ZACKS
INVESTMENT RESEARCH

August 1, 2013

Stanley Black & Decker Inc (SWK-NYSE)

Current Recommendation	NEUTRAL
Prior Recommendation	Underperform
Date of Last Change	03/21/2013
Current Price (07/31/13)	$84.62
Target Price	**$89.00**

SUMMARY

Stanley Black & Decker's earnings per share in the second quarter came in at $1.21, up 7.1% year over year and 1.7% above the Zacks Consensus Estimate. Revenues grew 11.8% on the back of solid organic revenue growth and contributions from acquisitions. Margins weakened as costs and expenses escalated. During the quarter, 60% stake in GQ Tools was acquired while a commercial lock deal was signed with Tong Lung. For 2013, management raised its organic revenue growth guidance expecting higher core businesses growth and benefits from organic growth initiatives. Higher margins are likely as growth investments subside in the second half of 2013. Further, increasing emerging markets exposure will help the company leverage benefits from the expected growth in tool and security industry in those regions. However, near-term concerns including higher negative foreign currency translation impact ($0.20 per share) and headwinds from higher interest and tax rates cannot be ignored. We thus maintain a Neutral recommendation.

SUMMARY DATA

52-Week High	$84.62
52-Week Low	$65.56
One-Year Return (%)	28.82
Beta	1.52
Average Daily Volume (sh)	842,243
Shares Outstanding (mil)	158
Market Capitalization ($mil)	$13,370
Short Interest Ratio (days)	5.47
Institutional Ownership (%)	86
Insider Ownership (%)	3
Annual Cash Dividend	$1.96
Dividend Yield (%)	2.32
5-Yr. Historical Growth Rates	
Sales (%)	31.2
Earnings Per Share (%)	14.1
Dividend (%)	11.1
P/E using TTM EPS	16.9
P/E using 2013 Estimate	15.5
P/E using 2014 Estimate	13.4
Zacks Rank *: Short Term 1 – 3 months outlook	3 - Hold

* Definition / Disclosure on last page

Risk Level *	Low,
Type of Stock	Large-Blend
Industry	Mach Tls&Rl Prd
Zacks Industry Rank *	256 out of 267

ZACKS CONSENSUS ESTIMATES

Revenue Estimates

(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	2,381 A	2,623 A	2,636 A	2,792 A	10,376 A
2012	2,653 A	2,814 A	2,787 A	2,669 A	10,191 A
2013	2,487 A	2,869 A	2,800 E	2,962 E	11,095 E
2014	2,708 E	2,990 E			11,649 E

Earnings per Share Estimates

(EPS is operating earnings before non-recurring items, but including employee stock options expenses)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	$1.08 A	$1.18 A*	$1.34 A	$1.36 A	$4.96 A*
2012	$1.09 A	$1.32 A	$1.40 A	$1.37 A	$4.67 A
2013	$1.03 A	$1.21 A	$1.43 E	$1.78 E	$5.45 E
2014	$1.20 E	$1.54 E			$6.33 E

Projected EPS Growth - Next 5 Years % **12**

***Note:** Excludes $0.28 benefit attributable to the favorable settlement of tax contingencies.

OVERVIEW

Connecticut, New Britain based Stanley Black & Decker (SWK) manufactures tools and engineered security solutions across the globe. The company was formed after The Stanley Works acquired Black & Decker Corporation in the first quarter of fiscal 2010. Stanley's shareholders own approximately 50.5% of the equity of the combined company, while Black & Decker shareholders own the rest.

Stanley Black & Decker's operations are classified into three business segments: Security, Industrial, and Construction & Do-It-Yourself (CDIY). Results mentioned below exclude HHI business, divested in Dec 2012 to Spectrum Brand Holdings, Inc, and related gains incurred from its divestment. Details of the company's existing operations are discussed below:

The Security segment (23.8% of net sales in 2012) provide access and security solutions, primarily to retailers, educational, financial and healthcare institutions as well as to commercial, governmental and industrial customers. The company offers an extensive suite of mechanical and electronic security products and systems, and a variety of security services. Security products are sold primarily on a direct sales basis and in certain instances, through third party distributors.

