SNAP-ON INCORPORATED

Moderator: Leslie Kratcoski
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Operator: Please stand by. Your program is about to begin. Good day and welcome to the Snap-on Incorporated 2016 First Quarter Results conference call. Today's conference is being recorded. At this time I'd like to turn the conference to Leslie Kratcoski. Please go ahead.

Leslie Kratcoski: Thanks, (Lindy) and good morning everyone. Thanks for joining us today to review Snap-on's first quarter results, which are detailed in our press release issued earlier this morning.

We have on the call today, Nick Pinchuk, Snap-on's Chief Executive Officer; and Aldo Pagliari, Snap-on's Chief Financial Officer. Nick will kick off our call this morning with his perspective on our performance. Aldo will then provide a more detailed review of our financial results. After Nick provides some closing thoughts, we'll take your questions.

As usual, we've provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the webcast viewer as well as on our Website under Investor Information. These slides will be archived on our Website along with the transcript of today's call.

Any statements made during this call relative to management's expectations, estimates or beliefs, or otherwise state management's or the company's outlook plans or projections are forward-looking statements and actual results may differ materially from those made in such statements.

Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

With that said, I'll now turn the call over to Nick Pinchuk. Nick?

Nick Pinchuk: Thanks, Leslie. Good morning, everyone. As usual I'll start the call by covering the highlights of our first quarter and along the way I'll give you my perspective on our results, on our markets, on the progress we made and on what we believe it all means. Then Aldo will move into a more detailed review of the financials.

We believe that our first quarter provided confirmation of Snap-on's ability to continue its trajectory of positive results, overcoming headwinds, advancing along our runways for both growth and improvement. Our EPS in the quarter was $2.16, up from last year's $1.87. That rise includes an OpCo operating margin of 18.6%, an increase of 190 basis points.

When you combine those OpCo gains with earnings of $47 million from Financial Services it brings Snap-on's consolidated operating margin to 22.5%, up from the 20.1% in 2015. And that EPS, $2.16, it represents an increase of 15.5% over last year.

That improvement came on our organic sales growth of 2.5% and the continued contributions from our Snap-on Value Creation Process, the suite of principles we use every day around safety, quality, customer connection, innovation and rapid continuous improvement, or RCI.

Once again you can see it in the results. Those processes contributed strongly to the earnings climb. Our reported sales in the quarter of $834.2 million were up 80 basis points and that gain included 200 basis points of unfavorable foreign exchange. Now currency has been a headwind for some time, both to sales and to profit, but we've been able to overcome with the help of Snap-on Value Creation, especially with innovation and with RCI.

Innovation, taking practical insight and matching it with the latest technology, generating product excitement while making work easier for professionals with an array of new products. You see, that's been part of our DNA from the very beginning in 1920 and we're only getting better at doing it. There are more new products than ever before.

RCI, ongoing improvement, finding operating efficiency and achieving cost reduction up and down and across the corporation. Innovation and RCI, overcoming the challenges, extending the trend of rising profits again.

Now let's consider the markets, the markets we serve. The first quarter once again highlighted the extensive opportunities of the auto repair segment. More solutions to service the growing complexities of new vehicles requiring advanced solutions, and an aging fleet driving more repairs, both factors in play not only in the United States but worldwide. And the numbers of our quarter reflect those tailwinds. They not only reflect the tailwinds, they show our ability to take advantage, to progress down our runways for growth.

Consider the Tools Group, organic sales up 8.1% clearly enhancing the van channel, providing innovative new tools to engage continually changing tasks, making work easier for technicians and our franchise team more prosperous and more powerful. And Repair Systems and Information, our RS&I group, expanding Snap-on's presence in the garage, capitalizing on a broader product line, growth across all the divisions, but most notably in the Diagnostic and Repair Information businesses serving independent repair shop owners and managers. C&I, well, it includes the businesses that serve critical industries and is the most international of our group. And in the quarter the results show the challenges of turbulent industrial sectors and the difficulties of a few troubled geographies.

In critical industries the headwinds from the fourth quarter continued and they were a bit more pronounced. Sales to the US military and to oil and gas customers were down significantly with both segments showing the impact of ongoing measured spending and budget constraints. At the same time, we saw dips in some international markets specifically the Middle East where aerospace project activity was down due in part to macro developments in that region. Pretty turbulent there.

That said, all that said, C&I did demonstrate strength. SNA Europe delivered mid-single-digit growth in places like the UK, Spain and the Nordic region, while Asia-Pacific registered double-digit increases in countries like India, Thailand and Indonesia. So overall I describe our C&I markets as mixed, turbulence and strength. Deep challenges but we are also encouraged by the advancements, taking advantage of the opportunities that are available.

And when coupled with the string of positive performances surrounding our auto repair related businesses, on a whole, we believe there’s clear progress along our runways for growth. Enhancing the van network, expanding with repair shop owners and managers, building in emerging markets and yes, extending to critical industries. Even in this quarter we can see progress...in our growing product line, in our increasing understanding of the work, all of that creating confidence in our forward trajectory across those critical sectors.

That’s the overview of the markets. Now let’s move to the segments. In the C&I group organic sales were down 1.3%, with declines in the critical industries attenuated by gains in SNA Europe, Asia-Pacific and the Power Tools division. From an earnings perspective, C&I operating income was $41.1 million representing an operating margin of 14.3%, a decrease of 50 basis points, pretty much authored by lower sales in our higher-margin critical industry business.

