Our mission remains to continue to invest in building world-class franchises with sustainable strategic characteristics that create exceptional shareholder value, a model that has proven highly successful for us over the course of the last decade.

In 2013 Stanley Black & Decker faced a number of challenges, testing our ability to generate financial returns at our historical levels. The success of our organic growth initiatives, solid growth across our core CDIY and IAR tools businesses, strong performance within Stanley Engineered Fastening and Oil & Gas, and excellent progress integrating Infastech were overshadowed by weak operating performance within our Security segment and significant emerging markets currency headwinds. As a result, we have adopted a series of actions designed to address these challenges head-on, and enter 2014 with a clear set of priorities to increase operating efficiencies, drive profitable organic growth, improve our cash flow return on investment (CFROI) and increase value for shareholders through an enhanced capital return program.

Longer-term, our mission remains to continue to invest in building world-class franchises with sustainable strategic characteristics that create exceptional shareholder value, a model that has proven highly successful for us over the course of the last decade.

2013 Summary of Results

- Total revenues increased 8% to $11.0 billion, with organic growth of 3%
- Earnings per share was $4.98* compared to $4.76* in 2012
- Free cash flow totaled $854* million and the dividend was increased during the year
- Working capital turns increased to 8.0 from 7.6, as the impact of the Stanley Fulfillment System continued to drive gains in operating efficiencies
- During the year we invested approximately $900 million in acquisitions most notably relating to Infastech and GQ
- Our Security segment underperformed against both our expectations in 2013 and the business’ potential; improving our Security segment is one of our key near-term operational priorities as we move into 2014 and beyond

* Excluding charges and payments
Lessons Learned – Security

As we pride ourselves on continuous improvement, we looked at the challenges faced in 2013 as an opportunity to better prepare the Company for the future. The performance of our Security segment fell significantly below our expectations in both Europe and North America in 2013. It has been and will continue to be a priority for us to learn from what went wrong and lay a new foundation for sustainable, long-term success in Security.

In Europe, we were impacted by the operational underperformance of the legacy Niscayah business, compounded by a weak macro-economic backdrop. We worked diligently to implement important remedies during the year which centered on three primary areas:

1. Centralized Operating Model—we are restructuring the operating model of the legacy Niscayah business so that we have full operational control of branch activity at the country level and can focus efforts on driving productivity, field efficiency, and margin improvement actions.

2. Talent—we upgraded underperforming management in several key positions at both the headquarters and country levels.

3. Sales Orientation—“Hunters” versus “Farmers”—the Niscayah organization was overly dependent on “farming” referrals from their former owner, which necessitated a culture change as well as the replacement and upgrade of the majority of the sales force during the past two years.

In North America, the majority of the 2013 operational performance issues centered around taking on too many changes at once, primarily in our electronics and commercial locks units. The changes we implemented in these businesses resulted in a temporary setback to the overall performance of North American Security. However, we firmly believe that our North American Security management team is on top of the issues, as evidenced by the steady increase in operating margins from 14% in the first half of 2013 to 16% in the second half of the year. We fully expect operating margins in our North American Security business to continue to trend towards their more historical high-teens levels as we move through 2014.

We are bringing all the necessary resources to bear to improve the Security business and are confident in our ability to succeed. Stanley Security has one of the best global footprints in the world, is the only integrator with scale in both mechanical and electronic security, and carries a high margin recurring revenue model with low capital intensity. We believe that Security is a valuable part of our portfolio which will generate returns to shareholders consistent with our long-term financial objectives, ultimately delivering organic growth and above line average operating margins.
Near Term Focus – Operational Efficiency and Capital Allocation

In addition to tackling the problems within Security, we remain steadfast in our commitment to increase both near- and long-term returns for our shareholders.

To ensure that we achieve our targeted operating leverage, we are executing a cost reduction program, expected to generate $85 million of savings in 2014, $45 million of which will be in our Security business. The remaining savings represent surgical cuts spread across the rest of the business which will allow us to improve our operating leverage.

In terms of capital allocation, we plan to return approximately $1.5–$1.7 billion of capital to shareholders through 2015 by extending our pause in strategic M&A activity, continued dividend growth, and repurchasing up to $1 billion in stock during that period. Beginning in 2016, we anticipate returning to our historical 50/50 long-term capital allocation strategy, where approximately 50% of capital will be returned directly to shareholders through dividends and share repurchases, and approximately 50% will be invested in M&A activities over time.

These actions combined with modest debt deleveraging are expected to improve capital returns to value accretive levels for our Company and improve our cash flow return on investment by 250 basis points through 2015. Our goal is to maximize shareholder value while continuing to position the franchise for long-term outperformance.

2013 Business Highlights

By continuing to invest for the long-term, we were able to realize many successes in 2013. Highlights and wins include:

- Integrating the Infatech acquisition to position the Stanley Engineered Fastening business to exceed all financial commitments relating to this acquisition, including sales, operating margin, cost synergies and cash flow return on investment.

- Assembling a retooled emerging markets team in rapid fashion, from concept to implementation within 18 months, adding 300 people on the street, creating two new product SBUs, and introducing over 100 new locally designed products during the year. We expect to introduce another 400 new products in 2014 and will have close to 800–1,000 new products by 2015 in the mid-price point space within the emerging markets, a profitable, high growth segment representing approximately 70% of the market which we have heretofore not addressed.