The Industrial segment (25.2%) manufactures and markets professional industrial and automotive mechanic tools and storage systems, engineered healthcare storage systems, hydraulic tools and accessories, plumbing, heating and air conditioning tools, assembly tools and systems, and specialty tools. These products are sold to industrial customers and distributed primarily through third party distributors as well as through direct sales force.

The Construction & Do-It-Yourself (CDIY) segment (51.0%) manufactures and markets hand tools, consumer mechanical tools, storage systems, pneumatic tools and fasteners. These products are sold to professionals as well as to consumers, and are distributed through retailers (including home centers, mass merchants, hardware stores, and retail lumber yards).

REASONS TO BUY

- Stanley Black & Decker has over time made strategic acquisitions and divested non-core/non profitable businesses. The policy has helped the company progress on a growth strategy of shifting its business portfolio toward favored growth markets. Way back in Mar 2011, Black & Decker was acquired while in Sep 2011, Niscayah was added to the portfolio (synergy anticipated in 2013 has been upgraded by $15 million, totaling $50 million). In the first quarter 2013, Infastech was acquired and added to the company's Industrial segment. The business has a solid margin profile and will help solidify the company's engineered fastening business in emerging markets. Talking of divestments, Stanley Black & Decker's disposal of its Hardware & Home Improvement Group (HHI) in Dec 2012 fetched after-tax proceeds of roughly $1.3 billion. The company intends to utilize the fund for share buybacks, dividend payments or meaningful acquisitions.

- Stanley remains focused on expanding its organic growth through strategic initiatives including: 1) Expansion in emerging markets by setting up strategic business units for MPP Hand Tools, Power Tools & Commercial Hardware; 2) expansion through creation of Smart Tools & Storage Market, expansion of MRP vending business; 3) RTLS Penetration Healthcare/Security Verticals; 4) US Government (Healthcare/Security/Industrial); 5) aiming to tap opportunities in offshore oil and gas pipeline market; and 6) continuing to capture BDK Integration Revenue Synergies. These six initiatives are likely to contribute $800 to $900 million of annualized revenue growth and $200 million in operating income in a 3 year term, with $150 million in 2013 and $350 million each in 2014 and 2015. To achieve this, the company intends to invest $100 million as operating expenses (including $20 million of brand development expense for the emerging markets) and $50 million as capital spending. Besides these strategic initiatives, the company has a mid-decade goal that includes: $15 billion in sales; operating margin greater than 15%; revenues over 20% in emerging markets; 15% return on capital/investment, and 10 working capital turns.

- Stanley's long-term capital allocation objectives include investing approximately 2/3 in acquisitions and growth, and returning the rest 1/3 to shareholders. Moreover, Stanley's diversified customer base has helped to reduce the company's customer concentration risk over the past several years. Based on this, sales in markets outside the home center and mass merchant distribution channels have grown at a greater rate through a combination of acquisitions and other efforts to broaden the customer base. Moreover, its presence across the world has helped the company grow its business immensely.

REASONS TO SELL

- Stanley encounters active competition in all of its businesses from both larger and smaller companies that offer the same or similar products and services, or those producing different products appropriate for the same uses. Major competitors include companies like Sandvik AB, Amada Co Ltd, Lincoln Electric and Kennametal Inc.

- The CDIY and the Industrial segments are indirectly linked to the housing industry. The global meltdown and downturn in the US housing market had a far reaching impact on these segments that account for more than 50% of the company's sales. A recurrence of such untoward situations will have an unfavorable impact on sales, earnings and cash flow in the future. Also, the company's business is exposed to risks associated with foreign currency translations—negative impact on earnings to the extent of $0.20 per share earnings expected for year 2013. To add to the peril, management expects security markets to remain weak in Europe in 2013, offsetting slight gains expected from the U.S. housing market related recovery. Headwinds are also expected from a year-over-year increase in tax rate and escalating interest expense.

- The company's realization of synergies from its acquisitions is highly dependent on its ability to successfully integrate these within the stipulated time frame. Any failure in successful integration will adversely impact the company's future growth prospects. Moreover, the company is required to raise additional debt or issue equity to fund its acquisitions. This could be harmful to the company's cost of funds, liquidity and access to capital markets in case of degradation in investment grade rating level.

RECENT NEWS

Stanley Black & Decker Increases Dividend

On Jul 24, 2013, Stanley Black & Decker announced an increase of 2% or $0.01 in its quarterly dividend rate.

