

Stanley Black & Decker: funding the next phase

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Decision date: October 2, 2026 (hypothetical executive-team exercise)

Information cutoff: October 2, 2026, 4:00 p.m. ET

Decision scope: Set a capital-allocation rule for the next 12-24 months as Stanley Black & Decker (SWK) shifts from portfolio restructuring toward growth.

The decision

Assume SWK's executive team meets on October 2 to decide how to govern the next dollars available for discretionary use. Consolidated Aerospace Manufacturing (CAM) has been sold. A definitive agreement to sell Excel Industries has been signed, but the deal has not closed. SWK has reduced debt and repurchased shares while announcing a multiyear U.S. investment plan. Its operating results show progress, but the quarter's margin improvement included tariff refunds and other temporary or uncertain items.

Decision question: How should SWK sequence investment in its continuing businesses, debt reduction and liquidity, and opportunistic share repurchases?

Recommend a policy for the next 12-24 months. Specify the evidence and thresholds that release, defer, or stop discretionary investment and buybacks; explain how the company should treat debt and liquidity under weaker cash-flow conditions; and address the strongest argument against your policy. Public information does not support a precise allocation of undisclosed Excel proceeds or a project-return forecast. Your task is to design a governing rule, not to decide whether either transaction should proceed.

The meeting and assignment are hypothetical. They do not represent an undisclosed board mandate or management deliberation. Work only with information available by the cutoff.

A simpler portfolio, with a growth test ahead

SWK sells power tools, outdoor equipment and engineered-fastening products. Following several years of restructuring and productivity work, management has described the next phase as translating brands, R&D, manufacturing and distribution into stronger organic growth and margins. It reported completion of a \$2.1 billion pretax run-rate savings goal in 2025; a run-rate is not the same as cash savings realized in that year. [S1]

The portfolio has changed. SWK completed its sale of CAM to Howmet Aerospace on April 6, 2026, for about \$1.8 billion gross. The company estimated net proceeds of about \$1.57 billion after taxes and fees. In Q2, it said it had reduced debt by \$1.7 billion and repurchased approximately 3.2 million shares for \$250 million. The filing says most net CAM proceeds repaid

commercial paper. These figures describe different measures and do not establish that gross sale proceeds remain available for new uses. [S2, S3]

On September 4, SWK announced a definitive agreement to sell Excel Industries, a maker of Hustler commercial-grade gas-powered riding and zero-turn mowers, to Bad Boy Mowers. The expected FY2026 revenue of approximately \$300 million is management's estimate. The purchase price, expected net proceeds, and Excel's earnings or cash contribution were not disclosed. Regulatory approval and customary closing conditions remained outstanding at the cutoff. SWK said it would continue investing in other Outdoor products, including electric and high-performance residential ride-on equipment. [S4]

The question is therefore not whether to sell CAM or Excel. It is how the remaining company should evaluate its continuing-business projects and preserve financial capacity as its portfolio evolves.

Investment promise and operating evidence

In August, SWK announced a plan to invest \$1 billion in the United States through 2028. Management described approximately half as R&D and half as capital expenditure and longer-term investment intended to strengthen manufacturing and product development. This is a multiyear aggregate plan, not evidence that the entire amount has been spent, that all dollars are incremental capital expenditure, or that each initiative earns an attractive return. [S5]

The July quarter offered mixed signals. Consolidated sales were \$3.961 billion, compared with \$3.945 billion a year earlier. Company-reported volume rose 3%; currency added 1%, while CAM and strategic Outdoor product-line transitions reduced the comparison. Tools & Outdoor sales grew 3% in Q2, but first-half volume fell 1%. The periods and bridges have different drivers, and the company's "organic" sales measure excludes certain perimeter, currency and licensing effects. [S3]

