

Edgar Filing: STANLEY WORKS - Form FWP

STANLEY WORKS  
Form FWP  
September 04, 2009

Free Writing Prospectus

Filed pursuant to Rule 433

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September 4, 2009

The Stanley Works is providing you with the following materials in connection with the Company's public offering of common stock. The following materials were presented at the Morgan Stanley Global Industrials CEOs Unplugged Conference.

**The issuer has filed a registration statement, including a prospectus and a prospectus supplement dated as of July 31, 2009 with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement, the prospectus supplement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at [www.sec.gov](http://www.sec.gov). Alternatively, the issuer, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling collect 1-860-827-3833.**

THE STANLEY WORKS  
Investor Overview

1  
Cautionary Statements  
Certain statements contained in this presentation are forward looking. These are based on assumptions of

future events which may not prove to be accurate. They involve risk and uncertainty. Actual results may differ materially from those expected or implied. We direct you to the cautionary statements detailed in our recent 1934 Act SEC filings.

2

The Stanley Works

Investor Highlights

Business Segments

NYSE: SWK / S&P500

\$3.2B Market Cap

3.2% Cash Dividend Yield

-

Increased for 42 years

79.9M Shares Outstanding

Security \$1.5B

Industrial \$1.3B

CDIY \$1.6B

Financial Highlights ( 03- 08)

12% Revenue CAGR (2% Organic)

11% EPS CAGR

\$379M Annualized Cash Flow (Avg.)

Valuation

(1)

8.7X

EV/LTM EBITDA

15.9X 2009E P/E

(2)

9.6% LTM FCF/Market Cap

(1)

Market Cap data as of July 31th, 2009

(2)

Based on First Call Average 2009 EPS  
estimates

3

3

Transition Has Resulted In Stronger, More Diversified Company

Largest Customer

U.S. Home Ctrs. & MMs

2002

22%

40%

CDIY

Industrial

Security

2002 = \$2.2B

(1)

With Security Rapidly Approaching CDIY In Size

Portfolio Transition

2008

~6%

~13%

13%

29%

58%

34%

29%

37%

(1)

Adjusted for Acquisitions & Divestitures

2008 = \$4.4B

3

4

Be a consolidator of the tool industry  
Increase relative weighting of emerging markets  
Brand is meaningful (Stanley or sub-brand)  
Value proposition is definable and sustainable through innovation  
Global cost leadership is achievable  
Building on existing growth platforms  
Developing new growth platforms over time  
Strategy Overview

Maintain Portfolio Transition Momentum

Be Selective and Operate In Markets Where:

Pursue Growth On Multiple Fronts Through:

Accelerate Progress Via Stanley Fulfillment System (SFS)

Strategy Focused On Profitable Growth, Asset Efficiency

4

5

Long-Term Financial Objectives In Place Since 2004

3-5% organic

~10% total

Core Financial Objectives

Mid-teens % EPS growth

FCF Net Income

ROCE in the range of 12-15%

Sales Growth

Financial Performance

Dividend

Continued growth

Credit Rating

Upper tier investment grade  
5

6  
Long Standing  
Strategy To Remain  
A /A3/A, A1/P2/F1  
Serving SWK Well  
Early & Decisive  
Actions Taken To  
Ensure Ample

Liquidity

Debt to capital ratio

is 35% -

37%

-\$400

-\$300

-\$200

-\$100

\$0

\$100

\$200

\$300

\$400

\$500

\$600

2009

2010

2011

2012

2013

2045

Focus On Strong Cash Flow, Conservative Financial Position  
And Proactive Liquidity Management Creates

6

Debt Picture

Strong Company With Solid Foundation

7  
Two Security Growth Platforms Created  
Security  
Builders Hardware  
Automatic Doors  
Systems Integration &  
Monitoring  
Product Sales  
Mechanical Locking  
Systems  
7

Convergent Security

~\$800M/Yr. Run Rate Revenues

Mechanical Access

~\$800M/Yr. Run Rate Revenues

8  
8  
10%  
41%  
45%  
4%  
Electronic/Convergent Security Today

2008 Revenue Mix  
Time & Materials  
N. America  
Asia/ANZ  
2008 Geographic Mix  
Europe  
Product  
Installation  
Recurring  
Financial/Business Profile

