CFA Institute Research Challenge

Hosted in

Hartford, CT

Trinity College

STANLEY BLACK & DECKER

Recommendation: Buy | NYSE: SWK | Target Price: $104.38

Basic Information

Sector: Consumer Discretionary
Industry: Home & Office Products
Current Price: 96.81 (as of close February 10, 2015)
Shares Outstanding: 156.65M
Five Year Dividend Growth: 9.43%
Market Cap: 15.08B
52 Week Price Range: 75.90 - 97.72
Beta: 1.02
P/E (ttm): 20.31
EPS (ttm): 4.77
Dividend Yield: 2.15%

Target Price Breakdown

	DCF	Comparables	Sum of Parts
Estimated Price	109.63	97.91	105.61
Weights	33.33%	33.33%	33.33%
Target Price			$104.38

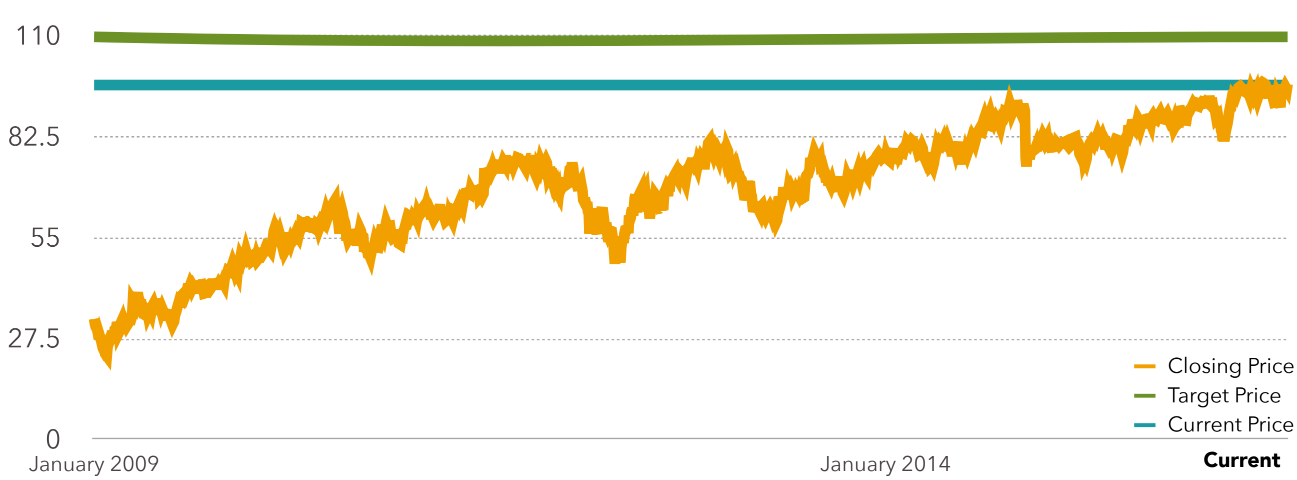
Highlights

We issue a recommendation of **buy** for Stanley Black & Decker. Our research and financial analysis has led us to a target price of $104.38. This recommendation is multifaceted, and it is built on a combination of factors that we believe will lead to positive growth for Stanley Black & Decker, both over the short and long term.

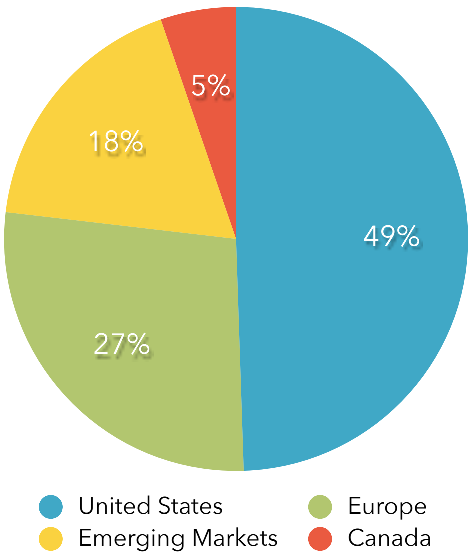
In particular, we see the management direction to be exceedingly positive, with the Company currently working to diversify its business lines, and we think that this will lead to future price stability and opportunities for growth. We also see this diversification strategy as an important reason for investors to expect Stanley Black & Decker to produce value for shareholders.

Stanley Black & Decker has seen a trend of successful acquisitions in its recent past, coupled with strong organic growth. We view this as a notable combination for future value generation. This growth pattern could also enable the Company to continue its dividend growth.

SWK Daily Stock Price

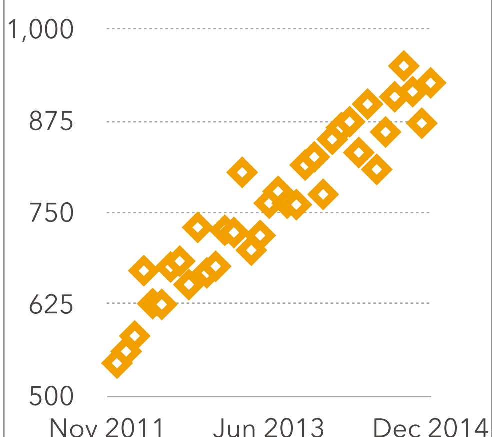


Global Revenue



Breakdown (2013)

New Residential Construction Completed (Seasonally Adjusted)



Note
The above data is from the 2013 SWK Annual Report and the United States Census Bureau, respectively.

Introduction

Stanley Black & Decker (hereafter "Stanley" and "the Company"), founded in 1843 and based in New Britain, Connecticut, is a manufacturer of a variety of products that are sold in a range of business lines and to a diverse group of customers. Their products and services are organized around three distinct areas: construction equipment, industrial solutions, and security systems. In 2013, Stanley had 50,700 employees.

