Company Name: Snap-on Incorporated (SNA)
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<<David Leiker, Analyst, Robert W. Baird & Co. Inc.>>

Good morning. I'm David Leiker. Snap-on is one of our favorite business models. The company was founded in 1920. We estimate sales in 2014 will be around $3.2 billion with EPS growing 14%. Snap-on delivers tools, equipment, diagnostic systems, and services to the professional automotive repair market. It also has a meaningful presence delivering tools to critical industries such as aerospace, energy, and natural resources. A key attraction is a track record of delivering consistent growth and margin improvement over the last decade.

We're going to begin with a short overview from Snap-on. Representing the Company today are Nick Pinchuk, Chairman and CEO; Aldo Pagliari, Senior Vice President of Finance and Chief Financial Officer; and in the audience is Lesle Kratcoski, Vice President, Investor Relations.

<<Nicholas T. Pinchuk, Chairman & Chief Executive Officer>>

My name is Nick Pinchuk. I'm representing Snap-on here today. I'm going to give you a brief overview before we get to questions, so let's go ahead. Here is the cautionary statement. Everybody read this, please. Okay, good enough. All right, look, here is the essence of Snap-on. Probably our principal value-creating mechanism is we maintain a deep understanding of work. It seems simple, but what it means is that at Snap-on there are people – if you take an automotive repair garage, this is one of the places where we spend more time for more hours for more days than anybody else.

We have people at Snap-on that will be able to tell you why a mechanic takes his rag out of his left pocket instead of his right. They understand the work very well and have a practical understanding of it. And, therefore, can come up with solutions which will solve the critical task. Sometimes these solutions are very simple, like a flip socket, which is a socket which addresses the problem of having different size fasteners and underbody panels of today's cars. And instead of making the mechanic get up or refashion or find another socket, just flips the socket over from an 8 millimeter or a 10 millimeter and saves a lot of time. Seems simple, but it changed work under cars very effectively and was a big seller for us. And then we enable process in any workplace of consequence.

We just don't have to be – a lot of people think of us as somebody who is an auto repair garage, but actually – and we thought of ourselves this way. We thought of ourselves as somebody who makes great wrenches for auto mechanics and sold them through vans, but actually that's not what we do. We make work easier for any professional, doesn't have to be an auto mechanic as long as they are professional. As long as they are operating in a workplace of consequence on critical tasks that is the penalty for failure is high and the need for repeatability and reliability justifies a Snap-on level tool and a Snap-on level premium.

And then here is the other thing. We signify the serious. Snap-on was founded in the beginning – some of you may have heard this story, where in 1920 our founder instructed his salesman to go into the garage and lay our tools out on green felt as if they were as precious as surgeons’ knives. Implying that if the mechanic used these tools he would declare to the world that he was doing something special, perhaps as special as a surgeon. And the idea of dignity and pride accruing to the use of this tool has been handed down to us ever since. It’s one of the reasons why Snap-on – why customers will buy our jackets and wear them proudly, because it signifies them as serious. Here is where we are today. We have a wide range of product.

We make not only tools, the hand tools, the best tools, but we also make things like undercar equipment, aligners and balancers and tire changers, software that enables both repair and the management of the garages. We were founded in 1920 as I said – that’s when the green felt occurred – and we have great brand strength. If you talk to working men and women and you mention Snap-on, they will talk about pride and dignity and repeatability and reliability. We are up to $3 billion; we went over $3 billion last year. We have over 11,000 people and we do business in 130 countries. We see our market cap here and we pay dividends. And one of the things about this is we have paid a dividend every quarter since 1939 and we have never ever reduced it.

Our way forward is a bit like this. We see ourselves – and we’ve seen ourselves going down on runways for both growth and improvement going forward and we’ve seen ourselves doing that for sometime in the past. Runways for growth; we see four great runways or broad runways for growth for us one around our van business. We have 3,478 – 4,800 vans worldwide, 3,478 of them in the United States, and we see opportunities to grow that business and enhance it by enhancing that van channel. Now those vans sell directly to auto mechanics. Now there’s customer base that stands right next to the auto mechanics, which is the repair shop owners and managers. So we have not paid attention to those in the past and we are now, so we can expand with repair shop owners and managers. We see that as an opportunity for growth.