~\$800M/Yr. Run Rate Revenues

OM ~17%

110 Offices Globally &  
6 Monitoring Centers,  
3,000+ Employees And  
450K+ Customers

Current Market Share Of  
2%+ Globally  
Key Competitive Differentiators

Reputation For Service  
Excellence

Ability To Provide Real-Time  
Data/Video Services To Customer  
Base Unique To The Industry

8  
45%  
Recurring  
Revenue  
1Q 09  
Organic Op.  
Profit up  
10% Y-O-Y

9

Improving Mix In Electronic Security  
Installation Revenue Is Down Across All  
Lines

Large Projects

15%

30%

+

National Accounts

38%

20%

+  
Core Commercial  
47%            10%  
100%  
% Of  
Total U.S.  
Install  
Rev.  
U.S.  
Organic  
Install  
Volume  
Type Of Business  
0.7%  
0.9%  
1.0%  
1.1%  
1.3%  
2.1%  
Concurrently, RMR As A % Of Install  
Revenue Has Been Growing  
RMR Sales As A % Of  
Install Revenue  
08  
09  
With Much Smaller Decline In Higher Margin  
Small Accounts  
With A Marked Improvement In Core Commercial,  
Driving Even Higher Profitability  
  
Increased Core Commercial sales force by 11%  
  
Strong Emphasis On Recurring Revenue  
  
Decreased Dependence On Lower Margin,  
More Cyclical Large Project Business  
Convergent s  
Strategic Actions Are Paying Off  
Total Organic RMR  
Segment Profit  
+9%  
+13%  
2Q 09 vs. 2Q 08

10  
10  
16%  
84%  
Mechanical Access Today  
2008 Segment Mix  
43%

32%

25%

Repeat

New Product

Sales & Service

High Margin / Solid Growth Business

2008 Revenue Mix

Builders Hardware

Mechanical

Locking

Systems

Automatic

Doors

Financial/Business Profile

~\$800/Yr. Run Rate Revenues

OM ~20%

Current Market Share Of

3%+ Globally ( 7%+ In NA)

60 Offices Globally,

4000+ Employees (2,000 Sales

And Service Employees)

Key Competitive Differentiators

Trusted And Respected Brand

Direct Go-To-Market Strategy

National North American

Footprint

With Focus On Global Expansion And LCC Sourcing

Opportunities

11  
Security Market Opportunity  
Market Market  
Size  
Growth  
Mechanical \$26B 2-4%  
Convergent \$39B 7-10%

Significant Growth Potential Both Organically And Through  
Acquisitions

12

Healthcare Growth Platform

Healthcare Solutions: \$150M (2009E)

SWK Well Positioned to Benefit From Growing

Healthcare Market

Strong toehold in Personal

Security market with Xmark  
and  
Senior Technologies

InnerSpace  
and Scan Modul  
form  
solid global base for specialty  
medical storage solutions business

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Industrial

Industrial & Automotive Tools: \$0.9B

Overview

\$15B Market, Growing 2-3%

3 Year Revenue CAGR 28%

#1 Market Share Europe,

#2 U.S.

Importance Of Brand  
Strength Very High

Attractive Emerging  
Markets Creating Growth  
Opportunities

De minimis  
Auto OEM  
Exposure

14  
Industrial  
Engineered Solutions: \$0.3B  
Financial Performance Overview  
3 Year Revenue CAGR  
~  
6% Organic

~13% Total

3 Year Average OM ~18%

High Return Industrial Storage and Hydraulic Tools  
Businesses

15

Construction / DIY

Construction / DIY: \$1.6B

CT&S and Bostitch Combination Leverages Operations And  
Resources

16  
Snap Off Knife  
Hammer  
Tacker  
Chalk  
Belts &  
Pouches

Markers  
35  
Tape  
Soft  
Storage  
Construction / DIY  
Mar. 2007  
Sept. 2007  
Markers  
Levels  
Specialty Saws  
Mobile  
Storage  
Vise  
Tool Boxes  
Tapes  
Mechanic  
Tools  
Fubar  
Long &  
Short  
Hammers  
Mar. 2008  
Sept. 2008  
Stud  
Sensor  
Expert  
Range  
3 in 1  
Fire & Rescue  
Planes  
Chisels  
Max Tapes  
Flex  
Blades  
Cantilever  
Structural  
Foam Box  
FUBAR  
III  
Rechargeable  
Flashlight  
13  
Standout  
Hands-free LED  
flashlight  
Water-Proof Box  
Cable Tacker  
Graphite Hammer  
Wood Hammer