Business Description

The present company is the result of the 2010 merger between Stanley Works and Black & Decker corporation. The company trades on the New York Stock Exchange under the ticker symbol SWK. Stanley is made up of a diverse group of brands that its various products are sold under.

Product Categories and Brands

Stanley's **construction equipment** product category includes hand tools, power tools, power tool accessories, and licensed products. Brands are important to Stanley's business, and within this segment, Stanley sells products under the brands Black + Decker, Bostitch, Stanley, Porter-Cable, and DeWalt. Its **industrial solutions** business area operates in the industrial and automotive repair, engineered fastening systems, and infrastructure solutions spaces. Stanley produces these products under the Proto, Mac, Facom, Lista, Vidmar, Stanley Supply & Services, Stanley Engineered Fastening, CRC-Evans International, and Stanley Hydraulic Tools brands. The **security** division of Stanley is made up of mechanical access systems, convergent security solutions, and healthcare. The brands in this category include Best, Kwikset, Baldwin, and Weiser. As of 2013, 47% of Stanley's revenue came from the United States, 26% from Europe, 17% from emerging markets, and 5% from Canada.

Current Initiatives

Stanley is working to diversify its business in order to foster growth in the areas of cash flow, revenue, and earnings. This diversification is centered around three areas: customers, geographic markets, and industries. Since 2002, the Company has made $6.2 billion in acquisitions commensurate with its diversification strategy. Stanley placed a moratorium on acquisitions in 2013 with the purpose of returning capital to shareholders, improving the operational structure, and deleveraging.

Stanley has recently made three notable transactions. The Company acquired Infastech, a specialty engineered fastening technology company, in February of 2013 for $826.4 million. In May 2013, it also purchased a 60% controlling stake in Jiangsu Guoqiang Tools Co. for $48.5 million. In 2011, Stanley acquired Niscayah Group for $984.5 million.

Industry Overview and Competitive Positioning

Housing and Construction

New Residential Construction Completion has been on a sustained upward trend for the past four years, and this bodes well for SWK's CDIY division, particularly for hand tools and machinery related to construction. With increasing Housing Starts as well, future prospects for CDIY seem consistently strong looking forward as well. As SWK is very well represented in the United States, where it is based, increasing construction and housing market trends should benefit SWK particularly well.

Oil

Oil prices have declined nearly 55% since June 2014 due to increasing petroleum inventories from OPEC, as well as innovations with fracking and horizontal drilling in the United States. SWK produces oil pipeline fittings, and lower prices in oil lessens the demand, on the part of oil drillers, for this service. Therefore, the falling prices hinder this aspect of SWK's production. However, the costs of inputs of byproducts of oil, such as plastic, will likely decline and result in lower costs of production with respect to products with that input.

Construction Equipment and Do-It-Yourself (hereafter "CDIY)

A large part of Stanley's CDIY customers are mass merchants and home improvement centers throughout the United States and Europe. There has been consolidation of retailers in this space, which magnifies the importance of certain customers and creates risk for larger amounts of sales loss. Stanley has worked to decrease the percentage of sales to mass merchants and home centers as part of its diversification strategy. The Company notes in its Annual Report that future acquisitions in "growth platforms" will help to decrease this percentage, and therefore reliance (on large, individual customers), even more.

Industrial

Stanley's Industrial segment is divided between three areas of business Industrial and Automotive Repair, Engineered Fastening, and Infrastructure. The Industrial and Automotive Repair segment sells hand tools, power tools, and engineered storage solution products. This business sells mostly to industrial customers, both directly and through third party distributors. The Engineered Fastening business sells to automotive, manufacturing, electronics, and aerospace industry customers, and its products are sold both through direct sales and third parties. The Infrastructure business sells to the oil and natural gas pipeline industry as well as other unspecified industrial customers. These products are also distributed through third parties as well as directly.

Security

The Security segment is divided between Convergent Security Solutions and Mechanical Access Solutions. The Convergent Security Systems division sells to consumers, retailers, educational institutions, financial institutions, and healthcare institutions. It also sells to government, commercial, and industrial customers. These products are mostly sold directly. The Mechanical Access Solutions business sells to commercial customers through direct and independent distribution networks.

Competition

Stanley's competition is centered on price, quality of service, and the comprehensiveness of services offered. The Company competes with a variety of companies, both larger and smaller, in its various business lines. Some sell private label brands that compete directly with the spectrum of Stanley's CDIY product offerings. In the Security business line, the competition is both international and regional. The Company believes that tis competitive advantage is in its brands, customer service, customer relationships, the size of its product lines, its innovation, and the value that it brings to customers.

Investment Risks

We view Stanley's potential risks in the context of the following categories: economic risks, market risks, company ability, customer buying ability, financial risks, legal risks, and business disruptions.

Economic Risks | *Currency fluctuations* (ER) The US Dollar has gained strength against the Euro over the past three months, with the price of the Euro, in terms of dollars, falling 8.44% in that time. In the past year, the Euro fell 14% against the US dollar in 2014. The European Central Bank's recent announcement of fiscal stimulus will likely continue this trend or at least provide pressure to maintain relative strength in the dollar. With more than 50% of the firms revenue being generated abroad, 26% of revenues being generated in Europe, earnings overall may fall as the US comprises a larger part of Stanley Black & Decker earnings reports going forward. Additionally, as the Euro declines in value against the U.S. Dollar, earnings originally denominated in Euros will lose worth when viewed on a U.S. Dollar basis.

Market Risks | *Domestic Market Conditions* (MR) Housing Indexes have been increasing or stabilizing in outlook and this represent a consistent market for tools, hardware, and other building materials that Stanley Black and Decker provides. Housing Starts rose 4.4% in December versus estimates of 1.4% increases. This metric suggests that economic growth will likely have positive momentum going forward, and growth in the housing market will have positive returns for Stanley Black & Decker's CDIY vertical.