But as I said, we do remain committed to extending in critical industries and we’ll keep strengthening our position to capture new business as the segment improves. You can see this particularly in our innovative new products fortifying our ability to make work easier outside the garage in a range of industrial settings.

One new product family in that category in our collection is the Snap-on 3/4" flank drive 12 point impact socket. You pick these up, they're a handful. Big. But effective and durable, aimed at power generation, the mining and oil and gas sectors. Perfect for turning large bolts on wind turbine engines, earth moving equipment, oil wells, multiple other places. Any place where heavy work gets done. They're ideal for pneumatic or hydraulic bolting systems and they incorporate Snap-on's flank drive which moves stresses away from fastener points delivering more turning power right in the field without slipping or rounding off a fastener. Those sockets are made down in Alabama at our Elkmont plant and they're a great addition to our tool line; they fill a vital need for our critical industry customers.

Now in past quarters, you may remember that we discussed Snap-on's lineup of tool control solutions, safeguarding the assets and improving productivity. I've spoken about our innovative and sophisticated automated tool control system, or ATC, the smart tool storage unit which electronically keeps track of the who, the when and the where of individual tool usage. It's popular.

Well in the quarter our Industrial division introduced its latest in another version of tool control, the Snap-on 5S dual visual control cabinet. The 5S dual, off-the-shelf or custom-built, utilizes visible control trays to quickly identify missing tools with the help of custom cut foam or with CAD designed tool silhouettes. It's the perfect addition to any place where work is performed within the sight of tool storage, like assembly lines, and where the shop is aiming to drive improvements through 5S or RCI.

And I mentioned the strength of SNA Europe and its continuing advancement that was clearly evident in its mid-single-digit sales gains, marking now 10 straight quarters of year-over-year sales progress across several challenged geographies. And once again sales rose but profits were up more. Now the 12th straight quarter of margin improvement.

And speaking of gains, our Asia Pacific division, an area of strong potential and these days of significant variation, we are building our physical capabilities and we saw progress in the quarter with sales rising compared to last year.

So now onto the Tools Group, organic sales increased 8.1%. The operating margin of 16.6% was up nicely versus the 15.8% recorded last year. The Tools Group, the results continue to speak for themselves. Ongoing progress along their runway for coherent growth, enhancing the franchise channel. And, you know, there is abundant evidence of growing strength and of ongoing positive trajectory across that channel all on display in our franchisee metrics...important financial and physical indicators like cash, like turnover. We monitor those metrics very closely and again this quarter they're favorable across the board and they continue to trend upward. There's also evidence in sort of anecdotal and direct interaction with the franchisees at events this year like our January kickoff meetings held all over the network, orders were up considerably, an atmosphere of enthusiasm and optimism and a team marked by commitment and energy. You know, when you meet our franchisees you clearly see they're brimming with confidence, reaching higher and expecting to achieve and grow.

The Tools Group was marked by growth but it was also driven by Snap-on Value Creation. It's always a critical component of the group's progress, authoring innovative new products, sometimes just an improvement on an established line but making work easier, solving new problems, delivering productivity gains from observing the work in shops on a daily basis.

An example of that is the Snap-on 312 CF heavy-duty diagonal cutters manufactured up the road in our Milwaukee plant, the next generation of our most powerful diagonal cutting pliers utilizing Milwaukee's sophisticated cold forging technology. They've been redesigned for better overall strength, substantially increased cutting performance and longer life, more precise cutting edges and a repositioned pivot point for increased leverage. The 312, using both those edges and the new leverage, the 312 CF cuts material ranging from plastic cable ties to hardened spring steel, tremendous versatility. And the pliers head has been improved. Our designers better pinpointed the failure point, added material in those places reducing the breakage even when these pliers are engaged in the toughest tasks. And we matched it all with the latest in Snap-on cushion grips. Our customer connection showed that there was a great need for pliers with improved versatility, durability and comfort. The 312 CF provides just that. And we expect strong sales even in an established category.

Also in the quarter the Tools Group introduced the low-profile swivel impact socket set. Now we've been selling sockets for a dog's age, a long time, but this new set expands our line of confined space solutions with a reduced hex height that provides better access to fasteners. Great for tight engine compartments, underneath dash spaces and any difficult to reach area. The new design also features laser welded pivot points and the weld beads are machined flush to the socket for improved appearance and safety. It has a smooth, full 30 degree swivel action for more efficient power. Power and access, just what's needed for the tight spaces and the challenging tasks of today's more complex engine compartments.

Snap-on innovation, a tradition in Snap-on since 1920 but we believe getting much better, helping technicians perform their work more efficiently and enabling solutions in a rapid changing environment. But the Tools Group is not just products, it's also based on amplifying the capability of our franchisees and the power of our network. The Rock 'n Roll cabs and the Techno Express are great examples of that. But now we are also enabling our team with the Chrome Express Plus System supporting multiple mobile terminals. A number of our franchisees, you know, have chosen to add an assistant to their route. Well Chrome Express Plus enables that add making it possible to multiply selling time and to reach more customers. It's another clear opportunity for more growth.

And we can't talk about the Tools Group without speaking of its strategic partner, our Financial Services team, tapping the power and insight of our franchisees, financing big-ticket sales, serving as a great assist to our Tools business. And you can see it in the strategic relationships playing out vividly in the quarter's results.