The revised dividend rate now stands at $0.50, with annualized dividend rate coming at $2.00 per share. The increase marks the 46th annual consecutive increase for Stanley Black & Decker. The new dividend will be paid on Sep 17, 2013 to shareholders of record on Sep 6, 2013.

Second Quarter 2013 Highlights

On Jul 26, 2013, Stanley Black & Decker reported earnings per share from continuing operations of $1.21 in the second quarter of 2013, up from $1.13 reported in the year-ago quarter and above the Zacks Consensus Estimate of $1.19.

GAAP earnings per share in the quarter were $1.23. The earnings result outperformance can be attributed to healthy performance at the company's three segments.

Revenue: Stanley Black & Decker generated net revenues of $2,869.3 million, up 11.8% year over year and above the Zacks Consensus Estimate of $2,813 million. The increase can be attributed to roughly 6% volume gains and a 7% contribution from acquisitions, offset partially by 1% impact from unfavorable pricing. Currency translation had a neutral impact on results this quarter.

Revenue in the CDIY segment (50.4% of second quarter 2013 revenue) rose 8.6% year over year to $1,445.8 million, while the Security segment (21.3%) reported revenues of $610.7 million, reflecting a year over year increase of 1.6%. Industrial segment (28.3%) sales soared 28.1% to $812.8 million.

Margins: In the second quarter 2013, Stanley Black & Decker's normalized cost of sales, as a percentage of revenue came in at 64.6% versus 63.6% reported in the year-ago quarter. Gross margin was down 100 basis points to 35.4%, due primarily to higher cost of sales incurred in the quarter.

Selling, general and administrative expenses registered a year-over-year increase of 11.1% and as a percentage of revenue declined 20 basis points to 22.9%. Operating margin in the quarter was 12.4% versus 13.3% in the year-ago comparable quarter.

Balance Sheet; Cash and cash equivalents of Stanley Black & Decker on exit from the second quarter 2013 were $561.74 million, up 0.8% from $557.5 million in the previous quarter. Long-term debt (net of current portions) was down 1.9% to $3,428.9 million as compared with $3,494.1 million in the previous quarter.

Cash Flow: Normalized net cash flow from operating activities was $271.7 million in the second quarter 2013 versus $366.4 million in the year-ago quarter. Capital spending declined 15.7% year over year to $53.8 million. Free cash flow in the quarter was $217.9 million versus $302.6 million in the year-ago quarter.

The company expended approximately $78.4 million in paying dividends to shareholders in the second quarter 2013.

Outlook: For 2013, management reiterated its earnings guidance provided earlier. Earnings per share, excluding one-time charges, are expected to be within the $5.40-$5.65 range. Organic revenue growth expectation has, however, been increased from 2%-3% to 4%-5% range ($0.20 earnings per share accretion expected versus $0.20-$0.35 expected earlier).

Core business is expected to grow 2%-3% (versus 1%-2% expected earlier) while organic growth initiatives are likely to add 2 points of growth. Foreign currency headwinds are anticipated to be $0.20 dilutive to earnings as against the earlier neutral imapct.

GAAP EPS for 2013 is expected to be in the range of $4.46-$4.71, same as predicted earlier. Free cash flow is projected to be roughly $1.0 billion.

For the CDIY segment, management anticipates a mid single-digit organic revenue growth in 2013, driven by new product launches, strengthening business in emerging markets and promotional activities. The Security segment is expected to post low single-digit organic revenue growth. Organic revenue growth of the Industrial segment is likely to be in mid-single digit range.

Investor Day

On Jun 5, 2013, Stanley Black & Decker hosted its Investor Day 2013. Discussions on the financial aspects of the company's achievements and goals are briefed below.

The merger of Black & Decker has proved very beneficial for Stanley Black & Decker as it now aims to realize cost synergies of $500 million by the end of 2013 as against its original target of $350 million only. Moreover, roughly $300 million in revenue synergies have already been achieved compared with a $300-$400 million target by the end of 2013. Since the merger, as many as 1,500+ new products have been introduced by the company.

The company also mentioned that it remains focused on expanding its organic growth through six strategic initiatives. These initiatives are likely to contribute $850 million of annualized revenue growth and $200 million in operating income in a 3-year period with $150 million in 2013 and $350 million each in 2014 and 2015.