- Successfully closing our acquisition of GQ in China, a highly strategic element of our emerging markets growth strategy.

- Continuing to build momentum behind the overall organic growth initiative as we strive to transform this initiative from five discrete programs to an embedded core competency within the organization.
Finally, constantly using the Stanley Fulfillment System (SFS) to drive asset efficiency and customer satisfaction. We generated 8 working capital turns in 2013, up from 5.9 at the end of 2010 and 4.5 back in 2006 while dramatically improving customer facing metrics—a great example of how we can turn an opportunity into a core competency.

Within CDIY, there were some truly noteworthy accomplishments. During 2013, CDIY posted 4% organic growth with 5–6% growth in each of the second, third and fourth quarters. This progress was primarily fueled by new products, which generated $300 million of new revenue during the year. CDIY generated another $85 million of revenue synergies from the Black & Decker merger in 2013, bringing their total to $300 million and the Company total to $370 million. CDIY also developed and executed a “Built in the USA” power tool manufacturing plant initiative using materials from all over the globe. This initiative moved from concept to production within 12 months, representing the first significant investment in production and delivery of power tools in the U.S. since the original DEWALT launch in 1992. CDIY’s European business also performed well, with 2% organic growth in a stagnant tools market, delivering approximately 300 basis points of gross margin expansion and 150 basis points of operating margin improvement.

Stanley Oil & Gas had an impressive year, capitalizing on the North America onshore market rebound and impressive share gain in the offshore market. They posted 30% organic growth and achieved a 68% operating margin expansion. The team did an excellent job combining the technological leadership of CRC with Stanley Black & Decker’s operating disciplines and is well positioned for a solid 2014, and, based on projected pipeline construction activity, an even stronger 2015.

Stanley Engineered Fastening recorded 49% revenue growth, 3% of which was organic and the rest from Infastech, and $61 million of positive operating margin growth. This business has now posted four consecutive record years in sales,
operating margins, and working capital turns—a model of consistency.

Other key highlights during the year from our Industrial & Automotive Repair business include the results of CribMaster, which delivered 70% organic growth with above line operating margins, and Mac Tools posting its 16th consecutive quarter of organic growth, topped off by 8% growth in the fourth quarter.

Positioned for Profitable Organic Growth

As we move into 2014, our long-term strategy and financial objectives remain intact. Our mission is to build world-class franchises that create exceptional shareholder value. To do so, we are committed to achieving sustained organic growth outperformance by investing in our business, leveraging our scale in emerging markets and nurturing our growth culture. We will continue to selectively operate in markets where brand is meaningful and powerful, the value proposition is definable, sustainable, and can be improved through innovation, and where we can achieve global cost leadership. In time, we will also look to once again utilize our core competency in M&A to build our franchises by adding higher growth, higher margin businesses and continuing to consolidate the industries in which we operate, building out our growth platforms and our growth verticals, and importantly, selectively investing in differentiated technologies. We’ve recently seen some of the benefits of this with our iris biometric identification solution, in partnership with eyelock, and AeroScout Real Time Location System (RTLS) technology.

Taking a step back, Stanley Black & Decker has achieved its success by building franchises that are resilient and sustainable. From where we sit today, we are #1 in Tools and Storage, #2 in Commercial Electronic Security Services and #2 in Engineered Fastening. We’ve grown our revenues an average of 20% over the last ten years, averaged greater than 125% free cash flow conversion over the past five years, and returned over 50% of our cash generated to shareholders since 2000 in the form
of dividends and repurchases. Over the last 10 years, we have transformed and diversified the portfolio, building a world class stable of brands and a ten-year Total Shareholder Return (TSR) of close to 180%, nearly twice that of the S&P 500.

The Stanley Fulfillment System

SFS represents a competitive advantage, involving all functions and employees within the Company. SFS starts and ends with the customer and has over time evolved into a mindset as well as a business system, innovating how work gets done to deliver value to our customers and shareholders better and faster. SFS, with its five key pillars of Sales & Operations Planning, Operational Lean, Complexity Reduction, Order-To-Cash Excellence and Global Supply Management, is key to our ability to excel in increasing efficiencies, integrating acquisitions and growing our free cash flow. We are making progress towards our goal of achieving 10 working capital turns as we continue to unlock significant value going forward.

Summary

Our objectives remain unchanged — to create a diversified industrial business with $15 billion of revenues, 4–6% organic growth, greater than 15% operating margin, 12–15% cash flow return on investment, 10 working capital turns, and greater than 20% of our revenue from emerging markets.

We are operating from a position of strength — we have tremendous financial resources and leadership capabilities — our balance sheet, investment grade credit rating, cash flow generation, liquidity, and confidence that we are on the right path gives us optimism for the future. We have an exceptionally strong strategic position with our brands, including market share, scale, value proposition, commitment to innovation, cost leadership, and of course, our employees, representing our number one asset. We have the operating rhythms, the Centers of Excellence, and the Stanley Fulfillment System. 2013 was a challenging year, but we have learned from it and look to 2014 and beyond as a time to outperform once again.

March 11, 2014
New Britain, CT

John F. Lundgren
Chairman & Chief Executive Officer

James M. Loree
President & Chief Operating Officer

Vision

$15B
In Revenue

4–6%
Organic Growth

>15%
Operating Margin

12–15%
Cash Flow Return on Investment

10
Working Capital Turns

>20%
Revenue in Emerging Markets