

A Legacy of Quality.

**STANLEY** MAKE SOMETHING GREAT™

A Future of Growth.

# The Stanley Works

## Investor Overview 1st Quarter 2008

John Lundgren – Chairman & CEO

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Greg Waybright – Interim VP Investor Relations

**April 24, 2008**

**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 this morning's press release and Form 8K and our recent 34 Act SEC filings.**

- **6% Earnings Growth -- EPS \$0.85 -- Despite Difficult Market Conditions**
- **Revenues Up 3% Aided By Currency & Acquisitions More Than Offsetting Weak Organic Growth**
- **Gross Margin Rate Improves 60bp As Productivity & Price More Than Offset Inflation**
- **Free Cash Flow Of \$83 Million Up 22%**
- **CDIY Revenue Flat As Currency Offsets Weak End Market Demand**
- **Industrial Revenue & Profit Up 8%**
- **Security Profit Up 17% On Revenue Growth Of 3%**



# 1Q08 Financial Results

(\$ million, except per-share amounts)

**Revenue Growth +3% Vs. Prior Year...**

**1Q07** **1Q08**

Revenue Growth

+3%

EPS

\$0.80

+6%

\$0.85

Net Earnings

\$68M

\$68M

OM%

12.8%

12.4%

Tax Rate%

26.7%

27.0%

Avg. Shares O/S

84.8M

80.3M

**...With EPS Growth Of 6% VPY In Tough U.S. Market Conditions**

## Revenues Up 3% Aided By Currency & Acquisitions

(\$ million)

	1Q07	1Q08	
Revenues	\$1,062	\$1,097	+ \$35 <b>+3%</b>

### Sources of Growth

Volume	(5%)
Price	<u>2%</u>
Organic	(3%)
Currency	4%
Acquisitions	<u>2%</u>
	<b>3%</b>

### Segment Results

	<u>Total Organic</u>	
Construction/DIY	0%	(5%)
Industrial	8%	(1%)
Security	<u>3%</u>	<u>(2%)*</u>
	<b>3%</b>	<b>(3%)</b>

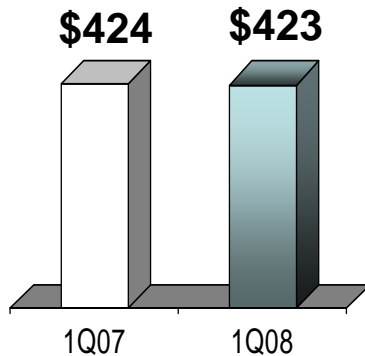
\* 3% organic growth ex-Hardware

**Overall Growth Achieved In Spite Of Weak Demand Environment**

## Revenues Flat As Recessionary Environment Persists

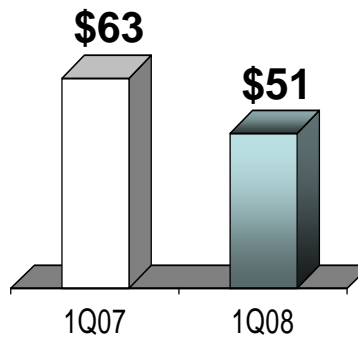
### Revenues

0%



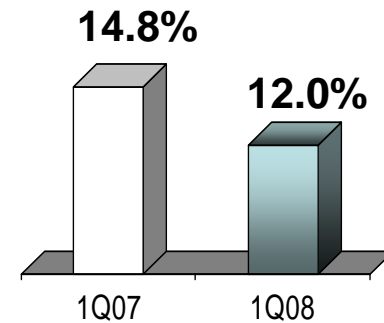
### Segment Profit

- 19%



### Segment Profit Rate

- 280 Bps



**U.S. continues to be adversely impacted by residential construction market**

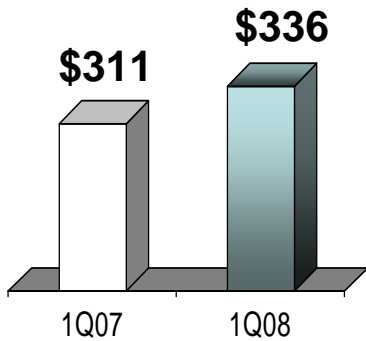
**ROW sales +6% driven by favorable Europe foreign exchange impact**

**Segment profit rate negatively impacted by unrecovered inflation, lower absorption of fixed costs, and investment in market development**