Company Ability 1 | *Future Growth* (CA1) The company has demonstrated a pattern of positive earnings over the past year, and we feel that this trend should continue. Stanley Black and Decker has reported 40.1% gross profit margins for FY2014, which outpaces competitors, and has increased from the same quarter last year. Their net profit margin is above the industry's average at 8.15%. Net operating cash flows has increased substantially to $249.1 million, an increase of 150.1% from the same quarter last year. Additionally, Stanley Black & Decker has surpassed the industry average cash flow growth rate of 16.19%. In 2015, the market expects an improvement in earnings to $5.56 per share, up from $3.26 in 2014.

Company Ability 2 | *Competition* (CA2) There is active global competition that Stanley Black and Decker faces, and failure to compete may cause business to suffer. Due to the successful brand reputation that Stanley Black and Decker has developed, with strategic advertising and consistent, reliable customer service, we do not believe that an increase in competition poses a major, unordinary threat to Stanley Black and Decker.

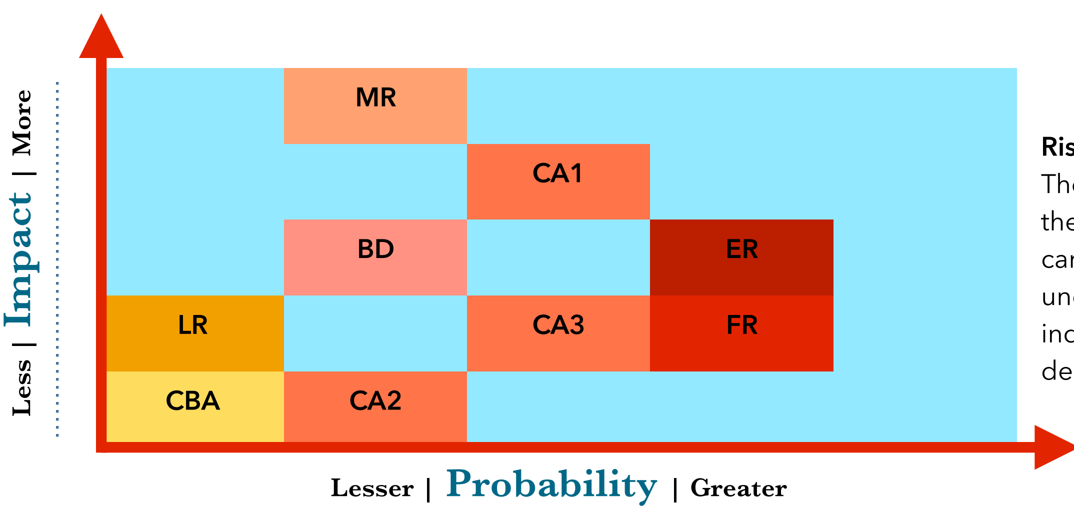
Company Ability 3| *Credit* (CA3) Moody's has given Stanley Black and Decker a stable credit rating of Baa1, meaning that Stanley's obligations are subject to moderate credit risk. While this may be seen as a moderate risk to investors, and thereby harming Stanley Black and Decker's access to credit, the outlook for this rating is stable and not on watch by Moody's, indicating stability and a minimum amount of risk.

Customer Buying Ability | *Product Recall* (CBA) A recall in product by regulatory authorities may damage reputation as well as decrease the customer base and thereby harm revenues. Stanley Black and Decker seems to be fairly resilient to this risk, even when the event does occur. In July 2014, Stanley Black and Decker had 108,000 routers recalled in the United States and Canada. While the stock price faced moderate losses in the days following the recall, stock price surged 3.86% ten days later and continued to gain in the weeks following.

Financial Risk | *Counterparty Risk* (FR) Stanley Black and Decker works with financial institutions to hedge risks in changes in currency exchange rates and interest rates. The failure of these counterparties to act increases the company's vulnerability to chaipnges in the market.

Legal Risk | *Claims and Litigation* (LR) The company carefully monitors risk from claims and litigation against Stanley Black and Decker. Most recently the US district Court of the Eastern District of Virginia threw out a case brought by SD3 LLC, et al., in which Stanley Black & Decker, and competitors, were accused of violating antitrust laws against SD3 LLC (June 27, 2014).

Business Disruptions | *Geopolitical Hostilities* (BD) The company has important supply lines in South Korea and increasing hostilities between North Korea and South Korea, or between North Korea and the United States, would have significant negative effects on the company with regard to supply chains in South Korea.



Risk Matrix
The definitions of these abbreviations can be found, underlined, in each individual risk description.

Investment Summary

We issue a **buy** recommendation for Stanley Black and Decker (SWK) with a target price of $104.38 and 13.48% upside from current price level using the Discounted Free Cash Flow to Firm analysis, Comparable Companies analysis, and Sum of the Parts analysis methods. SWK has a strong position in both domestic market and emerging markets and in the past year has exceeded analyst expectations with strong free cash flow growth. We expect this growth to be continued, as SWK is still undervalued compared to its peers.

Additionally, SWK's strong revenue growth, impressive EPS growth, and stronger than expected cash flows are all contributing factors to a general positive outlook for the future.

Valuation Methods

We derived our target price by combining DCF valuation, Comparable Companies analysis, and Sum of the Parts analysis with equal weights. In our opinion there is no reason for different treatment of any of these three methods. The peer group was chosen in a rigorous manner and we believe the comparison to our selected companies is fully justified.

Strong Organic Growth and Recent Performance

Despite falling oil prices and weak industrial activities, Stanley Black and Decker's Q4 profits surged due to falling restructuring costs and growth in emerging markets to offset currency volatility. Additionally, the slow U.S. housing recovery has further benefitted the company while it cuts costs, contributing to the company's positive outlook for 2015. A firm analyst recently wrote that the company is raising their one year price target to $99 from $95 on SWK shares, and this represents an increase of about 6% more than the recent share price. Additionally, SWK's relatively low levered beta of 1.04 in comparison to its competitors' average of 1.16 makes it an attractive, low-volatility investment.