Now let's speak of RS&I. First quarter organic sales rose 3.1% led by sales to independent shop owners and managers; operating earnings of $69 million, up $5.1 million from 2015. The operating margin, 24.7%, a rise of 120 basis points. RS&I, we are clearly seeing the power of RS&I - RCI - rapid continuous improvement driving margin expansion. It's evident again in this quarter in the strong earnings.

I often speak of our successful line of handheld diagnostic units, well received in the market, driving growth throughout independent repair shops. Well in the first quarter that advantage was again highlighted publicly. Our SOLUS Edge and our ETHOS Tech handhelds were honored by Undercar Digest, both recognized by that magazine as a top 10 tool.

The SOLUS Edge, faster processing, larger screen, the power of Mitchell 1 SureTrack, all combining for the fastest fixes. It's the tool for experienced technicians. And the ETHOS Tech, with its considerable functionality and attractive price point, great for the first time diagnostic buyer. Both handhelds were selected by the votes of technicians and shop owners who use these tools every day and who read Undercar Digest.

One clear reason why the RS&I margins have continued to climb all these quarters is the ongoing stream of innovation made possible by customer connections with professional tool users. An example of that in this quarter, RS&I launched and shipped its new advanced touchscreen diagnostic workstation. It features our most powerful diagnostic tool, the VERUS Edge handheld, and it's paired with a custom role cart for easy mobility and a large 27 inch touchscreen monitor for increased readability and productivity. This workstation, all of this visibly reinforcing in independent repair shops capabilities, building that customer confidence; so important in an environment of rising vehicle technology.

In addition this quarter our equipment division launched what we believe to be a game changer, the V3300 wheel aligner, a next-generation unit targeted specifically at specialty shops and dealerships, faster readings, real-time data to the technician and a significant reduction in cycle time. We've already received enthusiastic feedback in just a few weeks from a wide range of potential customers and we're confident it's another share taker.

Finally, RS&I continued expansion into heavy duty, into the heavy-duty segment, strengthening the Snap-on Pro-Link Ultra's position as the go to handheld in big truck shops, adding coverage, enhancing functionality and building an expanding presence in heavy-duty repair shops across the US.

So that's the highlights. Continued progress, organic sales rising 2.5%, gains achieved through Snap-on Value Creation processes, especially innovation and RCI, strengthening our businesses and driving to an 18.6% OpCo operating margin, up substantially. And in the face of currency and industry headwinds EPS of $2.16, up 15.5%. It was an encouraging quarter.

Now I'll turn the call over to Aldo. Aldo.

Aldo Pagliari: Thanks, Nick. Our first quarter consolidated operating results are summarized on slide six. Net sales of $834.2 million were up 2.5% organically, primarily reflecting increases in our businesses serving automotive repair, partially offset by lower sales to critical industries in our C&I segment.

On a reported basis, net sales, which included $16.4 million of unfavorable foreign-currency translation and $2.6 million of acquisition related sales, increased $6.4 million or just under 1% from 2015 levels. Largely due to the strengthening of the US dollar, foreign currency movements have virtually impacted our Q1 sales comparisons by 200 basis points.

Consolidated gross margin of 49.8% improved 30 basis points from 2015 levels as benefits from higher sales and savings from RCI initiatives were partially offset by 50 basis points of unfavorable foreign currency effects.

Operating expenses of $259.9 million yielded an operating expense margin of 31.2% in the quarter, an improvement of 160 basis points from last year primarily due to benefits from sales volume leverage and savings from RCI initiatives, lower stock-based mark to market compensation and other expenses as well as lower pension expense.

As a result of these factors, operating earnings before financial services of $155.4 million, including $7.7 million of unfavorable foreign currency effects, increased 12.7% as compared to the prior year, and as a percentage of sales increased 190 basis points to 18.6%.

Financial services revenue of $66.3 million in the quarter increased 15.5% from 2015 levels and operating earnings of $47 million increased 16.6%. These increases primarily reflect the continued growth of the financial services portfolio.

Consolidated operating earnings of $202.4 million, including $8.1 million of unfavorable foreign currency effects, increased 13.6% and the operating margin of 22.5% increased 240 basis points from 20.1% a year ago.

Our first quarter effective income tax rate of 31% compared to 32% last year. For the full year we continue to anticipate that our 2016 effective income tax rate will be comparable to our full year 2015 rate of 31.7%.

Finally, net earnings of $128.3 million, or $2.16 per share, increased $17.8 million or 29 cents per share from 2015 levels representing a 15.5% increase in diluted earnings per share.

Now let's turn to our segment results. Starting with Commercial & Industrial, or C&I group, on slide 7, sales of $287 million in the first quarter decreased 1.3% organically primarily due to a double-digit decline in sales to customers in critical industries. This decline was partially offset by a double-digit increase in the segment's Asia Pacific operations, a high single-digit gain in the segment's Power Tools operations, and a mid-single-digit sales increase from the segment's European-based hand tools business.

Gross profit in the C&I group of $110.5 million compared to $116.5 million last year. A gross margin of 38.5% decreased 70 basis points primarily due to a decrease in higher gross margin sales to customers in critical industries and 40 basis points of unfavorable foreign-currency effects partially offset by savings from RCI initiatives.

