components into regions such as Latin America, Europe, and Canada.

In terms of hedging, our key currencies are materially hedged and, as such, future volatility on our largest exposures, specifically the Canadian dollar and the European euro, have been significantly reduced for the remainder of 2015. As an example, if the euro moved to parity with the US dollar gradually over the next five months, we would only expect an additional $12 million to $15 million P&L impact in 2015.

Now, I'd like to discuss a few things outside of hedging activities related to currencies and how we respond operationally. We are typically prepared to take additional mitigating actions to offset a significant portion of these currency impacts in the following order. First, as I just mentioned, we pursue customer price increases where large transactional FX headwinds emerge, due to us importing US dollar-based products or components into these countries or regions.

The second area is we focus on improving our cost base through the pursuit of commodity deflation in this type of environment. The third area is we look at pulling forward specific planned cost rationalization projects for various selected businesses and functions. Finally, you can't lose sight of the fact that we have to continue to improve our localized production and components supply over the long-term. These actions are all well represented in our 2015 guidance as significant tailwinds.

All these factors are how we manage a difficult currency environment with a proactive approach that ensures we generate solid earnings growth, while balancing our requirement of continuing to invest for future growth. Now, let's move to the summary page of our presentation. We are very pleased with our strong 2014 EPS and cash flow performance, despite significant FX pressure and emerging market volatility.

We achieved many of the objectives we established in early 2014, such as strong organic growth of 5% supported by innovation and the growth investments continue to blossom. Tight cost controls and surgical price actions across the entire Company enabled excellent operating leverage to emerge in our P&L. Security Europe continues to perform better and made solid progress on its multi-year transformation.

Debt deleveraging targets were met and we took a modest step towards our $1 billion share repurchase program in Q4. And then, we exceeded our cash flow return on investment goal and ended the year at the low end of our long-term range of 12% to 15%. Our focus in 2015 will continue to be on improving the near-term returns and relative performance through the organic growth initiatives, Security margin improvements, cost and pricing actions, ongoing working capital focus, and the continued rebalance of our capital allocation.

We believe this approach will continue to be successful in 2015 and beyond as it positions our Company to deliver on the long-term financial objectives we have established. This concludes the presentation portion of the call. Let's move to Q&A.

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

Don, thank you. John, we can now open the call to Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Nigel Coe from Morgan Stanley.

Nigel Coe - *Morgan Stanley - Analyst*

Good morning and congratulations on your organic growth this quarter. Just wanted to focus on price, here, in light of the raw material deflation, have the discussions with your key customers changed in any material way? On top of that, given the currency move, have you seen any change in behavior from your European and Japanese competitors?

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

This is Jim. The deflation, at this point, is not material. It's significant, but not material. It's spread over many, many different businesses and product lines and so forth.

So, for any given SKU or any given product line, it's probably no more than a point or two of the total selling price and we don't entertain price adjustments unless there's really material deflation. That's when the customers will get more interested in doing that.

Likewise, it works the same way on the other side when we have inflation, we don't pursue inflation base price increases with our major customers until it becomes material. So, there's a healthy understanding that for these types of immaterial moves, that we don't rock the boat, if you will.

So, that's kind of the approach there. As long as it continues at this pace, we're looking at, maybe, $40 million, $50 million of deflation across almost a $12 billion revenue base.

Then, the second part of the question --

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

It was on behavior from our European and Japanese customers. (multiple speakers) important to note were there production --

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

If you look at Bosch and Makita, everybody has global footprints with concentration in China. Most folks are using either renminbi or dollar-denominated currencies to basically set purchase prices. The manufacturing costs are, obviously, established in those regions, as well.

You take Makita, Makita has more Japanese manufacturing than, say, some of the others. Bosch has more European manufacturing than the others. So, I would say it's probably, for them, some opportunity to shift some production to these areas where the currency has gone down.

But recognize that in both Japan and in Europe that the labor rates are exceptionally high relative to the emerging markets. So, it would really take some pretty significant currency movements on a sustained basis to make it a practical reality for them to be able to shift a lot of manufacturing.

We also have a fairly substantial ability to shift production into Europe with our manufacturing footprint there. We really don't have much of a Japanese footprint at all.

So, there's some movement that's possible. I think it's really at the margin and not really a significant impact.

Operator

Tim Wojs from Baird.