CDIY net sales increased 7% in Q4'14 compared to Q4'13. Organic growth was strong in all regions, with the strongest growth in North America (14%), followed by Europe (7%) with its trend of strong organic growth and an expanding retail footprint. Industrial net sales increased 1% in Q4'14 versus Q4'13. Engineered Fastening achieved 10% organic growth driven by strong global automotive and electronic revenues. Security net sales decreased 1% in Q4'14 compared with 4Q'13, substantially the result of organic growth in North America and emerging markets due to strong performances in commercial electronics and automatic doors businesses. While Europe's organic growth was flat, this is a significant improvement compared to prior quarters.

Shareholder Return and Relations

SWK places an emphasis on rewarding shareholders through dividend payments, debt reduction, and share buybacks having frequently cited these as primary focuses in press releases. SWK's double-digit total shareholder return of 12% in 2013 and 11.4% in 2014 emphasizes an underlying policy of producing meaningful return for its shareholders.

Potential for Growth with M&A Transactions

Though SWK is unlikely to resume acquisitions in the immediate future, our research shows that if SWK does pursue an acquisition strategy in one of the five areas outlined in its investor overview, (Tool Consolidation, Security, Engineered Fastening, Infrastructure, and Emerging Markets) there is a potential to add 7.6% of growth in addition to projected organic growth of 4-6%. Based off our research, we have reason to believe that SWK will pursue a rigorous acquisition strategy in the 2016 fiscal year that will serve as a catalyst for future growth. This is further explored in our Comparable Companies analysis in the Valuation section.

Possible investment risks

Besides the influence of market risk, investors should be aware of other possible adverse influences: currency fluctuations, domestic market conditions (particularly in the housing market and falling oil prices), future growth prospects, changes in competition, changes in credit rating, product recall risk, counterparty risk, claims and litigation risks, and geopolitical hostilities. We identify key risks and their impacts on value in the Investment Risk section.

Financial Analysis

SWK Liquidity: An Improving Picture

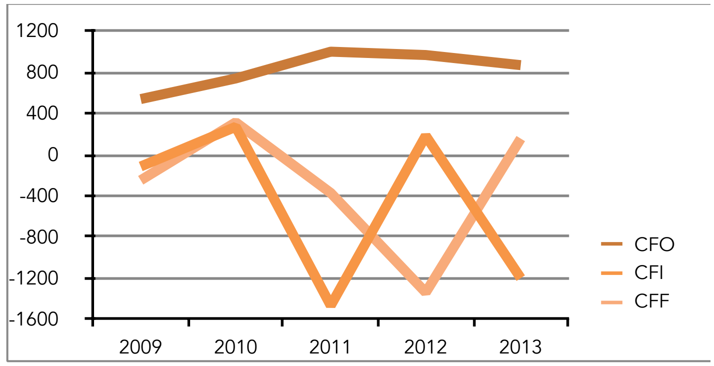
A look at the liquidity ratios of SWK in comparison to its peers shows that though not far behind, there is room for the company to improve upon liquidity. This is most prominent in SWK's Quick Ratio of 0.8, indicating that it would face issues if forced to cover its short-term obligations. This is compared to an average of 1.73 among its peers, showing that SWK lags in this category. SWK does lead two out five of its competitors with its Current Ratio of 1.31 though, indicating that the company is in a moderately liquid position relative to its peers. Reasons for why SWK's liquidity lags behind its peers in some instances relates to debt accumulation from past mergers and acquisitions, most notably Stanley's merger with Black & Decker in 2009. This has led to a higher interest expense in the short-term. One area of success is SWK's Asset Turnover ratio of .67x, which beats its peers' average of .86x. A cash conversion cycle of 64 days beats the average 119 days among its peers, indicating SWK's advantage in management. With SWK looking to bring its Debt/EBITDA ratio to 2.0x from 2.9x before the next acquisition cycle, their liquidity picture looks promising in comparison to competitors. SWK's competitiveness comes through in its Working Capital Turnover ratio as well. With a multiple of 10.64x, SWK shows much greater efficiency than competitors' average of 4.42x. With a five-year WCT compound annual growth rate of 6%, SWK will continue to improve this advantage over competitors.

Profit Margins: The Right Trajectory

In terms of Gross Margin at 36.3% and EBITDA Margin at 17.4% SWK is right in line with the average among its peers. These numbers show a solid control of costs for SWK, but a ROE of 10% is the lowest among comparable companies and significantly below the average of 16.2%. SWK is making a consistent effort to improve margins through cost cutting actions and continued synergies though. Improvements in the European Security market should aid in this effort, following new pricing schemes and restructuring in struggling countries. SWK cites $45 million in cost cutting actions in the past fiscal year. A large step in investment from 2013, just under $100 million dollars, should be starting to have an impact on organic growth going forward. Improving margins is one of the key objectives of SWK currently. Based on their record so far, progress will most likely continue on an upward trajectory.

Strong Cash Generating Engine

Cash Flow Pattern



In the analyzed period (2009-2014) SWK exhibited positive CFO and negative CFI due to high levels of CAPEX. We expect this trend will continue through the forecast period. In the years 2009-2014 SWK presented negative CFF, which was due to high level of dividends.

Another strong indicator of SWK's strong cash position is its ability to finance most of its CAPEX from internally generated funds. We predict that SWK's strong cash generating ability will continue through the forecast period due to the company's ability to consistently exceed performance expectations.

Dupont Analysis

After conducting a Dupont Analysis, SWK exhibited a 9.68% ROE in end of year 2014, compared to an early 2014 ROE of 7.28% (Team Estimates). Dupont Analysis highlights the most important driver for any future ROE to be financial leverage calculated as the ratio asset/equity. We conclude that an increase in the company's leverage will have a positive influence in profitability. The higher end 2014 ROE indicates that the company's financial performance is improving and the company's overall operations are stronger relative to early 2014 performance. We believe this to be a result of lagging issues SWK faced following the Niscaya acquisition and poor performance in Europe in previous years.