Operating expenses of $69.4 million in the quarter, compared to $72.5 million last year. The operating expense margin of 24.2% improved 20 basis points from 24.4% last year. As a result of these factors operating earnings for the C&I segment of $41.1 million, including $2.2 million of unfavorable foreign-currency effects, decreased $2.9 million from 2015 levels and the operating margin of 14.3% compared to 14.8% last year.

Turning now to slide eight, first-quarter sales in the Snap-on Tools Group of $402.5 million increased 8.1% organically reflecting a high single-digit gain in the company's US franchise operations and a mid-single-digit increase in the company's international franchise operations.

Sales gains continue to reflect strong demand including for big-ticket items such as tool storage and diagnostics.

Gross profit of $173.2 million, compared to $166.3 million last year. The gross margin of 43% decreased 100 basis points for the most part due to unfavorable foreign-currency effects.

Operating expenses were $106.5 million in both the first quarters of 2016 and 2015. The operating expense margin of 26.4% improved 180 basis points primarily due to sales volume leverage and savings from RCI initiatives, as well as 50 basis points of lower stock-based costs associated with the company's franchisee stock purchase plan.

As a result of these factors, operating earnings for the Snap-on Tools Group of $66.7 million, including $4.2 million of unfavorable foreign-currency effects, increased $6.9 million and the operating margin of 16.6% improved 80 basis points from 15.8% last year.

Turning to the Repair Systems & Information, or RS&I group shown on slide nine, first-quarter sales of $278.8 million increased 3.1% organically. The organic sales increase primarily reflects a mid-single-digit gain in sales of diagnostic and repair information products, a low single-digit increase in both sales of undercar equipment and sales to OEM dealerships.

Gross profit of $131.6 million compared to $127.3 million last year. Gross margin of 47.2% improved 40 basis points primarily due to savings from RCI initiatives. Operating expenses of $62.6 million in the quarter compared to $63.4 million last year. The operating expense margin of 22.5% improved 80 basis points primarily due to sales volume leverage and savings from RCI initiatives.

First-quarter operating earnings for the RS&I group of $69 million including $1.3 million of unfavorable foreign currency effects increased $5.1 million from prior year levels. And the operating margin of 24.7% improved 120 basis points from 23.5% last year.

Now turning to slide 10, operating earnings from financial services of $47 million on revenue of $66.3 million compared with operating earnings of $40.3 million on revenue of $57.4 million last year. The average yield on finance receivables of 17.9% in the quarter compared with 17.7% last year. And the average yield on contract receivables was 9.5% in both periods. Originations of $264.6 million in the quarter increased 14.7% from 2015 levels.

Moving to slide 11, our quarter-end balance sheet includes approximately $1.6 billion of gross financing receivables including $1.4 billion from our US operation. Approximately 81% of our US financing portfolio relates to extended credit loans to technicians.

In the first quarter of 2016 our worldwide financial services portfolio grew $53.3 million continuing to reflect the previously mentioned higher sales of big ticket items by the Snap-on Tools Group. As for finance portfolio losses and delinquency trends, these continue to be in line with our expectations.

Now turning to slide 12, cash provided by operations of $141.6 million in the quarter increased $63.5 million from comparable 2015 levels due in part to higher 2016 net earnings and lower growth in working investments compared to the prior year. Net cash used by investing activities of $79.6 million included $56.8 million to fund a net increase in finance receivables. Capital expenditures of $19.5 million in the quarter compared with $18.1 million last year.

Turning to slide 13, days sales outstanding for trade receivables of 61 days compared with 60 days at 2015 year end. Inventories increased $13.8 million from 2015 year end levels primarily to support continued higher customer demand in the auto repair sector and new product introductions. On a trailing 12 month basis, inventory turns of 3.4 compared with 3.5 turns at 2015 year end.

Our quarter end cash position of $106.3 million increased $13.5 million from 2015 year end levels. The net increase includes $174.1 million of cash from collections of finance receivables, and $141.6 million of cash from operations. These cash increases were largely offset by the funding of $230.9 million of new finance receivables, dividend payments of $35.4 million, the repurchase of 157,000 shares for $23.1 million and $19.5 million for capital expenditures.

Our net debt to capital ratio of 23.6% compared with 24.6% at 2015 year end. In addition to our $106.3 million of cash, and expected cash flow from operations, we have more than $700 million in available credit facilities and our current short term credit ratings allow us to access the commercial paper markets. As of the first quarter end we had no commercial paper borrowings outstanding.

This concludes my remarks on our first quarter performance. With that, I'll now turn the call over to Nick for his closing thoughts. Nick.

Nick Pinchuk: Thanks, Aldo. Well that's our first quarter. Performance against the wind. We believe it's a period that authors strong confidence going forward authoring - or auguring progress along our runways for both improvement and growth. Enhancing the van channel, the Tools Group grew 8.1% organically and the OI margin reached 16.6%, up 80 basis points.

Franchisees confident and committed, a stream of exciting new hit products and a continuing line of ways to wield the van channel more powerfully, the Rock 'n Roll cab to the Techno Express and now the Chrome Express Plus, enabling the franchisees to reach more customers.

Expanding with repair shop owners and managers. Sales up 3.1%. OI margin rising 120 basis points to 25.7%. Great products, the V3300 aligner, the ETHOS and the SOLUS handheld meeting the growing complexity of vehicle repair. Building in emerging markets, expanding the physicals. Sales increasing in a varying landscape.

