

Edgar Filing: STANLEY WORKS - Form FWP

STANLEY WORKS
Form FWP
September 04, 2009

Free Writing Prospectus

Filed pursuant to Rule 433

Registration Number 333-153646

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. 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

13

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 (EBIT) 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.

30

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

35

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

36

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

38

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

41

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