Business in emerging markets is expected to grow 10%-20% annually with an incremental $350 million in revenues from the company's organic growth initiatives. Rollout of mid-price-point (MPP) products in CDIY and Security markets will prove beneficial. The company's recent 60% stake acquisition of the third-largest Chinese power tool manufacturer, GQ Tools as well as the Tong Lung deal for commercial locks, compliments its business.

Apart from these strategic initiatives, Stanley Black & Decker has a goal set for 2016-2017 that includes: $15 billion in sales; operating margin greater than 15%; emerging market revenues over 20%; 15% return on capital/investment, and 10 working capital turns. Of the total revenue of $15 billion, roughly $3.5-$4 billion is expected from Security and Healthcare, $7-$8 billion from Tools, more than $2 billion from Engineered Fastening and roughly $1-$2 billion from Infrastructure.

Also on the same day, Stanley Black & Decker announced a new identity for its STANLEY® branded products, services and businesses.

VALUATION

Stanley's current trailing 12-month earnings multiple is 16.9x, compared with 19.5x for the peer group and 17.4x for the S&P 500. Over the last five years, the company has traded in a range of 7.5x to 21.4x trailing 12-month earnings.

We believe that Stanley Black & Decker has a significant long-term upside potential as it embarks on a growth strategy of shifting its business portfolio toward favored growth markets through acquisitions and divestitures. Moreover, the company's commitment to returning capital to shareholders is also very encouraging. The company's cost synergies expected from its acquisitions boost our confidence.

However, risks arising from negative foreign currency translation and active competition in all businesses limit the company's growth prospects in the near term. Thus, at current levels we maintain a Neutral recommendation on the stock, anticipating the company to perform in line with the broader market. The stock currently has a target price of $89.00, at a 2013 P/E of 16.3x.