Then the other thing is our principal – for decades, principal target was those auto mechanics. But what we know is that customers or users in other industries, other critical industries respect the Snap-on brand so it was an opportunity for us to extend to critical industries. Roll the Snap-on brand out of the garage. And then also for us there is – like everyone else, there is an opportunity to build in emerging markets, but our process is a little bit different than the usual emerging markets in that the emerging market business for us is just starting to grow because most of the equipment there is new and repair is just starting to rise.

And then we have runways for improvement because Snap-on is a very complex business. We have 65,000 SKUs and the business is very integrated. Raw iron comes to the back of a hand tool plant and it goes through several processes till it comes out the front and get shipped to market with 64,999 of its other products. And so there is a lot of nooks and crannies for improvement, and we established over the past few years something called Snap-on value creation, focused on our principal value-creating areas around safety, quality, customer connection, innovation, and rapid continuous improvement. And we believe we can keep improving for years to come.

Now this has been working on an encouraging basis. You can look at our trend back to 2005. Sales were $2.28 billion and then $2.46 billion and then $2.84 billion and $2.85 billion and then $2.36 billion in the recession. We are recession-resistant, not immune $2.62 billion, $2.85 billion, $2.94 billion and then last year $3.06 billion, but the profitability 6.5% and 7.6% and 10.6% and 12.3%, 9.9% in the recession.

We thought we could keep it up double digits, we couldn't quite, but close 12.1% and 13.5% and 13.9% and last year for the first time over mid single-digit, mid double-digits at 15.1%. And the interesting point, I think point about this is back in 2005 we said we would go based on our – we would go to mid-teens based on our runways for improvement and runways for growth. Last year we achieved that, but we think there is more to do. We think there is a lot more runway for improvement in growth going forward.

So that's my story and now I'll take questions from David.

Q&A

<Q – David Leiker>: Thank you that was a great overview. A couple things I want to start with on the tools business is 40% of your revenue. You are selling Snap-on branded products into this network through a franchise van system. These tools sell at a premium. Can you talk a little bit about how much of a premium your tools sell for and why you get that premium, both relative to your direct competitors and tools someone might buy from Lowe's?

<A – Nicholas T. Pinchuk>: Sure. If you're talking about premiums versus things like Craftsman, let's say. When you ask – in fact, we every year survey franchisees. Not franchisees, but the mechanics about the preferred form of tool. And when we ask them about what is your preferred form of hand tool, almost three-quarters of them say Snap-on. Number two is 10%. For under car equipment it is – for diagnostics it's 61%, Snap-on 10%, so its number two for tool storage, tool storage boxes it is 65% to 12%. These are like blowouts in a football game. But if you talk about the hand tools, the 74% to 10%, the others might be people like Craftsman or tools you buy in the Lowe's or other things.

Our premiums versus those tools are, depending on the tool, can be three, four, five not percent, but times. And the reason why we get these premiums are a couple of things. One is our tools are simply better. They are made of better steel, the processes around making these kinds of things are much more complex that it might be first – the things about – things like forging and annealing and grinding and heat treating and plating are more complex and very difficult, and there's a lot of intellectual property in there so the tool comes out better.

Secondly, we have a wide range of product so that we solve people's problems as opposed to selling them a wrench. When we go into a garage and we look at the – when we go into the workplace, whether it's an aviation workplace or an oil and gas workplace or traditionally an auto repair workplace, we look at what the mechanic is doing or what the worker is doing and figure out how to provide a grouping of tools that will make his work easier. And then thirdly, there is the idea of the display of the tool.

The idea of saying when I use Snap-on I'm a professional and I'm serious and my work is worthy of dignity and pride. It's one of the reasons why I like to tell the story about being on one of these vans, there is 178 of these vans; you've heard it before. I am on this van and these guys are selling jackets, Snap-on jackets, Snap-on varsity jackets. And I ask this guy are you selling them how much are they $80. Are you selling a lot of them?

Yeah, I'm selling a lot of them. I said, how many? Oh, I only did it for two weeks. So I'm thinking here comes the bad news. How many did you sell? He says 80. This was downtown Chicago, downtown Chicago; 80 jackets for $80 in two weeks. Pretty large or strong indication that people have pride in the Snap-on name. By the way, he only has 200 customers. So Snap-on name creates a pride that can't be duplicated. By the way, I am not a lifer, so none of this has anything to do with me.

<Q – David Leiker>: When you look at the underlying trends and demand, what drives demand for your tools among your mechanic customers?