Valuation

Our Valuation of Stanley Black & Decker is based on three principal valuation methods: a Comparable Companies Analysis (CCA), a Sum of the Parts Analysis (SOTP), and a Discounted Cashflow Analysis (DCF). We arrived at our price target by taking a weighted average of the three. All three of these calculations can be found in the Appendix section of this report.

Comparable Companies Analysis

The group of comparable companies chosen in the analysis was meticulously researched to match SWK's unique composition of business lines as closely as possible. Ultimately we used seven different multiples to an average price per share. For enterprise value multiples, we used TEV/Total Revenue, TEV/EBITDA, TEV/EBIT for 2014 and 2015. For pricing multiples, we used price to earnings ratios for 2014 and 2015. It is notable that in terms of both TEV/earnings and P/E SWK is trading at lower multiples than its competitors in many instances. The average TEV/EBITDA multiple is 10.52x, while SWK trades at 8.60x. The average P/E ratio is 20.16x, while SWK trades at 16.99x, with only Makita Corporation (JP: 6586) at 14.72x lower in its peer group. An average across all of these multiples led to a target price of $97.91. One potential explanation for why SWK trades at lower multiples in comparison to its peers is that top-line growth is lower on average. SWK's revenue growth year over year for 2014 was 3.07%, while an average among its competitors was 9.54%. This lower growth also means more stability in comparison though, with SWK's beta of .98 lower than competitors' average of 1.16. Stanley also enjoys higher dividend earnings than its competitors, with a dividend rate of 2.16% compared to an average of 1.61%.

There is one factor, though, that suggests SWK is currently trading at a discount, and that is the possibility of resuming acquisitions in the future. SWK debt/EBITDA is currently 2.9x, with a short-term strategy of deleveraging aiming to bring that to about 2.0x, but the company is explicit in its long-term strategy of allocating about 50% of free cash flow to acquisitions. If SWK does pursue an acquisition strategy covering the five areas outlined in its investor overview, (Tool Consolidation, Security, Engineered Fastening, Infrastructure, and Emerging Markets) it could potentially add on an additional 7.6% of growth in addition to projected organic growth of 4-6%. Once SWK resumes acquisitions this will most likely bring its multiples more in line with some of its peers, but until then it will tend to trade slightly lower.

Rationale for Comparable Companies Chosen

<u>Ingersoll Rand (NYSE: IR)</u>

Ingersoll Rand is a global conglomerate that manufactures tools, security systems, and other various industrial supplies. The company demonstrates a similar market cap and performance to Stanley Black and Decker over the previous fiscal year. Both companies also maintain a comparable capital structure and operational risk.

<u>Makita Corporation (TYO: 6586)</u>

Makita Corporation is a tool manufacturing company based out of Japan. Makita Corporation not only acts as a direct competitor to Stanley Black and Decker in the production of personal and industrial power tools, but also operates in American, European, and Asian markets. Both companies exhibit a similar operational risk.

<u>Masco Corporation (NYSE: MAS)</u>

Masco Corporation is a company based in the United States that competes directly with Stanley Black and Decker in the production of Construction and "Do It Yourself" appliances. Both companies exhibit a comparable operational risk.

<u>Snap-On Incorporated (NYSE: SNA)</u>

Snap-On Incorporated is an American based company that competes with Stanley Black and Decker in the production of personal and industrial tools. Both companies exhibit a comparable capital structure and operational risk.

<u>Tyco International (NYSE: TYC)</u>

Tyco International is a company based in Switzerland that manufactures security and fire protection systems. The company competes directly with Stanley Black and Decker in the American and European markets. Both companies also maintain a similar market cap and demonstrate similar performance over the previous fiscal year.

Sum of The Parts Analysis

We completed a sum of the parts analysis (SOTP) by breaking down 2015-projected EBITDA (obtained from Bloomberg) into the major business lines of SWK. Those include Construction Do-It-Yourself (CDIY), Industrial, Security, and Corporate. By completing a vigorous comparison analysis using comparable companies from the individual sectors, we obtained EV/EBITDA multiples for each business line (see appendix). By using these multiples, we obtained a Total Enterprise Value that reflects the different aspects of each business line more effectively. Our target price of $108 reflects an average 10.46x EV/EBITDA multiple, and a P/E multiple of 16.29x. SWK currently trades at a forward P/E of 14.32x, but we think that our slightly higher estimate is justified. One particular reason is SWK's continued efforts to reduce pressure on cash flows related to prior M&A activity. This is projected to be corrected by 2015, bringing EBITDA/Debt multiple to around 2.0x, and justifying a higher P/E multiple. Also, the non-residential construction market is still under recovery in the U.S., which should have a positive impact on future cash flows.

Discounted Cashflow Analysis

The Discounted Cash Flow analysis we completed found a price target of $119.72. For the WACC, the cost of equity was calculated using the CAPM model. We used the U.S. 10 year Treasury yield for the risk-free rate, and SWK's current beta of .98. For market-risk premium we used 7.5%, for what we see as possible headwinds in foreign exchange, European, and developing markets. Depressed oil prices add more risk to SWK's infrastructure business as well. This calculation gave us a cost of equity of 9.35%. Debt was calculated using the book value of debt, by taking a two-year average of short-term and long-term debt. Then to find the cost of debt we divided the FY 2014 interest expense by that average, giving us 4.06%. The tax rate we used was an average of the last two complete fiscal years, which gave us 16.37%. Using these calculations, we reached a WACC of 8.09%. For the terminal value perpetuity growth rate, we arrived at 3.4%, projected U.S. GDP growth. By discounting projected free cash flow (FactSet) through year 2018 and adding in the terminal value, we reached an enterprise value of $22.263 billion. This gave us an implied equity value of $18.652 billion. We then reached an implied share price of $119.72. These projections give us an implied EV/EBITDA of 12.76x. In our view, this might be slightly overvalued. Reasons for $119.72 being slightly overvalued could be potentially higher expected return on equity than actual.