And finally, extending to critical industries. Turbulence, but we still see progress clear to us in terms of expanding product lines aimed at solving the critical in those sectors outside the garage.

And you can't look at our quarter without seeing the hallmarks of Snap-on Value Creation driving improvement against the difficulties, authoring an OI margin of 18.6% up substantially versus last year again.

And when you add that OpCo performance to our Financial Services progress it rolls together for an EPS of $2.16, up 15.5% extending our trend of rising profitability. A 15.5% rise in what most would call a turbulent environment. We believe it was an encouraging quarter and one which points clearly to continued and significant gains as we move forward.

Now before I turn the call over to the operator it's appropriate that I say a word to our franchisees and associates. Once again, I know many of you are listening, the progress of our first quarter most clearly reflects your extraordinary capability and your unique dedication. For the skills you bring to our company, for the energy you devote to our efforts, and for the commitment you give to our team, you have my admiration. And you have my thanks.

Now I'll turn the call over to the operator. Operator.

Operator: At this time if you would like to ask a question please press the star and 1 and your touch-tone phone. You may remove your question from the queue at any time by pressing the pound key.

Again if you would like to ask a question please press the star and 1 keys now. We'll go first to Liam Burke with Wunderlich. Please go ahead, your line is open.

Liam Burke: Thank you. Good morning, Nick. Good morning, Aldo.

Nick Pinchuk: Good morning, Liam.

Aldo Pagliari: Good morning.

Liam Burke: The auto repair and maintenance end market seems to be working in your favor, the macro trends seem to be strong now and sustainable. Are you seeing any change in the competitive environment?

Nick Pinchuk: Not really. I'm sure, you know, we have a fairly strong position in these markets, as you know. And generally, as I've said many times on these calls, built on - I think the overwhelming capability of our van network and the skill of our franchisees and the ongoing understanding of the repair shop, we generally reflect back on ourselves. So when I talk about franchisees they almost never really mention the competition, although I'm sure it's formidable. They mention about how we can improve back on ourselves and I'm seeing no change in that really.

And I think the Tools Group numbers seems to say that. I mean, their numbers look pretty good. I mean, they continually make the sales. They've been up 6% or greater 23 of 24 quarters. One of the...

Liam Burke: Great.

Nick Pinchuk: One of the things I'd like to say about that, I think one of the investment theses about Snap-on is that Snap-on is a company that has so much more to do, so many more places to grow and improve. And the Tools Group, the van channel has been around for decades and yet they've been able to do this by creating a bigger plume - be able to expand so dramatically by creating a greater plume of new product and figuring out through things like these Rock 'n Roll cabs and Techno Express and now Chrome Express Plus, how to wield those vans more effectively. That's what's happening with us in the market.

Liam Burke: Thanks, Nick. And also on the diagnostic side you mention the handheld as some of the key product introductions and the innovation you're getting there. If you look at the diagnostics business in general is most of the growth coming out of handheld or do you have some innovative products coming into the service station owner and manager?

Nick Pinchuk: Well, if you look at RS&I, we're getting growth in a broad range. I mean, the diagnostic stuff is growing very strongly. If you look at big ticket items in the Tools Group, which is, you know, the bigger diagnostics and the tool storage and so on, they're up higher than - they're growing faster than the Tools Group. So that looks pretty strong.

The - we keep innovating around handhelds and that's of course the - some of the spiffy stuff people like to talk about because people want more diagnostics as the cars get more complex. But also if you look at equipment you see that in terms of the new aligners we brought out and behind the aligners there's an array of new balancers and so on.

And then finally we keep enhancing our software products like this SureTrack which accesses hundreds of millions of actual repair events and allows the technicians to pinpoint the possible repair and shortcut to that repair through big data. That's an exciting product which is going into the garage at the same time.

Liam Burke: Great. Thanks, Nick.

Nick Pinchuk: Sure.

Operator: And as a reminder if you'd like to ask a question please press the star and 1 on your touch-tone phone. We'll go next to David Leiker with Baird. Please go ahead, your line is open.

David Leiker: Good morning, everyone.

Nick Pinchuk: Good morning, David.

Aldo Pagliari: Morning.

David Leiker: A couple things I want to walk through. In C&I, you know, you still have I think at least a another quarter here of tough comps year over year, is that right?

Nick Pinchuk: Yeah, look, I think in C&I, if you look at this I think you could say - you'd be allowed to the fact that oil and gas gets - wasn't as - we did okay in the first quarter last year if you remember in oil and gas...

David Leiker: Right.

Nick Pinchuk: ...second quarter stated to tail off. So I think oil and gas tends to get a little easier moving into the second quarter. But military was strong and international aviation was strong in the second quarter. So we still have another quarter of batting up against that. It tends to - it tends to get easier in the third and fourth quarter. I don't want to say easier but it tends to be less high of a bar.

David Leiker: Yeah and if I remember correctly, your fourth quarter for oil and gas, energy, military, that Q4 tone was slightly weaker than Q3. What's it look like in the first quarter versus Q4?

Nick Pinchuk: It's weaker - both of those are weaker in the first quarter than they were in Q4. You know, I think marginally - I'd say marginally weaker, they're somewhat weaker though. You know, it's hard to say, David, because you've got fourth quarter over first quarter, you might have some mild seasonality flowing through that. But I'd say mildly weaker.