## Industrial Revenues & Profit Up 8%

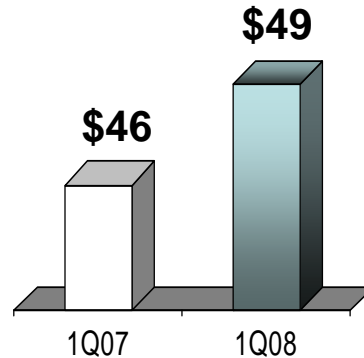
### Revenues

+ 8%



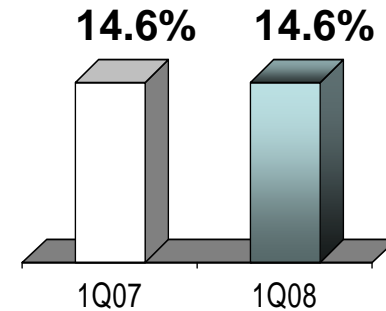
### Segment Profit

+ 8%



### Segment Profit Rate

+ 0 Bps



#### Industrial & Automotive Repair Tools revenues +6% (-2% organic)

- Facom continues to perform well.
- U. S.: Industrial revenues down slightly; Automotive weak

#### Engineered Solutions revenues +18% (+3% organic)

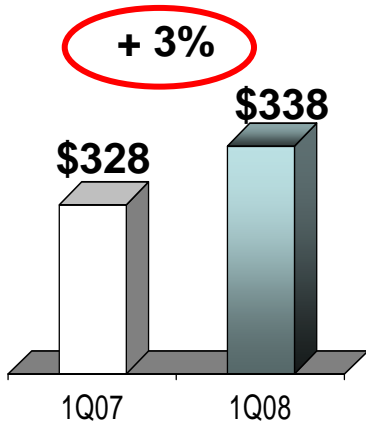
- Storage >50% (+13% excl. acquisitions)

#### Segment profit up 8% despite lack of organic growth

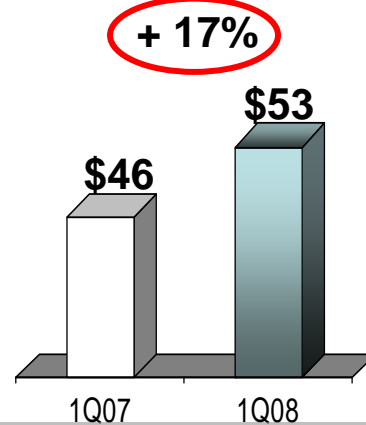
- Profit rate flat as favorable pricing and productivity initiatives offset by inflation and mix issues

## Segment Profit Up 17% On 3% Revenue Growth; Profit Rate Up ~ 200 Bps...

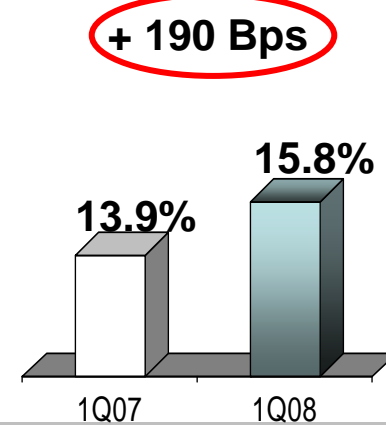
### Revenues



### Segment Profit



### Segment Profit Rate



#### Convergent Security Solutions (CSS)

- +12% sales growth (+2% organic)
- Restoration of organic growth in U.S. Systems Integration (+2%) as HSM acquisition benefits realized

#### Mechanical Access Solutions (MAS)

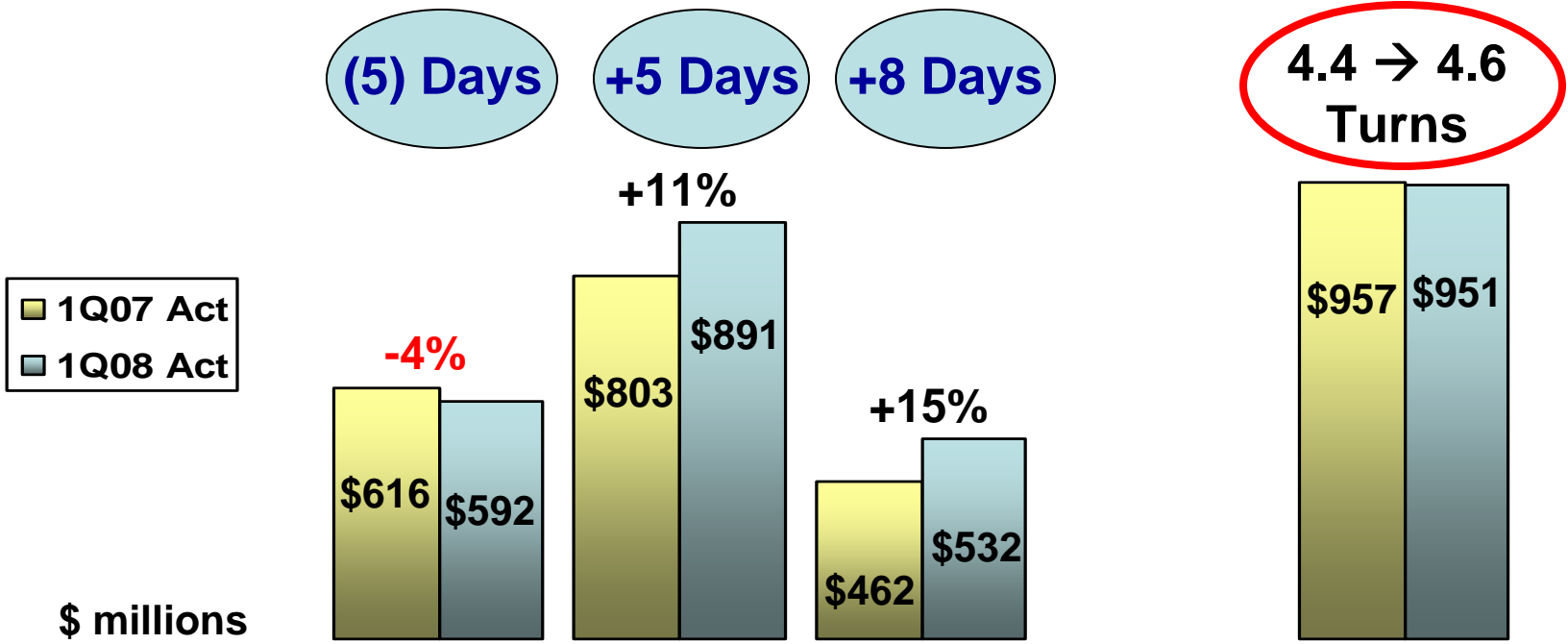
- Revenue (-3%) due to Hardware U.S. volume; Up 7% (+4% organic) excluding Hardware