Saw  
FM Knife  
Utility Blades  
100 pk  
blades  
Screwdriver  
Mobile  
Storage  
2008: Over 125 New Products, \$80M+ NPD Revenue

17  
2009 Brand Reinvestment  
Expanded  
Major  
League  
Baseball  
Marketing  
Program

Enabling  
Promotion  
Of  
All  
Product  
Lines  
&  
Generation  
of  
At  
Least  
1  
Billion  
Brand  
Impressions  
Continued Investment In NASCAR  
iPhone  
App  
A Total Of \$21M In Brand Investment for 2009

18

3.

Industrial and  
Automotive Tools

Industrial

Capital Allocation Focused On Three Major Growth Platforms

Consolidate tool industry

Expand into emerging markets

Intensify innovation and product

development

Streamline manufacturing footprint and  
product platforms

Growth Platforms

Security

Grow organically

Expand internationally via acquisitions

2.

Mechanical Security

1. Convergent Security

Accelerate organic growth

Leverage successful HSM / Sonitrol

platforms

Expand internationally via acquisitions

19  
19  
US  
Europe  
Asia  
Segment Regional / Growth Breakdown  
3%  
47%

14%

75%

10%

19%

33%

45%

48%

Security Represents Largest Growth Opportunity

CDIY

Industrial

Security

Normalized

Market

Growth Rate

2

3%

2

3%

5 -

7%

ROW

3%

2%

1%

With Strong Organic Growth Rate As Well As Potential For  
International Expansion

20  
Financial Review  
Growth Track Firmly Established  
03  
08  
CAGR  
12%  
\$4.4B  
LTM  
Revenues  
\$4.0B  
Annual  
Revenue

Trend  
\$4.4B  
\$3.9B  
\$3.2B  
\$2.9B  
\$2.5B  
2003  
2004  
2005  
2006  
2007  
2008

21

Margin Trends

12.7%

13.6%

13.4%

12.3%

14.1%

11.0%

9.5%

37.8%

37.9%

36.3%

35.9%

36.7%

34.2%

33.9%

2002

2003

2004

2005

2006

2007

2008

OM

GM

Gross Margin Expansion

Driven By Diversification Strategy And Execution Focus

39.9% Gross

Margin in

2Q 09

22

Financial Review

Annual EPS Trends

\$2.03

\$2.70

\$3.06

\$3.87

\$3.41

\$3.33

2003

2004

2005

2006

2007

2008

03 08

CAGR

11%

\$2.82 -

GAAP

(a)

Ex-Restructuring

\$1.07

-

GAAP

Ex-Restructuring

23	
Financial Review	
Sustained Free Cash Flow Generation	
119	
172	
149	
425	
317	

359  
457  
422  
294  
233  
1999  
2000  
2001  
2002  
2003  
2004  
2005  
2006  
2007  
2008

\$ in Millions

Places SWK In A Position Of Strength

LTM FCF

\$310M

24

SWK Free Cash Flow Conversion Versus Peers

Free Cash Flow Conversion Outperformance

Driven By Execution Focus

2006

117%

110%

92%

SWK

Industrial

Peers

Security

Peers

2007

131%

107%

97%

SWK

Industrial

Peers

Security

Peers

2008

166%

91%

104%

SWK

Industrial

Peers

Security

Peers

Source: Capital IQ (1) Free Cash Flow is defined as Cash From Operations, adjusted for extraordinary charges, less Capital Expenditures. Earnings Before Interest and Taxes

Income is adjusted for extraordinary charges.

25

What Is SFS?