Adjusted gross margin rose to 33.7% from 27.5%, an increase of 620 basis points. Management attributed about 250 basis points of the improvement to net tariff refunds. Separately, the Q2 filing recorded a \$118 million pretax gain from realized Phase 1 IEEPA refunds and \$83.4 million of directly attributable variable-compensation and growth-investment costs, before tax. The filing says additional refunds are uncertain. The \$83.4 million spans cost of sales and SG&A; subtracting it from the refund gain does not produce a standalone after-tax earnings benefit. [S3]

The Q2 adjusted gross-margin measure is non-GAAP; reported gross margin was 33.0%. The adjusted Tools & Outdoor segment margin was 11.8%, up from 8.0%, with management attributing approximately 150 basis points of net benefit to refunds and directly attributable costs. These margins also reflect productivity, mix, investments and other items. They should not be treated as a clean recurring trend or as proof of project returns. [S3, S6]

For 2026, management guided to free cash flow of \$600-800 million. The company said this guidance incorporates realized tariff refunds and projected CAM-sale taxes and fees, excludes potential future tariff refunds, and assumes a temporary tariff tailwind will be offset by higher inflation. It also assumed Section 301 tariffs would approximate IEEPA-equivalent levels. The range is company guidance with stated assumptions, not a guaranteed cash pool for discretionary allocation. [S3, S6]

Exhibit 1. Selected operating and capital-allocation signals

Measure	Reported or announced figure	Period and scope	Decision-use limitation
CAM sale	~\$1.8bn gross; ~\$1.57bn estimated net of taxes/fees	Closed Apr. 6, 2026	Net amount is not current cash available; most net proceeds repaid commercial paper
Q2 debt reduction	\$1.7bn	Q2 2026 company report	Not necessarily funded only by CAM proceeds
Q2 repurchases	~\$250m; ~3.2m shares	Q2 2026 company report	Does not establish intrinsic value or future repurchase pace
Excel expected revenue	~\$300m	Management estimate for FY2026	Not transaction consideration, proceeds, EBITDA, or lost contribution
U.S. investment plan	\$1bn through 2028; approximately 50/50 R&D and capex/long-term investment	Management announcement	Aggregate plan; project returns, timing by project and spend-to-date not disclosed
Q2 sales	\$3.961bn vs. \$3.945bn	13 weeks ended July 4, 2026	Small reported change; perimeter, volume, FX and product-transition effects matter
Q2 adjusted gross margin	33.7% vs. 27.5%; ~250 bp attributed to net tariff refunds	Q2 2026	Non-GAAP measure and management attribution; refund effects are not necessarily repeatable
FY2026 free-cash-flow guidance	\$600-800m	Guidance as of July 29, 2026	Includes realized refunds and expected CAM taxes/fees; excludes future refunds; assumptions may change

Sources: [S2-S6]. Amounts are in U.S. dollars. Q2 and first-half periods follow the company's fiscal calendar; Q2 was 13 weeks and year-to-date was 26 weeks. Percentages in company sales bridges are rounded.

What the portfolio decisions can-and cannot-tell you

Selling a business can improve focus if it removes distracting or negative interdependencies. It can also create value because a buyer is better suited to operate the asset, or provide liquidity to a seller. A sale alone does not show which mechanism dominates or prove that proceeds should go to growth, debt, or repurchases. Academic research on historical asset sales finds focus-related performance and announcement-return associations, but the samples do not estimate SWK's transaction effects. [S7]

Capital constraints create a second tension. Debt overhang and costly external financing can suppress worthwhile investment; reducing debt can preserve room to fund future projects. But when a company has more cash than credible positive-NPV opportunities, debt repayment or

shareholder distributions can discipline spending. These theories suggest questions for management; the available studies do not diagnose SWK's constraints or set its leverage target. [S8, S9]

At a September 17 investor conference, CEO Chris Nelson described markets as broadly flat, with strong commercial and industrial professional demand, no material housing recovery, and stable DIY demand. He cited a goal to improve innovation cycle time by 30% by year-end and further footprint consolidation as an opportunity. These were management's statements, drawn from an investor-conference transcript available through a third-party mirror; they are not independent market data or proof that the targets were achieved. [S10]

Three feasible policies

A. Gate growth first. Treat the announced investment plan as a portfolio of candidates. Release discretionary tranches when projects meet customer-adoption, contribution-margin, capacity-use and tariff-resilience milestones. Protect liquidity and set leverage guardrails; defer accelerated buybacks until project gates and balance-sheet conditions are met. This protects the growth thesis but risks delaying worthwhile projects or creating costly measurement hurdles.