Tim Wojs - *Robert W. Baird & Co. - Analyst*

Just to talk about the CDIY outperformance there, I think in the press release, you talked about share gains. I'm just curious, where are those share gains coming from? Is it more shelf space at retail? Is it better sell-through, is it just better products? Maybe just a little more color there and then, maybe what's in the pipeline around sustaining that growth rate as we get into 2015?

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

Tim, this is John. The answer is all of the above. You saw the organic growth rate, particularly in Europe, where their market's flat, at best. As Jim pointed out in his segment overview, we've had six consecutive quarters of organic growth averaging 7%. When you're growing 7% and the market's growing zero to 2% on a very best case, there's a significant share gain in Europe.

We're gaining share in the US. Again, Jim gave some of the whys, but to help, we've recouped all the lost share when legacy Black & Decker was a little bit slow, but, for very good reason that we've talked about, to convert from NiCad to lithium-ion. That share loss has been completely recaptured and we've got the offense on the field, specifically with the brushless initiative that Jim talked about. That represents about 20% of the market and we have about 40% of it. So, that's driving, particularly, professional power tool gains in North America.

I think the other bright spot, specifically, is sell-through. On occasion this time of year, our customers, it's quite well-known, keep a very close eye on their inventories in the month of January because that's the end of their fiscal year. January tends to be a slow shipment month and we make up for some of that in February and March.

The sell-through was outstanding in December and January. It's sell-in and sell-through which translates to share gains, again, when our organic growth is about 2X the rate of the market, it has to be share gain, as long as it's selling through.

Lastly, it's been overwhelmingly driven by both ongoing and arguably, breakthrough new product introduction. Our vitality index is in the 30s, which is quite high for a business of that nature, both in Europe and the US.

The sources have been a little bit different. In the US has been professional power tools, primarily; Europe, it's been right across the board. Hand tools, power tools, and even home products, some tremendous innovation in a segment of the business or sub-segment that's more important in Europe than it is in the US, but doing particularly well. The words in the press release said expanded customer relationships, that's exactly what that means.

We've gotten new distribution with customers, particularly in Europe, but elsewhere, expanded shelf space in new distribution, displacing both competitors and in some cases, private-label that's also helped that growth. So, simple answer, all of the above, but that gives you a lot more color on where it's coming from.

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

Just a follow-on very briefly, when you take, last year $300 million of revenue from new product introductions in CDIY, over 1,000 SKUs, and then put those new products to work by leveraging them across, what I call, in my comments our leading array of brands, the flexibility that we have with our brands with DeWalt, with Black & Decker, with Bostitch, with Stanley FATMAX which is growing significantly, Porter Cable and so on, the ability to leverage those new products across those brands and then across the global geographies, at the same time, with the scale that we have managed to put together with both hand tools and power tools in the global footprint of the Company, that's how we're doing it.

The other term I used was commercial excellence. We have committed to commercial excellence and that means all those cylinders in the commercial engine are hitting at the same time. You put all that together and that's what we've created is this commercial machine which is out there gaining share many, many different places around the world.

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

Jim, thanks for that. Without being more specific than we need to be on this call, just one anecdote or great example of what Jim talked about, the Stanley FATMAX power tools, certain North American customers and certain large retail customers elsewhere in the world, it's one of the fastest-growing power tool brands in the market and four years ago, that didn't exist, because Stanley didn't have the capability to make a power tool that would merit or justify putting the FATMAX name on it. It's as Jim suggested, it's a tremendous synergy from a merger that is now four years, almost five in the rearview mirror, but still continues to show some great result in terms of top line opportunity and brand penetration.

Operator

Jeremie Capron from CLSA.

Jeremie Capron - *CLSA - Analyst*

Question on the reorganization that you talked about, in terms of combining the various tools businesses under a single umbrella. Can you give us a little more details in terms of the timeline here and what's the ultimate goal? Are we looking at a single business division for IAR and CDIY?

The second leg to this question relates to the charges that were booked in the fourth quarter. It looks like you booked more charges then guided just three months ago. Is this related to that combination or anything else in there?

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

Yes, this is John. I'll talk about the combination and Don can give you the specifics on the charges. You're directionally right, but your logic -- you don't have quite all the background, but Don will touch on it.

The combination just makes tremendous sense. It isn't the entire Industrial segment, importantly and CDIY, it's our industrial tool business and our professional tool business; specifically, the IAR business and industrial storage combined with CDIY to make about a $7 billion business and clearly, the largest tool business in the world with leading positions in all four vertical markets, as Jim discussed in his comments.