David Leiker: Do you think when we get to the point through these comps in the second half that they're more normalized that those businesses are down single digits instead of double digits?

Nick Pinchuk: Well I'm not in the business of forecasting that but certainly we come back to substantially lower comparisons and so that by arithmetic changes the whole situation. And then remember, we keep investing in that - in those businesses. We brought out - I just want to point out, we had a tough year in the military and we brought out over 700 new products aimed at the military. So we keep positioning ourselves for this. So we're ready to go. We're all dressed up. When the party comes we're ready to dance.

David Leiker: And then, Aldo, just a question for you on currency. You know, a lot of details you spit out there. Is there a way that you can - on the EBIT line, split out how much of that currency effect was translation versus transactional currency? Because some of these cross currency relationships seem to be a little bit out of balance with what we normally would see.

Aldo Pagliari: I don't want to actually give the internal calculus around that number. But I think to help you out, as you look forward, looking at today's currency rates, transaction will be the greater burden that affects the, you know, EBIT calculation, so to speak, and translation abates a little bit as you go forward using today's rates if you march forward in time.

David Leiker: Okay great. Thank you very much.

Operator: And our next question comes from Bret Jordan with Jefferies. Please go ahead, your line is open.

David Kelley: Good morning, everyone. This is David Kelley in for Bret. Thanks for taking my questions. And a couple ones and first I guess a follow up to an earlier question, I mean, the US franchisee base posted really another excellent quarter here and I know there's been some discussion of a sequential slowdown through Q1 from an aftermarket distributor that reported earlier this week. Is that something that impacted you at all either from your franchisees or let's say RS&I sell through to the non-dealer channel?

And I guess to that point could you give us maybe a general feel for cadence in Tools and RS&I performance throughout the quarter?

Nick Pinchuk: Well, you know, I don't think we want to give you cadence throughout the quarter. I don't think - look I think we're not seeing - I wouldn't say we're seeing any marked change in the auto repair related businesses. And when we go - either in our numbers or when I go out and visit the garage, when I ride these vans.

One of the kind of interesting things about our view of the economy is this, is when we look at - we parse it between auto related and the industrial, we did in my remarks. But, you know, I think one of the fascinating things about today's environment is it's big to small. I mean, small to big.

If you're out in the small garage, if you're out in these garages they are feeling good, they are confident, they are great. So those businesses, the small businesses, to us, in our sectors, seem uniformly to be enthusiastic and confident and doing very well.

As you rise in the size of business the amount of cautiousness increases. And you can see that in our businesses as well. So when we're selling to the garage - from garage to garage, from dealership to dealership, we see good things. When we're engaging with the - let's say the OEMs or the manufacturers, that's a little bit more tepid. But at the - to answer your question directly, at the grass roots level we're not seeing any abatement in this. In fact, our franchisees are only getting more confident as far as I can tell.

David Kelley: Okay great. Now I really appreciate that color. And I guess just a quick follow up, I mean, you talk about the grass roots movement and the strength at the, you know, the garage level. What do you see as the better opportunity in 2016? You know, are we selling more to the mechanics or the shop owners with some of the diagnostic equipment? What do you like better...

(Crosstalk)

Nick Pinchuk: Well actually, you know, it merged a little bit because what's happening is, is that - is that it used to be that much of the bigger diagnostic equipment was sold to the shop and it was spread around, you know, was shared between technicians. Well what's happening now is - is while 40% to 50% of the repairs in a - of the car PARC, the 300 million vehicle car PARC, 40% to 50% of those repairs require a diagnostic unit. Eighty percent of the new cars repairs require a diagnostic unit. So it's getting so every technician is going to need a diagnostic unit. From that ETHOS, read and reset, to all the way up to our VERUS Pro that'll solve the most puzzling of problems. And so we're seeing more sales now to individuals. But we're also seeing that's the market situation.

But RS&I has only, you know, within the last - let's say within the last five, six years, started to - five, six, seven years, started to focus on repair shop owners and managers as a particular customer base. So you see that opportunity unfold for us as we learn what they need and we arm our quiver with more products. We give us more to sell to those guys.

So I would say the market is going really robustly for the technicians. The shop owners and managers are still buying but we have a particular share gain opportunity with owners and managers.

David Kelley: Okay great. Thank you. And then one more from me and I'll jump back in the queue here. Can you maybe give us some color on the impact of the lower stock base compensation and pension expense on corporate expense? And then if we think about the last few years you've run I think roughly $100 million annualized corporate expense, how do we think about the full year run rate for 2016?

Nick Pinchuk: Well I think we kind of give guidance around $25 million a quarter or so on. You know, so it's interesting. Last year in the quarter we had a particularly expensive mark to market event that drove corporate expense up. I think it was $29 million and change. This year we had a particularly favorable one which brought it down to $21 million and change.

Really the $21 million kind of compares to a $25 million run rate if you really want to think of it in those terms. If you talk about operating expense, yeah, in operating expense, there's that mark to market and the pension expense that's in there that's making some of the improvements in operating expense. What we do is when we look at our numbers we say this: Yeah, we got good news from mark to market. But we got bad news from currency. They about balance. Mark to market and pension, currency, and we still grew EPS at 15.5%.