SFS: Implementation Of Stanley's Transformational Lean  
TM

Embedded Processes, Culture Of Continuous  
Improvement

Simplify every aspect of the  
business to drive profitability and

asset efficiency  
Standardize processes  
and platforms to  
provide scalability  
Implementation of Lean in all  
our factories, supply chains  
and back-offices  
Keep demand and  
supply in balance

26  
SFS Driving Favorable Trend In Working Capital Turns  
5.9x  
4.6x  
4.7x  
4.6x  
4.5x

5.3x

2003

2004

2005

2006

2007

2008

Early Results

03- 08

+1.3

Turns

\$400M+ Working Capital Benefit Realized

27  
2006  
4.5  
5.2  
4.0  
SWK  
Industrial  
Peers  
Security

Peers  
2007  
5.3  
5.1  
4.3  
SWK  
Industrial  
Peers  
Security  
Peers  
2008  
5.9  
5.1  
3.8  
SWK  
Industrial  
Peers  
Security  
Peers  
Working Capital Turn Performance Versus Peers  
Change 2006-2008  
SWK  
DHR  
CBE  
BDK  
MAS  
ITW  
SNA  
SHW  
IR  
NWL  
SWK  
SI  
DBD  
UTX  
CKP  
HON  
TYC  
-1.5  
-1.0  
-0.5  
0.0  
0.5  
1.0  
1.5  
2.0  
Source: Capital IQ

28

28

Global Presence With 44% Of Revenues Outside Of The US

U.S.

Europe

Asia

Asia Represents Largest Growth Opportunity

Geographic Breakdown

2%  
29%  
56%  
ROW  
13%

29  
29%  
12%  
10%  
13%  
8%  
4%  
24%

Residential Construction / DIY

Commercial Construction

Retail

Healthcare, Education, Government

Automotive Repair (Mac + Facom)

Industrial - Other

Other

End Markets

A Diverse Set Of End Markets Served

With Only 15% In U.S. Residential Construction / DIY

(1) Industrial

Other

includes

manufacturing,

utilities,

distribution,

power,

rail,

oil

&

gas,

etc.

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End Markets By Business

\*Industrial includes manufacturing, utilities, distribution, power, rail, oil & gas, etc.

End Market

MAS

CSS

Industrial

CDIY

SWK

Res. Const./DIY

23%

0%

8%

59%

29%

Comm. Const.

13%

25%

5%

11%

12%  
Retail  
32%  
13%  
0%  
6%  
10%  
Health Care  
11%  
15%  
3%  
0%  
5%  
Education  
9%  
9%  
0%  
0%  
3%  
Government  
5%  
8%  
4%  
1%  
4%  
Automotive Aftermkt  
0%  
2%  
26%  
0%  
8%  
Industrial  
3%  
10%  
52%  
20%  
24%  
Other  
4%  
18%  
2%  
3%  
5%  
Total  
100%  
100%  
100%  
100%  
100%

31	
Long Term Capital Allocation	
Objectives	
Capital Allocation	
Near Term Capital Allocation	
Objectives	
Dividends	
1/6	
Acquisitions	
2/3	
Share Repurchase	
1/6	
Debt reduction	
Dividend	

Limited acquisition activity  
Limited share repurchase  
activity

32  
\$2.8B Has Been  
Invested in  
Acquisitions  
Since 2002  
Capital Allocation  
Acquisition  
Price (\$M)

'07	
HSM	
545	
'02	
Best Access	
315	
'08	
Sonitrol	
280	
'04	
Blick & Frisco Bay	
220	
'05	
National	
170	
'04	
ISR, SGI, PHI	
125	
'02-'08	
Various	
235	
'08	
GdP	
170	
'08	
Xmark	
45	
Sub-total	
2,105	
'06	
Facom	
480	
'04	
CST/Berger	
60	
'07	
Innerspace	
55	

'06  
Besco  
40

'08  
Scan Modul  
20

Sub-total  
655

Year  
Security  
Tools/  
Other  
To Advance Growth Platforms



33

Acquisition Integration

Proprietary Integration Process Continues To Drive Significant Synergy

Realization

OM%

22%

15%

12%

>30%

>30%

15%

Sonitrol

X-Mark

GdP

Pre-Acquisition

Post-Acquisition

Key

Features

of

Integration

Process

100 Day Integration Plan Finalized Prior To Close

Buy In On Integration Plan By Target Management  
Prior To Close

Weekly/Monthly Senior Management Meetings On  
Integration Progress

Experienced Integration Managers

Native/In-country Integration Team

34

2008 GAAP EPS Actual

\$2.82\*

Unit Volume -18% To -20%

(\$3.90 -

\$3.40)