<A – Nicholas T. Pinchuk>: Sure. There are a couple of things. This is a great question. We make software and electronic devices and undercar equipment, but a principal component of our sales are tools, like screwdrivers and other things and wrenches and ratchets. And we guarantee them for life. So why is it we have a business, if you are guaranteeing these tools for life? The answer is the principal driver for our tools is the changes in the work. The vehicles keep changing. Look under the hood of a 2010 car and look under the hood of a 2014 car you will see a significant difference. And you look at the number of all codes on, say, a car 20 years ago it had 50 of them. Today it has 5,000 so those changes drive demand. Another thing which drives demand is auto repair in the United States, auto cars and cars in – vehicle parking in the United States have been get is now a 11.5 years old. It has been getting older every year since 1980. So the idea of change and aging is creating good secular tailwind for our business.

<Q – David Leiker>: Any questions from the audience? Let's move to the commercial industrial business. This is 30% of your sales and you have three pieces of your business here: the critical industries, the European business, and emerging markets such as Asia, predominantly China.

<A – Nicholas T. Pinchuk>: Right, right.

<Q – David Leiker>: Let's talk about China, Asia your opportunity there. It's a $200 million piece of your business today. If you look at where the number of cars on the road, someday it's going be as big as what the U.S. business is in our view. You haven't said, but that's my words. Those are my words. What is the value proposition there? What's the business made up of? What is the opportunity?

<A – Nicholas T. Pinchuk>: Okay, let's about the opportunity. Everybody has a strategy for Asia. If you don't [indiscernible] fired probably right, but ours is a little different. Emerging markets Asia, 10% of our business today. It's going to be a lot more and the reason is the business hasn't really started. They sell a lot more new cars in China today than they sell in North America, like 20% more 25% more, but in North America 300 million peoples on the road, ballpark 250 million to 300 million, and they are 11.5 years old many an old, and they

drive the need for the 300,000 garages and 1.3 million technicians that are here, but in Asia, despite the fact of selling a lot more cars that are new that is only a smaller percentage of the cars like 80 million to 100 million cars on the road in China and they're all new and the same can be said for airframes and jet engines and power generation stations, and so the repair wave hasn't risen yet.

And so what we're doing is we're building the physicals to take advantage of it. In less than 10 years ago, we got two offices and 10 people in Asia outside of Japan and now we have 1,500 people, five factories, 31 locations and hundreds of distributors and a building product line. And what we are doing is we're building at the top end where we're selling Snap-on tools as a super premium products, I think people like China Eastern Airlines and Thai Airlines throughout Asia. We're building a hand tool line at a premium level to sell to auto mechanics and other people.

We're selling our undercar equipment, aligners and balancers and tire changers, based on the technology and creating a mid-tier there that's going to sell wide. And we're selling – we're building a diagnostics business which hasn't even started yet, because diagnostics are primarily effective in the independent shops which service multiple badges of cars. That's where our diagnostics explore. So we're starting to build up a product line to take advantage of the wave. It's 10% of the business, but the wave hasn't come yet. So you can think of us as a surfer that's paddling to catch up to the wave that is coming.

<Q – David Leiker>: As we look at China, there is 100 million vehicles on the road. Maybe 50 million of those are out of warranty and different repair dynamics. Here in the U.S. you are probably 250 million vehicles that are out of warranty?

<A – Nicholas T. Pinchuk>: Eagerly.

<Q – David Leiker>: And so your business in China is much different than in the U.S. and that it's not as much of a tool business today. It's more – I look at it in building out the infrastructure.

<A – Nicholas T. Pinchuk>: It is. Our business in China today is more around, as you would say, infrastructure more around the equipment business. The biggest seller is things like tire balancers, aligners, lifts, tire changers because they are facilitizing garages that are getting ready for this wave and starting to build up in this area. The tool business builds up and how tools evolve is the really, really critical activities. Airlines and oil and gas platforms, they use our tools and then that starts to trickle down into the broader use, which would be auto mechanics and so on. So we are building a line there, but the way you enter is to be in the facility at first.

<Q – David Leiker>: Let's talk about the critical industries piece of the business share. I know in our conversations with investors this is probably one of the more challenging pieces to really understand what you do, what your value proposition is. Can you talk a bit about how you got into that space, who you are selling to, how you are going to market, and where you think you are in the process of penetrating that space?