B. Stabilize the balance sheet first. Prioritize debt reduction and liquidity until cash conversion is more predictable across demand and tariff conditions. Continue only already committed investment, with discretionary projects and repurchases constrained. This increases resilience but may underinvest in the products and manufacturing changes needed for growth.

C. Balance investment and returns. Fund only projects that clear a stated hurdle, continue debt reduction and the dividend, and permit modest opportunistic repurchases under explicit leverage, liquidity and valuation limits. This preserves flexibility but may spread capital too thinly and leave no clear priority when conditions weaken.

No public disclosure supplies a project-level return schedule, Excel transaction price or lost contribution, a complete cutoff-date leverage sensitivity, or SWK's internal investment and buyback thresholds. A defensible recommendation must name the missing evidence and set a process for obtaining it rather than filling gaps with invented figures.

Discussion questions

1. What should be SWK's capital-allocation hierarchy after CAM and the signed Excel agreement? Which items are commitments, and which remain discretionary?
2. What does Q2's margin improvement say about operating progress? How should the tariff-refund contribution and uncertainty change your assessment?
3. What project evidence and release gates should apply to the U.S. investment plan? How should management compare product R&D with manufacturing investment?
4. What balance-sheet measures should constrain discretionary projects and repurchases? What additional information would you request before setting thresholds?
5. Which policy do you recommend, and what evidence would cause you to change it? State the strongest case against your choice.

Sources and cutoff

All evidence below was public by **October 2, 2026, 4:00 p.m. ET**. Later events and outcomes are excluded.

- **[S1]** Stanley Black & Decker, 2025 Form 10-K, filed Feb. 24, 2026. [SEC filing](#), Items 1, 1A, 7 and 8; transformation and savings discussion.
- **[S2]** SWK, "Completes Sale of Consolidated Aerospace Manufacturing Business to Howmet Aerospace," Apr. 6, 2026. [Company announcement](#).
- **[S3]** SWK, 2026 Q2 Form 10-Q, quarter ended July 4, 2026, filed July 29, 2026. [SEC filing](#), MD&A sales, gross profit, segment results, capital allocation and guidance; tariff and divestiture notes.
- **[S4]** SWK, "Announces Agreement to Sell Excel Industries to Bad Boy Mowers," Sept. 4, 2026. [Company announcement](#).
- **[S5]** SWK, "Investing \$1 Billion in the U.S.," Aug. 12, 2026. [Company announcement](#).
- **[S6]** SWK, "Reports Solid 2Q 2026 Results," July 29, 2026. [Investor release](#), operating results, capital deployment and guidance.
- **[S7]** John, K., & Ofek, E. (1995). "Asset Sales and Increase in Focus." *Journal of Financial Economics*, 37(1), 105-126. [Article](#).
- **[S8]** Hennessy, C. A., Levy, A., & Whited, T. M. (2007). "Testing Q Theory with Financing Frictions." *Journal of Financial Economics*, 83(3), 691-717. [Article](#). Abstract-level use in the research dossier.
- **[S9]** Jensen, M. C. (1986). "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers." *American Economic Review*, 76(2), 323-329. [Article](#). Conceptual use; full-text access was not established in the research dossier.
- **[S10]** SWK CEO Chris Nelson, Morgan Stanley 14th Annual Laguna Conference, Sept. 17, 2026. [Company event archive](#); [transcript mirror](#). Selected remarks; transcript read from a third-party mirror.