I think, very importantly, there are modest cost savings associated with that, which pale in comparison to the revenue synergies that two areas. The combination of best practices in new product development, our product review board process and everything we do to reflect customer input and marketplace needs to more quickly develop, commercialize, and introduce and sell-through new products across both of those businesses will be a tremendous advantage.

Secondly, to apply technology that's applicable or formerly utilized in one business to the other and lastly, the commercial excellence that Jim talked about, best people, best practices in each and every channel. So, in this particular case, we're very good at taking cost out, we proven that. There will be some back room efficiencies as a result of this.

The driver here, though, is top line synergy, organic growth by combining the best of the best. Not dissimilar -- think of it as the next step in the evolution of the merger of Stanley Black & Decker. There was enough going on that this natural, if you will, internal combination, it would've been premature to try to do that before now. We're going to do it now. It will be reflected in our segment reporting going forward. Let me have Don talk about that a little bit and then give you a little more granularity in the charges.

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

As John just touched on, the segment reporting for the Company will change in the first quarter 10-Q because the completion of this combination of the two businesses will happen in the first quarter. So, we'll still have three segments; we'll have a Tools and Storage segment, which will include CDIY and IAR; we'll have an Industrial segment, which will include Engineered Fastening and our Infrastructure businesses; and then we'll have Security in the current format. Not a dramatic change, just moving one business into another in that change.

Related to restructuring, specifically, we indicated in the October earnings call that we were evaluating additional restructuring of up to $10 million to $25 million beyond the initial guidance of $25 million. We actually recorded about $54 million in the fourth quarter, so it was at the high-end of that range, so it was very close to our expectations. A portion of that was related to a combination of these two businesses. A lot of the charges that took place in the fourth quarter were more associated to the US activities and what's going to occur in 2015 are more related to European activities.

Operator

Rich Kwas from Wells Fargo.

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

Just a question around guidance, in terms of the CRC-Evans business, what type of decline are you assuming within Industrial, given the oil lower prices and that's obviously a high-margin business, so there's the margin impact?

Second, are you assuming any benefit within CDIY or even Industrial, with regard to the lower oil prices, meaning demand benefit? Or is that is assumed to be potential optionality in terms of the organic growth guidance for the year?

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

Rich, it's Don, I'll take that. As far as CRC-Evans goes, as John and Jim mentioned, just first of all, a reminder, it is 3% of our total revenue, just to give you a sizing of it. It is considered a small pressure to us year-over-year.

We do expect that business to probably see 10% to 20% of revenue decline 2014 versus 2015 and it's really just due to what we've seen of this halting of all the activity around constructions of pipelines. Frankly, it's not a very material impact to us, but it does have a marginal impact.

Related to your question around gas prices and oil prices and how does that -- could that have a positive impact on buying activity in CDIY or industrial and whether we factored that, we have not specifically factored that into our guidance. It's something that we certainly we'll evaluate as time goes on over the next 12 months, but right now, that's not specifically factored into our guidance.

Operator

Mike Dahl from Credit Suisse.

Patrick Murray - *Credit Suisse - Analyst*

This is Patrick Murray on for Mike. With respect to the FX headwinds, if we're to see any incremental US dollar appreciation over the course of the year, how much more opportunity beyond what you have incorporated into 2015 guidance do you see as opportunities to offset any incremental US dollar strengthening?

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

I think as I mentioned in my comments, we've done a lot of hedging activities to try to minimize the future impact, but if the dollar continued to strengthened versus all our major currencies, like it has over the last 30 days, there would be an impact. I gave an example of the euro, where if the euro did move to parity over the next five months, i.e, by the middle of the year, that would probably be about a $12 million to $15 million additional headwind to us.

Certainly, we've looked at those different sensitivities and scenarios and they are possibilities. As far as how we offset them, yes, we have evaluated different options and you remember that slide as I walked through what we do, we first look at pricing with our customers in certain markets where we're importing the products, so if there's changes related to those currencies, we have to evaluate whether we want to go back with additional price increases.

The second was commodities. If that environment generates more commodity deflation, do we have additional opportunities that we can go after with our suppliers?

The third area was cost rationalization. I don't think there's a huge opportunity in that particular category, but there are a few things that we could do if we saw continued pressure around foreign currency. So, I think we've done enough sensitivity analysis to feel comfortable that we can deal with a reasonable level of continued strengthening over the next three to six months.