<A – Nicholas T. Pinchuk>: Sure. Look, here's what it is. It's basically – you can think of it in a nutshell, rolling the Snap-on brand out of the garage to an audience, to a user base which

respects it greatly. Working men and women throughout the United States respect the Snap-on brand. You can walk through a county fair and wear a Snap-on T-shirt or a hat and have a conversation about our tools, and those people aren't necessarily auto mechanics. You can check in at a security desk in a place down on Park Avenue and the security guard will talk about Snap-on tools.

You can come in the country and the custom official will talk about Snap-on tools because they relate to this. So there is this cachet that gets you an introduction in all these places. What we've have for decades, which I spoke about in my opening remarks, is we've observed work in the auto repair garage and made it easier. That's what we have done. We have figured out how to make the job easier and we do it whether it's a wrench or a piece of software. What we've learned is we can do that for any professional as long as they're operating criticality. And there are a bunch of critical industries like aviation, where, hey, you want the engine to actually work; military, you are in harm's way; oil and gas. We are on a platform and if things break down you lose a lot of money. And so any place where the penalty for failure is high, we believe we can have a role.

Now what are we doing there different than other people? Most other companies are organized around a particular technology or a particular product. We're organized around the idea we observe the work, figure out a compendium of products that will make it easier. We already have some of these products because there's an overlap between auto repair and like oil and gas or aviation. The aviation guys use some of the same wrenches that the auto repair guys did. Now we always kind of – we often called on these people sort of like by default. We would solve problems for auto repair and create 65,000 SKUs and some of those would be wrenches. And so then we would go out to the aviation guy and go, you know, we happen to have wrenches. We know you use them; here is some wrenches. Could you buy them? Would you buy these from us? It's quite different than what we've did for the auto repair guys.

So what we're doing for aviation and military and all these other things is learning the job and figuring out how to solve their problems. A great example is aviation. One of the big things in aviation is foreign object damage. Don't leave a screwdriver in a jet engine. When somebody told me this, I said there can't be a business in that. It's like saying tie your shoes before you go out, but there is a business in it. And so what we did was we contrived a toolbox that combined our imaging technology with our tools and so we are selling quite robustly in this sector, which remembers who takes what tool.

So you've got to get in. The toolbox is locked, you slide the card in, you open up the toolbox and it sees – it says Nick Pinchuk – you got to type in Nick Pinchuk – bay 6, engine 2. You pull out wrench A; it see you take out screwdriver A from drawer 1, wrench B from drawer 2 it remembers it. Before you button up the nacelle in bay 6 on engine 2, you look at the toolbox because they are networked. It sells well. And that is the point, by the way, solving the problem. We give them not only the tools in the box, but we've give them a – we solve their problem of keeping track of them, big problem for them.

And other things around oil and gas, when we get an oil and gas platforms we will see people have welded together a couple of tools to accomplish something. We make the tool from scratch, but its early days what the pacing element is understanding the business. We have people who know everything about auto repair garage. We don't have people who know everything about military and aviation, but we are building that. The $400 million business today; it's going to $1 billion.

<Q – David Leiker>: Any questions from the audience? The last piece of this segment is your European auto repair business.

<A – Nicholas T. Pinchuk>: All right.

<Q – David Leiker>: That's the last piece of the business to come up off the bottom. Can you talk a little bit about how that's different than the Snap-on tools business and what the opportunity there is for a cyclical recovery and what's the cost side?

<A – Nicholas T. Pinchuk>: Yeah, well. The business is a tool business, it's a tool business [indiscernible] Snap-on tool business sells to mechanics and it sells through this distribution system called franchise vans. That's 37% of our business as I showed up here, but two-thirds of our – the other 63%, the complement we sell to direct and distributor and SNA Europe, our European hand tool business, is one of those. It sells direct and through distributors. Boy, Europe has been a headache. It kind of double-clutched in the recession; went in the recession with us and then it started to come out in 2010.

Ba-boom to the jaw; it came out again and it has been down, I'd say up until the fourth quarter of last year we kept seeing reductions year over year over year over year of these things. Business was shrinking, but what we knew was our customers weren't going away. The customers were still there. We kept looking at our customers, so we kept pounding what we call Snap-on value creation, you know, the things about safety, quality, customer connection, innovation, and rapid continuous improvement to improve the business without taking out productive capacity. And so roughly the business kept going down first quarter, second quarter, third quarter last year, but in second quarter and third quarter we started to see increases in profitability year-over-year, even though the business was shrinking year over year.