David Kelley: All right great. I appreciate the color. Thanks again.

Nick Pinchuk: Sure.

Operator: And we'll take our next question from David MacGregor with Longbow Research. Please go ahead, your line is open.

David MacGregor: Yes, good morning, everyone.

Nick Pinchuk: Good morning, David.

David MacGregor: Yes good morning. You caught my attention with the observation of franchisees adding help on the van and, you know, that should drive sales productivity. Do you have a count on - I know you've got what, 3500 trucks running in the United States...

(Crosstalk)

Nick Pinchuk: It's 3475. I don't know that number. It's, you know, written on my shorts here, that's why I see it every morning. But...

(Crosstalk)

David MacGregor: Do you have a figure on growth just...

(Crosstalk)

Nick Pinchuk: Look that, you know, I'm not - I don't want to get in the business of reporting that but let's just say that, you know, that is a small number so far, in the 15% to 20% of the franchisees have those assistants...

(Crosstalk)

Nick Pinchuk: Most of them, you know, and it's a franchisee's choice to make the decision. We enable it with things like Chrome Express Plus and other things. But what I see when I go to these kick offs or go to the National Franchisee Advisory Council and talk to these the more the franchisees see the success of other people with these assistants, the more they're saying, hey, maybe I could do this. I could hire a new guy. I could reach more customers. I can increase my sales. And they're looking at that because now having grown for 23 out of 24 quarters 6% or greater, they want this growth. They expect it. And so they're looking for things in which could make their businesses better.

David MacGregor: The other question I had for you was just the disparity in growth rates between your originations on the Credit business and the Tools growth. And I'm just wondering if you can talk about any changes within the Credit model and the extent to which this has helped you, you know, with your most credit worthy customers drive...

(Crosstalk)

Nick Pinchuk: Yeah, look, you know, I think, you know, there are lots of things floating through here. It depends on how long wave you want to look at it. If you look at it in any one particular quarter you're talking - first of all you're talking big ticket items. And so big ticket items in this particular quarter, tool storage, big diagnostics and so on, they grew faster than the Tools Group. So it's hard to match that.

Plus there's a timing question and a sales tax on top of - so there's a lot of things that goes on in the individual quarters. If you're saying have we wielded credit more effectively or more broadly, we have because what we've done is we've spent a lot of time determining who are our best franchisees and how they're good at credit.

There's been no change in the credit model really. There's been no change in the credit model. But we have done a great job I think of using those franchisees who had the best instincts and insight and capability around credit and enlisting them in the credit company to advance this kind of activity.

David MacGregor: Yeah, I mean, you have a history of managing credit very effectively so I was more focused on the extent to which this made more purchasing power in the hands of your customers to buy bigger ticket items going forward.

Nick Pinchuk: Well there's some of that. But we haven't really changed it. I mean, it can make it possible for certain people who couldn't get credit before who happen to be in a route that's super-intended by one of the people that we now think is a great credit guy. We call it platinum elite guy. That could make that change. But generally we've kind of held it. We've kind of held that model I think except for this - except for this engaging the knowledge of the franchisee.

David MacGregor: Got it. Thanks very much.

Nick Pinchuk: Sure.

Operator: And our next question comes from Gary Prestopino with Barrington Research. Please go ahead, your line is open.

Gary Prestopino: Hey good morning, everyone.

Nick Pinchuk: Gary, good morning.

Gary Prestopino: Nick, is the Chrome Express Plus, is that the program of putting assistants on the vans? I'm a little confused there.

Nick Pinchuk: You know what it is, the Chrome Express Plus is an adjunct to our new computer system. Several years ago we rolled out a new computer system, point of sale system for the van. And then more recently we have added Chrome Express Plus, which allows mobile - you know, tablets, multiple tablets to roll out from the van.

And what I'm saying is, the franchisees have looked at their situation and realized that, boy, they'd like to add selling time. So they have made the decision, on an individual basis pretty much, you know, it's been a grass roots effort, to try to pick up assistants. And then this Chrome Express Plus is a response to that to help enable them.

We don't have a program to bring on assistants. We're not sponsoring a program or anything like that. It's fundamentally the franchisees themselves because after all, you know, these are independent businessmen who make these decisions. But we do - we have created Chrome Express Plus that really leverages - if you have an assistant, Chrome Express Plus really helps you and it really helps the assistant that is there. That's what I was trying to say.

Gary Prestopino: Okay so we were just a little confused on it.

Nick Pinchuk: Sure.

Gary Prestopino: And then on the diagnostic side...

Nick Pinchuk: Yeah.

Gary Prestopino: ...interesting comments about you were saying number of cars or amount of cars that now need some kind of diagnostic usage in a repair. But is there something within these diagnostic products that you're putting out that make older ones more obsolete? Is it just computing power? Amount of information they can show? Just trying to get an idea of how long one of these techs can use a diagnostic tool effectively before he or she has to switch...

(Crosstalk)

Nick Pinchuk: Yeah, it's like - it's in a way, Gary, it's a little bit like a TV, you know, you could still be using a tube, I suppose, you know, but, you know, every time - there are two pieces here. One is software, you know, we keep updating software I want to say a couple times a year we keep updating software. Then we bring out an - so you could be having an existing handheld and keep updating the software, keep updating the software. Eventually that software might not run so effectively on some of the older models, that's one. So you'd want to change.