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

To kind of remove the focus from three month to six months, which is not what we're here to do, necessarily, although I know it's an important part in trying to build your model. Don, I think was hopefully very helpful in talking about an equal split translational versus transactional.

This year, it was about 2014. The FX impact was about 60% transactional, 40% translational. Next year it's about 50/50, meaning a little less of it is in our control.

On the transactional piece, Don talked about everything we can do short-term. Long-term, we run a global supply chain network, that I think Jim described quite eloquently. The issue is moving sources of supply to the lower-cost countries, whether it's commodities, labor costs, general costs to manufacture.

The issue with that in the short term, that I think is important to understand, we make premium products in 70% of what we make in terms of tools or 67% are bought by people who do it for a living. The quality standards are extraordinarily high. It's very difficult to qualify material or component suppliers in places like Latin America and certain Asian markets, quickly.

So, despite the fact that opportunity exists, you can rest assured that our supply chain folks are working diligently and vigorously to qualify new suppliers on a longer-term basis to allow us more flexibility to shift production, meaningful pieces of production, to weaker currency markets. But that's something that happens over one to two years, not three to six months. It's just an important distinction to understand.

Operator

Winnie Clark from UBS.

Winnie Clark - *UBS - Analyst*

You noted your organic growth expectations are being muted in 2015 versus 2014 by headwinds outside the US. Can you talk a bit about what you're expecting from the emerging markets, specifically? Because while volatility continues there, comps are not particularly difficult and it seems like your MPP initiatives are getting some momentum.

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

Yes. It's Jim. We think that the emerging markets, all else equal in terms of no major change from where we are today in terms of the environment, will be slightly higher than our overall line average growth outlook, so probably mid-single digits, pushing maybe a little bit higher than that, but in that kind of a range.

Operator

Jeff Sprague from Vertical Research.

Jeff Sprague - *Vertical Research Partners - Analyst*

We almost reached a milestone in no Security questions on the call, but I'm sorry, I'll slip one in.

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

Thank you. I thought nobody was listening.

Jeff Sprague - *Vertical Research Partners - Analyst*

It's nice that you didn't have to spend that much time on it, but could you give us a little bit more detail on how attrition is running, where you're at on the commercial initiatives? Any color you can share just kind of on the sale process for Italy and Spain?

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

We're in a good place on all of those. We're not going to get ahead of ourselves on Italy and Spain for obvious reasons, NDAs and things of that nature. But I think Jim can give you a lot more granularity on attrition and a few of other positive momentum issues.

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

I think as most people on the call the been following us know, we made tremendous progress on attrition in Europe in the last 12 months. We really have put in real process, we have people, measurement systems that are tracking, people that are accountable to manage it. The results reflect the improvements that we've made with respect to the process.

So, getting to that 12%, which was something that we put out there when we were running 17%, 18%, we did that within a year. That's a huge, huge achievement because it enables us to actually have the opportunity to grow now. What I mean by that is, in taking Europe as an example, where the recurring revenue is 40% of total revenue, if you're attriting at close to a 20% rate, you're digging an 8% revenue hole every year before you even start originating new business.

When you get down to 10% to 12%, which is more of the industry average, you have a hole that's substantially smaller, closer to 4% of total revenue and you need order growth in that range to be able to be flat, if you will, and that's kind of where we are now where you saw the flat performance in Europe in 4Q. Now, what we have to do here is sustain the attrition at these levels, which we think is very doable.

From there, we have to rev up the origination machine, but do it in a way where we are going after profitable business and not just cutting prices to get the business, because the other little variable in this whole equation is making sure that the gross margins that you're taking on with a new business are high enough so that you don't kind of depress the overall gross margins of the business. I think the team fully understands that over in Europe.

We have new management in place as of the fourth quarter. It's actually a guy that was the Chief Operating Officer for about a year over there, so he is very familiar with the situation. We've got the country managers, I think, at a pretty good place. Everybody knows what their plan is.

We have the one issue that was operationally impossible to manage, because of the market trends and structural issues, which was Spain, is now, as you know, going to be divested. So, I think the table is set for, what I described in my comments as, moving forward.

We're going to move forward. I wouldn't expect substantial growth out of Europe in the next couple quarters, but I would expect to see it positive.