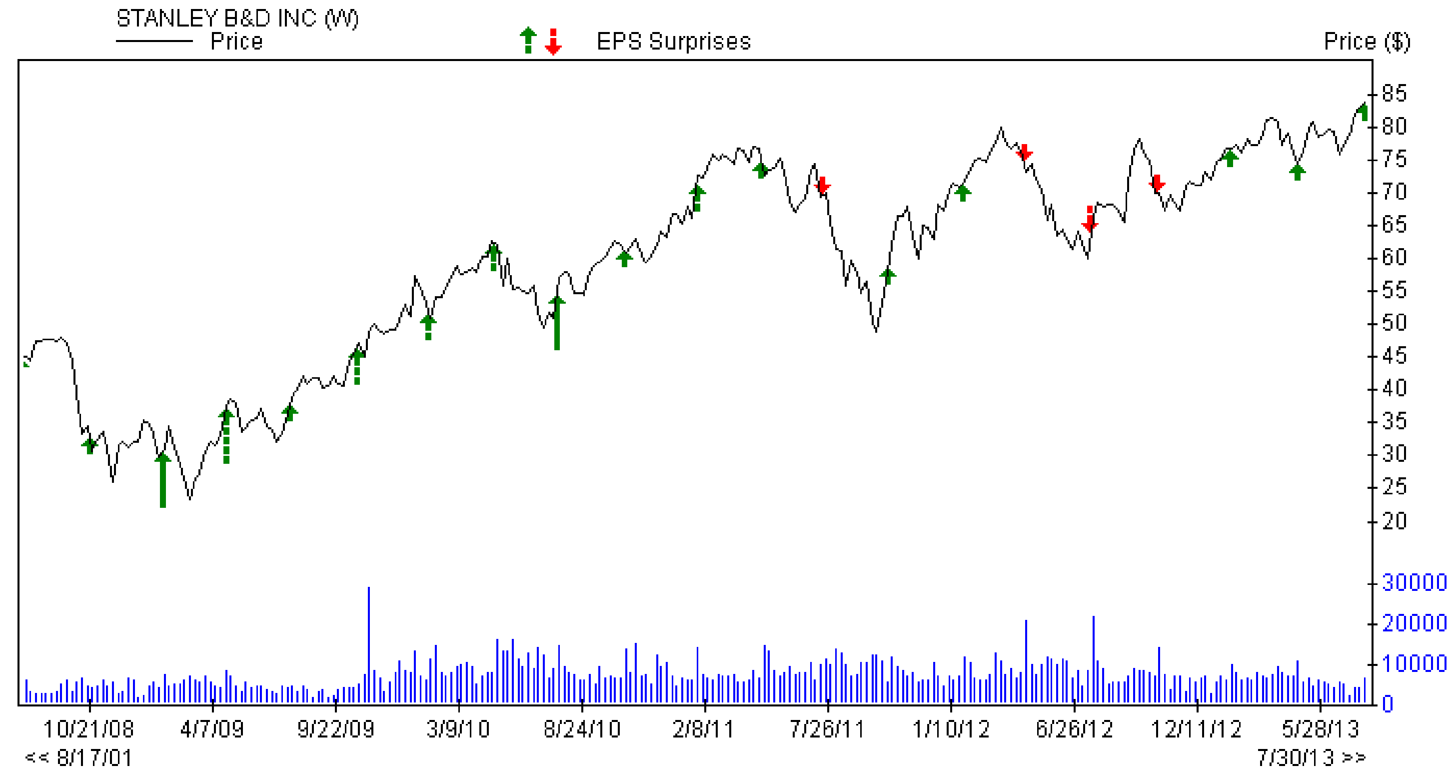
Key Indicators

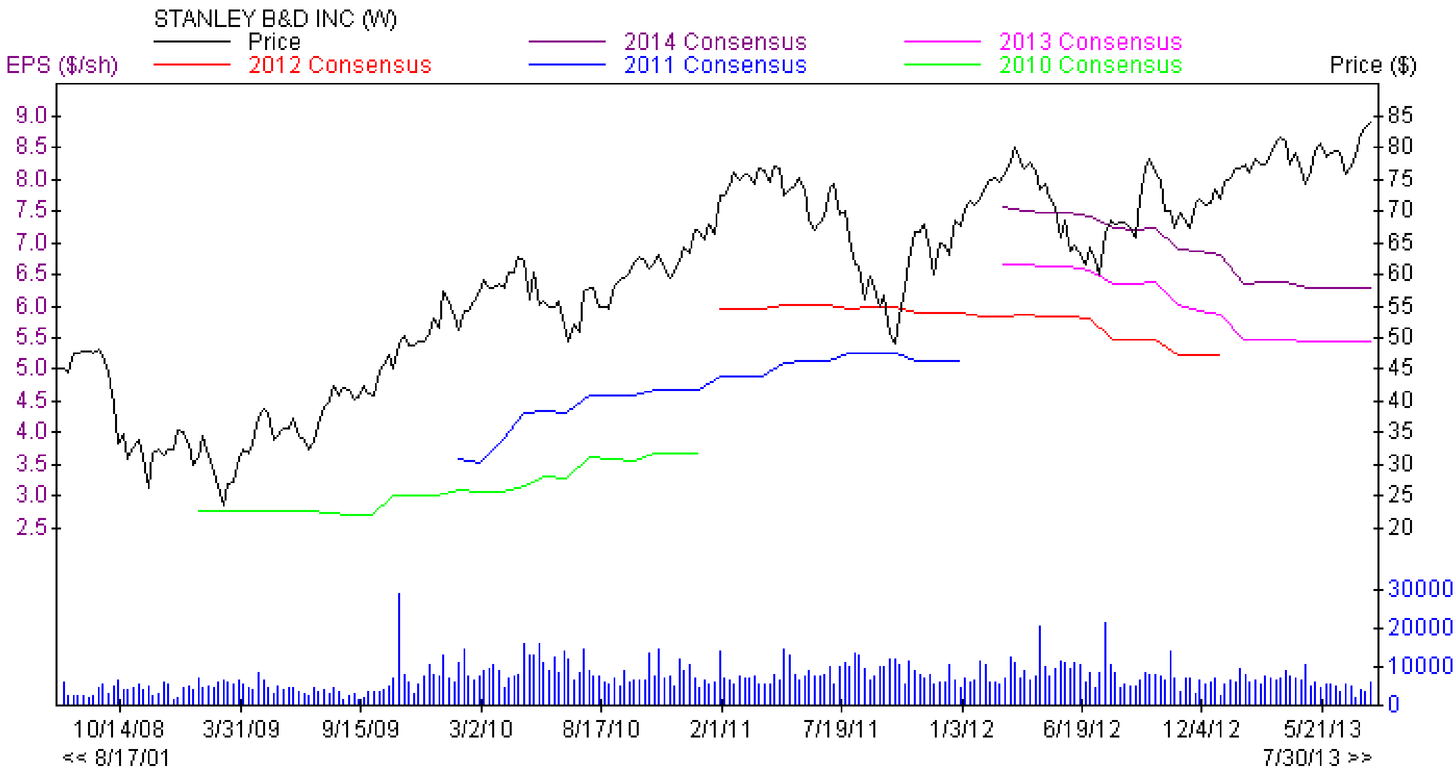
	P/E F1	P/E F2	Est. 5-Yr EPS Gr%	P/CF (TTM)	P/E (TTM)	P/E 5-Yr High (TTM)	P/E 5-Yr Low (TTM)
Stanley Black & Decker Inc (SWK)	**15.5**	**13.4**	**13.4**	**11.5**	**16.9**	**21.4**	**7.5**
Industry Average	16.2	14.0	16.5	12.8	19.5	148.2	7.0
S&P 500	15.6	14.7	10.7	13.4	17.4	27.7	12.0
Sandvik AB (SDVKY)	14.0	12.6		8.2	16.6	62.9	4.9
Techtronic Inds (TTNDY)				13.5			
Lincoln Electrc (LECO)	16.8	15.4	17.1	14.8	17.2	31.3	5.7
Kennametal Inc (KMT)	14.2	11.9	12.0	14.8	17.3	129.5	6.4