Secondly, again, it's like a TV. We bring out the newer models and they have features, touchscreen feature. The new SOLUS, you turn it on, it comes on in like seconds, 5 seconds. The older one was slower.

VERUS Edge, you can get technical service bulletins. You go out to the Internet, you get SureTrack on this. Different capabilities. Oh by the way, it's about - it's substantially lighter and better ergonomics than it was. So you have these two things going on. So if you behold one of these new diagnostics and this happens all the time is people say, gee, I really like to use this, it's a lot lighter, be effective for me, it's a lot quicker. It's more easy with the touchscreen so people tend to want to upgrade. So we keep enhancing those. And there's software on top of it.

Gary Prestopino: Okay thanks.

Nick Pinchuk: Sure.

Gary Prestopino: And just for Aldo, did I hear you right that you said currency negatively impacted net earnings by about $8.1 million this quarter?

Aldo Pagliari: That's correct. That's the bottom line in fact.

Gary Prestopino: Okay. So in terms of translation, which currency is going to have more impact as we go forward? Is it the euro or the pound?

Aldo Pagliari: Well the euro historically would be the biggest currency and in 2015 was the biggest detriment to sales. It's starting to wane now that the euro has stabilized. So as you go forward I think you look at the pound and the Canadian dollar will start to factor in. But I'd say that's my best description right now, Gary, I think you'll see less translation negative impact coming from the euro yet within the company there's still some transaction drag that's created from the currency mix that we have.

Gary Prestopino: Yeah, all right that's what I thought. Okay thank you.

Operator: And our next question comes from Richard Hilgert with Morningstar. Please go ahead, your line is open.

Richard Hilgert: Good morning, Nick. Good morning, Aldo. How are you?

Nick Pinchuk: Good morning. How are you?

Richard Hilgert: Doing well, thanks. Hey, thanks for taking my questions this morning.

Nick Pinchuk: Sure.

Richard Hilgert: Just wanted to go back to a couple of things. The corporate expense line for coming to operating earnings, that was an $8.4 million reduction from last year to this year. And did I hear you right this is related to pension expense but it sounded like you were talking about currency too? So am I to assume that this is...

(Crosstalk)

Nick Pinchuk: No there's a couple pieces of that. One is of course pension expense. You know, I think that's between $1 million and $2 million, something like that. And the rest is principally mark to market around the stock based compensation. So basically when the stock price goes down you get good news. When it goes up you get a - mark to market. So what happened last year...

Richard Hilgert: Okay.

Nick Pinchuk: It's a little bit misleading because last year, you know, that difference is versus last year and last year the stock price went up in the quarter so we had bad news in mark to market. And so you're comparing the good news this year with the bad news last year and so you get an expanded number, you know, in the $6 million range.

Richard Hilgert: Okay. Got you. So mark to market on the stock compensation expense.

Nick Pinchuk: Yeah.

Richard Hilgert: All right. And then on receivables in the Finance group, you guys did a great job bringing on receivables, you were up 17% in the quarter so really good loan origination going on. I'm curious you mentioned earlier about premium elite status franchisees.

Nick Pinchuk: Yes.

Richard Hilgert: Is this because of their efforts to increase the credit portfolio? Or is this driven because, you know, there's a different mix in what you - what loans are being originated? Or...

(Crosstalk)

Nick Pinchuk: No, no, no what this means is, this is a framework which we've had for some time. The broader characterization is platinum. These are people who are engaging in the credit program. They're spending time thinking about how to deal with credit. And the better guys, the top end guys, are what we call the platinum elite.

And what this really means, Richard, is certain franchisees can judge credit, can add to our credit model. We have - our credit process is like this, when somebody applies, we have the standard credit bureau look, we have our customized scoring model, and then we ask what does the franchisee think. We try to look at the potential borrower through the lens of the franchisee's eyes. And some of them are much better than others at giving us the information on that.

And the better they are, the more repeatable they are in standing behind people, the more we say - the higher the level they are. So platinum elite people we listen to more and therefore might take on borrowers which we wouldn't normally based on standardized credit or a customized scoring model. That's how it works. Really.

And we've been doing this - we've actually been doing this for some time - it's been - platinum has probably been in place for several - a number of years. Platinum elite is a more recent event. But it basically - as you get more confidence in the franchisees, you tend to be - they tend to guide you a little bit more effectively and have more opportunities to wield credit. But no change in the credit model.

Richard Hilgert: Okay great. And it sounds like these guys being more adept at credit policy are better able to identify potential risks and that even though you're penetrating your market more so on the finance side, the risk that you're taking on hasn't changed. Is that a fair statement?

Nick Pinchuk: Right, compared to any other - most other credit facilities, through the eyes of these people we actually know the borrower very, very well.

Richard Hilgert: Right.

Nick Pinchuk: And that's the essence of how we keep the losses down so low.

Richard Hilgert: Okay, very good. Thanks again for taking my questions.

Nick Pinchuk: Okay.

Operator: And this concludes our Q&A session. I'd like to turn the call back over to Leslie for closing remarks.

Leslie Kratcoski: We appreciate you joining us today. A replay of the call will be available shortly on Snapon.com. And as always we thank you for your interest in the company. Good day.

Operator: And this does conclude today's program. You may disconnect at this time. Thank you and have a great day.

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