Appendix

Appendix 1: Comparable Companies Analysis, Part 1.

Company Comp Set																
Company Name	Day Close Price Latest (Feb. 3)	Shares Outstanding Latest	Market Capitalization Latest	Enterprise Value	2014 Total Revenue	2014 EBITDA	2014 EBIT	2014 EPS	2015E Revenue	2015 EBITDA	2015 EPS	5yr Avg Total Debt/ Total Capital (%)	Beta	Dividend Yield	12M Total Return	Revenue Growth Year over Year
Makita	44.76	140.08	6269.98	4931.26	3419.00	641.00	567.00	2.88	3605.00	669.00	3.04	55.00%	1.07	1.70%	7.47%	23.76%
Tyco	41.41	420.05	17394.10	17048.80	10340.00	1569.00	1205.00	1.99	10350.00	1656.00	2.36	22.96%	1.14	1.73%	1.76%	2.65%
Masco	25.16	356.26	8963.50	10830.00	8556.00	999.00	849.00	0.98	9054.00	1112.00	1.26	80.33%	1.29	1.38%	20.07%	9.05%
Snap-On	131.50	58.11	7641.47	8440.00	3267.00	708.00	610.00	6.96	3353.00	792.00	7.60	39.84%	1.10	1.50%	31.74%	7.88%
Ingersoll-Rand	66.16	269.50	17830.12	19760.00	12891.00	1749.00	1417.00	3.33	13522.00	1934.00	3.82	34.33%	1.21	1.74%	13.27%	4.38%
Stanley	96.32	155.80	15006.66	18852.00	11339.00	1745.00	1540.00	5.67	11363.00	1791.00	6.66	35.23%	0.98	2.16%	25.07%	3.07%
	Day Close Price Latest (Feb. 3)	Shares Outstanding Latest	Market Capitalization Latest	Enterprise Value	2014 Total Revenue	2014 EBITDA	2014 EBIT	2014 EPS	2015E Revenue	2015 EBITDA	2015 EPS	5yr Avg Total Debt/ Total Capital (%)	Beta	Dividend Yield	12M Total Return	Revenue Growth Year over Year
High	131.50	420.05	17830.12	19760.00	12891.00	1749.00	1417.00	6.96	13522.00	1934.00	7.60	80.33%	1.29	1.74%	31.74%	23.76%
Low	25.16	58.11	6269.98	4931.26	3267.00	641.00	567.00	0.98	3353.00	669.00	1.26	22.96%	1.07	1.38%	1.76%	2.65%
Mean	61.80	248.80	11619.83	12202.01	7694.60	1133.20	929.60	3.23	7976.80	1232.60	3.62	46.49%	1.16	1.61%	14.86%	9.54%
Median	44.76	269.50	8963.50	10830.00	8556.00	999.00	849.00	2.88	9054.00	1112.00	3.04	39.84%	1.14	1.70%	13.27%	7.88%

Appendix 1: Comparable Companies Analysis, Part 2.

Company Comp Set, By Industry	
CDIY	2015 EV/EBITDA Multiple
Makita Corporation (JP:6586)	7.37x
Snap-On Inc (NYSE:SNA)	10.33x
Masco (NYSE: MAS)	10.13x
Sherwin-Williams (NYSE: SHW)	14.15x
PPG Industries (NYSE: PPG)	10.90x
Average	10.58x
Industrial	
Ingersoll-Rand	9.28x
Danaher	11.42x
Dover	8.99x
Honeywell (NYSE: HON)	9.07x
3M	11.62x
Average	10.08x
Security	
Tyco	10.18x
ADT	5.90x
Allegion PLC	13.86x
ASSA	14.66x
Average	11.15x
Corporate	
Lennox	10.96x
Johnson Controls	9.09x
Average	10.03x

Acquisition Growth Prospects	Market Size	Growth Characteristics
Tool Consolidation	35	3-5%
Security	35	4-6%
Engineered Fastening	15	6-8%
Infrastructure	85	6-8%
Emerging Markets	15	10-20%
Average		7.6%

Note
All data is sourced from Bloomberg Professional service.

Appendix 2: Sum of the Parts Analysis

Sum of the Parts Analysis			
Segment	2015 EBITDA	2015 Multiple	Enterprise Value
CDIY	971.00	10.58x	10,269.30
Industrial	726.00	10.08x	7,315.18
Security	441.00	11.15x	4,917.15
Corporate/Other	(175.00)	10.03x	(1,754.38)
Total	1,963.00	10.46x	20,747.25
Total Enterprise Value	20,747.25		
– Debt	3,847.50		
= Equity Value	16,899.75		
Per Share	$ 108.47		
2015 EPS	6.66		
Forward P/E Ratio	16.29x		

Appendix 3: Discounted Cash Flow Analysis, Part 1.