Segment profit increase driven by organic growth, price, and realization of HSM integration benefits



# 1Q08 Working Capital

## Working Capital Turns Improve...



(5) Days

+5 Days

+8 Days

4.4 → 4.6 Turns

\$ millions

	Inv	AR	AP
1Q07 Act Days	84	69	63
1Q08 Act Days	79	74	71

4.4 Turns
4.6 Turns

...As Inventory & Payables Performance More Than Offset Receivables Increase

**Free Cash Flow Of \$83M, Up \$15M VPY...**

	<b>1Q08</b>	<b>1Q07</b>	<b>VPY</b>
Net Income	\$ 68	\$ 68	\$ 0
Deprec/Amort	41	37	4
Restructuring	3	4	(1)
Working Capital	(8)	(19)	11
Other	4	4	0
Operating CF	<u>108</u>	<u>94</u>	<u>14</u>
CapEx	<u>(25)</u>	<u>(26)</u>	<u>1</u>
Free Cash Flow	<b>83</b>	<b>68</b>	<b>15</b>

**...On Track To Achieve \$500M Full Year Free Cash Flow**

# 2008 FY Guidance Update

	<b>2007</b>	<b>2008E</b>
<b>EPS</b>	\$4.00 +15%	\$4.20-\$4.40 +5-10%
<b>FCF</b>	\$457M	~\$500M

- 1Q Actual EPS consistent with FY08 guidance of \$4.20 - \$4.40/sh.
- 2Q recessionary operating environment also in line with FY08 guidance assumptions.
- Guidance assumed 2 quarters of organic revenue contraction, consistent with a “mild and short-lived” U.S. recession.
- Therefore, 2H economic conditions will need to stabilize in order to support achievement of full-year guidance.
- Contingency plans (pricing and cost actions) developed to protect EPS above prior year levels if weak demand levels continue into 2H.
- Free cash flow of approximately \$500M continues to be likely.

# APPENDIX

## Healthy Balance Sheet Maintained...

	1Q08 Reported	\$450MM ETPS 50% ADJ FACOM '05	\$330MM Equity Unit 50%-75% ADJ HSM '07		1Q08 ADJ'D*	
			50%	75%	50%	75%
Cash	325					
Other Assets	4,630					
Debt	1,622	-225	-165	-247	1,232	1,150
Other Liabilities	1,616					
Equity	1,717	225	165	247	2,107	2,189
Total Capital	3,339					3,339
Debt/Capital	49%					
Adj. Debt/Capital*					37%	34%

\* The adjustments for equity content in the ETPS and Equity Units are consistent with the treatment by the nationally recognized statistical ratings organizations that rate the company's debt securities and, thus, the adjusted debt to capital ratio is considered a relevant measure.

...Allows SWK To Retain Upper-Tier Investment Grade Debt Ratings



# Reconciliation of Non-GAAP Measurement

(In millions)

	<u>2007</u>	<u>2008</u>
<u>EBITDA</u>		
Net earnings (cont. ops)	\$68	\$68
Interest, net	20	18
Income tax expense	25	25
Depreciation & amortization	<u>37</u>	<u>41</u>
EBITDA	\$150	\$152

“EBITDA” (earnings before interest, taxes, depreciation and amortization) is a non-GAAP measurement. Management believes it is important to the ability to determine the earnings power of the company and to properly value the company, due to current high levels of non-cash expenses related to recent acquisitions. A full reconciliation with the relevant GAAP measurement, net earnings, is provided above.

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