As we continue to make progress, then we will start to bring in some of these vertical solutions from the US and that's when you can really expect to see the growth start to really rev up in Europe and become more consistent with what we would have expected when we purchased Niscayah. So that's sort of the lay on the land on that one.

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

You asked about process in Spain and Italy and let me just say two things, because, as I reference before Jim spoke, we're just not in a position to provide a lot of insight on it, due to NDAs and things of that nature. What we're very comfortable saying we've got a great team in place and it's a good combination of tested and proven senior Stanley Security leaders with some good help from our corporate business development team to oversee that process.

The other thing, we've broken this out, recognize that Spain is five, six, seven times the size of Italy relative to the size of the business and where the focus is. As you know, Jim alluded to it, our business was heavily focused on the financial institutions vertical and probably 1/3 of the bank branches in Spain have closed in the last year and it's a very difficult competitive environment.

We know it's the right decision for the Company. We do have a good team in place, processes underway, but that's all we're in a position to say about it, for reasons that I know you'll understand and respect.

Operator

Mike Wood from Macquarie Capital.

Mike Wood - *Macquarie Research - Analyst*

If I exclude the [benefit] of the buyback you called out, the midpoint of your GAAP earnings is up about 5% from what you did in 2014. I'm curious, with the free cash flow guidance you gave, which is a starting point of 1% growth, is there anything dragging down on cash flow growth next year, higher CapEx or any kind of working capital progress that you can discuss or should it more closely mirror the GAAP earnings growth?

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

When you look at cash flow for 2015, you have to factor in a couple of things. One, there will be a little bit higher levels of CapEx, but nothing really dramatic or material.

However, the working capital component will be less of a positive and frankly, a modest negative next year, because what happens as you continue to grow, you have to basically get half a turn or a full turn improvement in your working capital turns just to get to a positive impact in the cash flow statement. As we get closer and closer to 10 turns, which is a great thing, the amount of year-over-year benefit or improvement in turns is going to be smaller. So, next year we might get 0.3 to 0.5 of a turn improvement in our working capital turns, but that actually could create a negative in cash flow, depending on where revenue ends up.

That's really a big driver of that. We don't look at that as a major issue. It's just one of the benefits of the great success that we've seen in working capital turns and we still think cash flow is a great story and will continue to be going forward.

Operator

The last question is from Stephen Kim from Barclays.

Unidentified Participant - - *Analyst*

It's John filling in for Steve today. Just the commentary we got over the course of much of 2014, relating to the R&R market, just that it was one of moderating year-over-year, but your sales in CDIY really accelerated over the course of the year. Can you talk about maybe some specific product categories that you've seen particular strength in CDIY? Then, was your commentary that sell-through was strong in the fourth quarter meant to signal that these trends have persisted into the first quarter of 2015? Thanks.

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

Well, I assume you're talking about the US because R&R data, I think, typically that we look at comes from the US. I think all you have to do is look at the DIY performances from the major customers to understand that the R&R market is alive and well. Yes, at least in home centers.

If you look at housing starts, yes, we've had some nice improvement there. We know that, over time, that we benefit from that, as well. I mentioned that the US demand in DIY is strong and it is.

Our POS is even stronger than the underlying demand. So, as a consequence, as we finish out the year, our inventory levels are down about a week in retail over where we would normally expect them to be, which is just indicative of when you have sales of 14% positive organic growth in North America, nobody's going to plan for that. I think that's why you see that.

As far as specific categories, it's really -- if you go back to the professional power tools being up 20%, and I think that could be a clue as to where the most significant growth has been, and a lot of that has to do with the cordless market and specifically, the DC brushless market. So, I think it's really flying off the shelves and it's a great and it's a completely redesigned tool. Its price value combination is very, very competitive.

Its performance characteristics really are untouchable in the market right now, by the competitors. It does it at a price that is reasonable, slightly above competition, That's a driver, it's not the single driver, but it's an important one.

Really, as John said, we've made tremendous progress in cordless, in general, over the last four years, gaining back all that share that was lost in the 2008, 2009, 2010 period. The combination of those things, I think, is just growing, improving exceptionally strong relationships with the large customers at this point in time, very constructive relationships.

Operator

I will now turn the call over to Greg Waybright for closing comments.

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

John, thank you. We'd like to thank everyone, again, for calling in this morning and for your participation. Please contact me and/or Dennis if you have any further questions. Thank you.

Operator

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