Discouted Cash Flow Analysis, Stanley, Black & Decker Inc.								
WACC Calculation								
Debt								
Short-Term 2yr Average	205.05							
Long-Term 2yr Average	3,819.60							
Book Value of Debt	4,024.65	Book value of debt for this calculation: adding together the two year average of short term debt and long term debt						
Market Value of Equity	15,080.00							
Equity Cost of Capital (Re)		using CAPM (capital asset pricing model) Re= Rf+B (risk premium)						
Risk Free Rate	1.998%	10 yr treasury yield						
+ Levered Beta	1.04							
* Risk Premium	7.50%	Using a higher risk premium because of the possibility of significant economic headwinds in 2015, including strengthing U.S. dollar on exports						
= Cost of Equity (Re)	9.34800%		Could use 5.75% as rp-- NYU stern calculation (http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.htı					
Debt Cost of Capital (Rd)								
Interest Expense	163.60							
/ Book Value of Debt	4,024.65							
= Cost of Debt (Rd)	4.06%	Used FY 14 interest rate expense divided by book value of debt (seen calculated above) for Rd						
Tax Rate (Tc) (2013-2014 average)	16.37%	Used last average of the last two years (20.935% and 11.814%)						
Weighted Average Cost of Capital (WAC	8.09%	WACC Calculation = (Re*(E/E+D))+(Rd(D/E+D)*(1-Tc)						
Cash Flow Analysis						*Terminal Value*		
Year	2015	2016	2017	2018		Terminal Free Cash Flow (2018)	$ 1,180.00	
Free Cash Flow (Millions)	$ 985.00	$ 1,074.00	$ 1,264.00	$ 1,180.00		WACC	8.09%	
Discount Period	1	2	3	4		Perpetuity Growth Rate	3.44%	U.S. GDP Growth
Discount Factor	0.93	0.86	0.79	0.73		Terminal Value	25349.9905932	
Present Value of Free Cash Flow	$ 911.24	$ 919.17	$ 1,000.77	$ 864.30				

Appendix 3: Discounted Cash Flow Analysis, Part 2.

Enterprise Value	
Cumulative Present Value of FCF	$ 3,695.46
Terminal Value	$ 25,349.99
Discount Factor	0.73
Preesent Value of Terminal Value	$ 18,567.70
Enterprise Value	$ 22,263.16
Implied Equity Value and Share Price	
Enterprise Value	$ 22,263.16
+ Total Cash & ST Investments	$ 496.60
- Total Debt	$ 4,024.65
- Total Pref. Equity	-
- Minority Interest	$ 82.80
Implied Equity Value	$ 18,652.31
/ Shares Outstanding	155.8
Implied Price Per Share	$ 109.63
All Values are in millions, except per share data and ratios	
All forward looking data contained within was obtained from FactSet, Inc.	

Appendix 4: Trading Multiples, Part 1

Trading Multiples							
	Total Enterprise Value Multiples					Pricing Multiples	
Company Name	Total Enterprise Value/Total Revenues 2014	TEV/EBITDA 2014	TEV/EBIT 2014	TEV/2015 Total Revenue	TEV/2015 EBITDA	2014 P/E	2015 P/E
Makita Corporation (JP:6586)	1.44x	7.69x	8.70x	1.37x	7.37x	15.54x	14.72x
Tyco International Plc (NYSE:TYC)	1.65x	10.87x	14.15x	1.65x	10.30x	20.81x	17.55x
Masco Corporation (NYSE:MAS)	1.27x	10.84x	12.76x	1.20x	9.74x	25.67x	19.97x
Snap-On Incorporated (NYSE:SNA)	2.58x	11.92x	13.84x	2.52x	10.66x	18.89x	17.30x
Ingersoll-Rand Plc (NYSE:IR)	1.53x	11.30x	13.94x	1.46x	10.22x	19.87x	17.32x
Stanley Black & Decker, Inc. (NYSE:SWK)	1.32x	8.60x	9.74x	1.32x	8.38x	16.99x	14.46x
Sumary Statistics	Total Enterprise Value/Total Revenues 2014	TEV/EBITDA 2014	TEV/EBIT 2014	TEV/2015 Total Revenue	TEV/2015 EBITDA	2014 P/E	2015 P/E
High	2.58x	11.92x	14.15x	2.52x	10.66x	25.67x	19.97x
Low	1.27x	7.69x	8.70x	1.20x	7.37x	15.54x	14.72x
Mean	1.69x	10.52x	12.68x	1.64x	9.66x	20.16x	17.37x
Median	1.53x	10.87x	13.84x	1.46x	10.22x	19.87x	17.32x