TTM is trailing 12 months; F1 is 2013 and F2 is 2014, CF is operating cash flow

	P/B Last Qtr.	P/B 5-Yr High	P/B 5-Yr Low	ROE (TTM)	D/E Last Qtr.	Div Yield Last Qtr.	EV/EBITDA (TTM)
Stanley Black & Decker Inc (SWK)	**1.9**	**2.3**	**0.7**	**12.2**	**0.5**	**2.5**	**14.7**
Industry Average	1.8	1.8	1.8	10.8	0.2	1.2	9.8
S&P 500	4.4	9.8	2.9	23.7		2.1	

Earnings Surprise and Estimate Revision History





StockResearchWiki.com – The Online Stock Research Community

Discover what other investors are saying about **Stanley Black & Decker Inc.** (SWK) at StockResearchWiki.com:

http://www.stockresearchwiki.com/tiki-index.php?page=SWK/Ticker

DISCLOSURES & DEFINITIONS

The analysts contributing to this report do not hold any shares of SWK. The EPS and revenue forecasts are the Zacks Consensus estimates. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Outperform**- Zacks expects that the subject company will outperform the broader U.S. equity market over the next six to twelve months. **Neutral**- Zacks expects that the company will perform in line with the broader U.S. equity market over the next six to twelve months. **Underperform**- Zacks expects the company will under perform the broader U.S. Equity market over the next six to twelve months. The current distribution of Zacks Ratings is as follows on the 1020 companies covered: Outperform - 14.6%, Neutral - 78.3%, Underperform – 6.2%. Data is as of midnight on the business day immediately prior to this publication.

Our recommendation for each stock is closely linked to the **Zacks Rank**, which results from a proprietary quantitative model using trends in earnings estimate revisions. This model is proven most effective for judging the timeliness of a stock over the next 1 to 3 months. The model assigns each stock a rank from 1 through 5. Zacks Rank 1 = Strong Buy. Zacks Rank 2 = Buy. Zacks Rank 3 = Hold. Zacks Rank 4 = Sell. Zacks Rank 5 = Strong Sell. We also provide a **Zacks Industry Rank** for each company which provides an idea of the near-term attractiveness of a company's industry group. We have 264 industry groups in total. Thus, the Zacks Industry Rank is a number between 1 and 264. In terms of investment attractiveness, the higher the rank the better. Historically, the top half of the industries has outperformed the general market. In determining **Risk Level**, we rely on a proprietary quantitative model that divides the entire universe of stocks into five groups, based on each stock's historical price volatility. The first group has stocks with the lowest values and are deemed **Low Risk**, while the 5th group has the highest values and are designated **High Risk**. Designations of **Below-Average Risk**, **Average Risk**, and **Above-Average Risk** correspond to the second, third, and fourth groups of stocks, respectively.