Currency Impact (based on current rates)

(\$0.50)

2008 Cost Reduction Initiatives

\$1.75

1Q 09 Cost Reduction Initiatives (net of reinvestment)

\$0.28

2Q 09 Cost Reduction Initiatives

\$0.24

Gross Margin Rate Improvement

\$0.76

Acquisitions

(GdP,

Sonitrol,

Xmark

&

ScanModul)

\$0.10

Restructuring

(lower

2009

charges

vs.

2008)

\$0.45

\$2.00 -

\$2.50

Gain From Debt Extinguishment

\$0.34

2009 GAAP EPS Guidance

\$2.34 -

\$2.84

2009 Guidance Factors

\* EPS prior to

recast

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Summary

Executing a Clear Roadmap For Profitable Growth

Diversified portfolio able to better withstand cyclical downturns

Moving aggressively to align cost structure with current environment

Three large, attractive growth platforms

1.

Convergent Security

2.

Mechanical Access Solutions

3.

Industrial and Automotive Tools

SFS playing a critical role in supporting long-term growth and asset efficiency

Key Takeaways

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Where is SWK?

Upcoming Conferences:

UBS conference in San Francisco on August 11

Morgan Stanley conference in New York on September 1st

ASIS Security conference in September (21 thru 24 )

Imperial Security Conference in New York on November 5

Robert Baird Industrials Conference in Chicago on November

10

Merrill/Banc of America Conference in New York on December 8

Analyst Day at the NYSE on November 17

37  
Appendix

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2Q 09 Summary

Well Positioned To Continue To Gain Market Share

Gross Margin Success Stories Of 1Q And 2Q Foreseen As  
Largely Maintainable For The Full Year

Continued Focus On Paying Down Debt

Dedicated To Ongoing Success Of SFS Both As A Source Of  
Cash And A Competitive Advantage



39  
1Q  
2Q  
Volume  
- 19%  
- 24%  
Price  
+ 3%  
+ 2%

Organic

- 16%

- 22%

Currency

- 6%

- 4%

Acquisitions

+ 7%

+ 6%

SWK

- 15%

- 20%

1Q Revenues

\$1,071 \$ 913 -

\$158 -

15%

2Q Revenues

\$1,152 \$ 919 -

\$233 -

20%

Sources Of Growth

2Q 09 Revenues

PY

\$ millions

CY

Segment Results

2Q Unit Volume Pressures Worsened In All Segments

However, Security Continues To Perform Well

1Q

2Q

1Q

2Q

CDIY

-

25%

-

28%

-

22%

-

26%

Industrial

-

29%

-

40%

-

26%

-

37%

Security

+12%

+ 8%

-

8%

-

11%

SWK

-

15%

-

20%

-

19%

-

24%

Total

Volume





40  
EPS (  
vs. Last Guidance)

Revised 2009 Unit Volume            (\$1.00)  
(-18% To -20%)

Gross Margin Rate Improvement    +\$0.76  
(38-39% in 2H '09)

New Restructuring Program  
+\$0.24

Gain on Debt Extinguishment  
+\$0.34

All Other Factors (i.e. FX, Previous Cost  
Actions, Acquisitions and Restructuring  
Charges) Relatively Consistent With  
Previous Guidance  
Updated Guidance Factors  
Free Cash Flow

Expect Approximately \$300M  
In Free Cash Flow

Predicated On Approximately 10%  
Improvement In Working Capital  
Turns From Year-End 2008  
Stanley Fulfillment System Process  
Controls To Drive Result  
2009 EPS Guidance Range of \$2.34 -  
\$2.84



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Cost Actions Summary

\$50M annualized cost actions

~50% impact in '09

~35% headcount-related

\$265M cost savings

~ 60% headcount-related

2010 impact approximately \$25M

\$45M '09 restructuring charges  
(\$85M booked in 2008)

Large majority of restructuring cost  
is cash-related

July '09 Actions:

Total '09 Impact

'09 Restructuring Summary