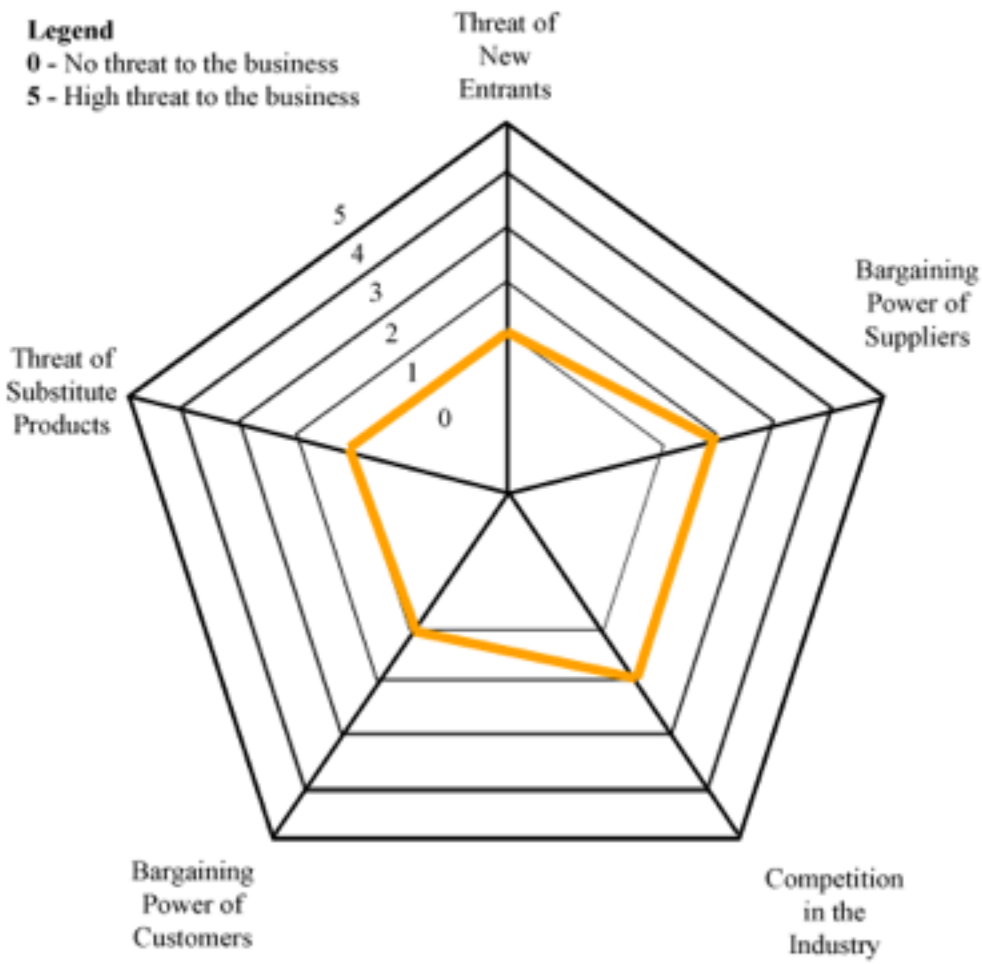
Appendix 4: Trading Multiples, Part 2

Implied Valuation							
	2014 Total Revenue	2014 EBITDA	2014 EBIT	2015 Revenue	2015 EBITDA	2014 EPS	2015 EPS
Stanley Black & Decker, Inc. (NYSE:SWK)	11339	1745	1540	11363	1791	5.67	5.92
Implied Enterprise Value							
High	29293.28	20801.98	21788.51	28602.36	19085.91		
Low	14352.66	13424.40	13393.53	13591.93	13201.61		
Mean	19215.46	18363.94	19521.87	18612.02	17293.61		
Median	17381.01	18961.22	21307.54	16605.01	18298.95		
+ Total Cash & ST Investments	496.6	496.6	496.6	496.6	496.6		
- Total Debt	3847.5	3847.5	3847.5	3847.5	3847.5		
- Total Pref. Equity	-	-	-	-	-		
- Minority Interest	82.8	82.8	82.8	82.8	82.8		
= Implied Equity Value							
High	25859.58	17368.28	18354.81	25168.66	15652.21	22679.58	18417.44
Low	10918.96	9990.70	9959.83	10158.23	9767.91	13729.29	13580.18
Mean	15781.76	14930.24	16088.17	15178.32	13859.91	17806.54	16022.92
Median	13947.31	15527.52	17873.84	13171.31	14865.25	17551.00	15974.28
/ Shares Outstanding	155.80	155.80	155.80	155.80	155.80	155.80	155.80
= Implied Price Per Share							
High	165.98	111.48	117.81	161.54	100.46	145.57	118.21
Low	70.08	64.13	63.93	65.20	62.70	88.12	87.16
Mean	101.29	95.83	103.26	97.42	88.96	114.29	102.84
Median	89.52	99.66	114.72	84.54	95.41	112.65	102.53

Appendix 4: Trading Multiples, Part 3

Mean Equity Value Across Multiples	Equity Value	Price Per Share					
High	20500.08	$ 131.58					
Low	11157.87	$ 71.62					
Mean	15666.84	$ 100.56					
Median	15558.64	$ 99.86					
/ Diluted Shares Outstanding	160.013	160.013	160.013	160.013	160.013	160.013	160.013
= Implied Price Per Share With Diluted Shares Outstanding							
High	161.61	108.54	114.71	157.29	97.82	141.74	115.10
Low	68.24	62.44	62.24	63.48	61.04	85.80	84.87
Mean	98.63	93.31	100.54	94.86	86.62	111.28	100.14
Median	87.16	97.04	111.70	82.31	92.90	109.68	99.83
Mean Price Per Share (Diluted)	Price Per Share						
High	$ 128.12						
Low	$ 69.73						
Mean	$ 97.91						
Median	$ 97.23						
All Values are in millions, except per share data and ratios							
All forward looking data contained within was obtained from FactSet, Inc.							

Appendix 5: Porter's Five Forces Analysis



Appendix 6: Comparable Financials

Company	Gross Margin	EBITDA Margin	EBIT Margin	Net Margin	Return On Equity	Current Ratio	Quick Ratio	Cash Ratio	Cash Conversion Cycle	Total Asset Turnover	LT Debt/ Total Assets	LT Debt/ Equity	Total Debt/ Total Equity	Dividends per Share 5 yr Growth	Working Capital Turnover
Stanley Black & Decker	36.30%	17.40%	13.40%	6.10%	10.00%	1.31	0.8	0.14	63.8	0.67x	23.00%	55.40%	61.60%	56.59	10.64x
Average	35.60%	17.00%	13.50%	9.00%	16.20%	2.53	1.73	0.69	119.4	0.86x	17.20%	72.50%	86.10%	16.03	4.42x
Median	34.00%	16.90%	11.50%	9.20%	12.10%	1.66	1.3	0.23	79.4	0.82x	15.70%	37.80%	40.40%	30.26	3.47x
Makita	37.90%	18.90%	16.90%	11.10%	12.10%	6.02	3.58	2.25	250.8	0.79x	0.00%	0.00%	0.80%	30.26	3.58x
Tyco International	34.00%	14.90%	11.50%	6.80%	10.40%	1.17	0.98	0.14	52.9	0.88x	10.60%	28.00%	34.50%	-17.33	1.21x
Masco	28.20%	-	9.70%	9.20%	29.20%	1.66	1.3	0.64	42.5	1.17x	39.60%	254.50	298.50%	-28.26	3.47x
Snap-On	49.60%	21.50%	19.20%	11.70%	18.80%	2.53	1.87	0.17	171.7	0.82x	20.20%	37.80%	40.40%	46.67	3.04x
Ingersoll-Rand	28.50%	12.70%	10.00%	6.40%	10.70%	1.25	0.91	0.23	79.4	0.62x	15.70%	42.20%	56.20%	48.82	10.77x

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