And then in the fourth quarter we saw a high single-digit increase of last year and profitability up. In the first quarter we saw another mid single-digit increase and profitability up, so we're seeing leverage associated with both the increased sales, but also the idea that we kept pounding on the productivity there. And you can see it in the overall C&I business result, C&I was up 10.4% year-over-year in the first quarter organically and that's due to critical industries in emerging markets and Europe being up some, but its OI percentage was up 200 basis points and that was against a headwind though bad news from currency transaction. So a lot of that had to do – some of that had to do with – some of that had to do with good portion of that had to do with the leverage we're seeing and the efficiency we're seeing out of Europe.

<Q – David Leiker>: That business is how far off of peak?

<A – Nicholas T. Pinchuk>: 25% off of peak right now still, and you know people ask me: is it coming back? Look, it was so far down – it has had two quarters of up, but you can't really

proclaim for sure, upward trend now on two quarters because it was just down so far, but it's better than a poke in the eye, having a couple of quarters up.

<Q – David Leiker>: Is there any reason obviously over time that it can't get back to where it was?

<A – Nicholas T. Pinchuk>: No, that's why we did our capacity, because we believe that the customers are still there, the popularity of the tools are still there. And actually one of the things we got better at is understanding the business in Europe and what we call customer collection, and then innovation, creating more new tools. So we're actually better at creating new tools, so actually better at creating new tools than we were when we went into the recession, which is one of the value creating mechanisms of that business.

<Q – David Leiker>: Anything from the audience? We look at the repair systems and information business, RS&I, this is about 30% of your sales. Here you're selling equipment to the shop owner and you're selling diagnostics information systems into that same channel. Can you talk about what the trends are in that business and what the growth drivers are?

<A – Nicholas T. Pinchuk>: Well, that business was up 6.7% in the quarter, but a lot of that had to do with an acquisition we made of Challenger Lifts, which fit right into that business. Gave us more sell to repair shop owners and managers. In general, you had about a 1% increase organically, which is less than we expected it to be over time. And what was going on there is it's got some lumpiness associated with big programs it sells to OEMs. OEM says Snap-on I want you to put together a laptop for a car. Toyota says put together a laptop for a car or Ford or somebody like that, a big OEM. And I'll give you the information.

You put it in that laptop and distribute it to my dealerships. We have programs like that and they will go like this. Well, we're on a downward cycle in one of that, so in that section of the business you have down, but in the independent garages our information and diagnostic business were up. The repair information and diagnostic business were up. And so those kind of balanced out to be a smaller growth business. The margins in that business are north of 20%. They were 22.1% in the quarter down 80 basis points, but that was mostly due to the acquisition which was a hard – which was a lower margin business an attractive, but still lower than those software style margins. If you adjust for that, the business was actually up some basis points.

So it show good progress in terms of leverage, it show good progress in an independent business, if you know about this downward cycle. One of the things about that business is that a real strength there is the growth – you asked about the growth drivers and it is the changers in the auto repair business that's one of the things that's one growth driver. And the other growth driver is, is that we get more to sell. We add more to sell. We learn more about a new customer base which we didn't traditionally sell to that is the manager of the shop, as opposed to the technician in the shop. And so those are two things that's driving that.

And technology does really drive this, and we have a pretty good advantage there, because if you think about it. I talked about the OEM shop where the OEM gives us the information, but we are in the independent shop and the independent guy plugs in the laptop for a car diagnostic, that laptop has to read one of the 30 different badges and how many years 20 years. We have that information. We have the best information on how to read what the car is saying, and we have the best information on how to repair it, and that's where we have a real great strength in that situation.

<Q – David Leiker>: Great. You mentioned in your introductory comments the profitability and the improvement in margins over the last decade. A lot of people ask where you think the upside is from that. Can you talk a little bit about what the key value creation, the key drivers of that margin, what you think the upside might be on that over time?

<A – Nicholas T. Pinchuk>: Okay, what it says. We just came off at the time where we were saying we're going to mid double-digits, and so we did that, but what we say now is that Snap-on is one of the real great industrial properties, we think we can keep improving this profitability, its profitability through the runways for growth and the runways for improvement, consistently and I don't see a near-term barrier to that. So I could see as keep improving. I will offer this, we've really do think we have a lot more scope to improve and we're pretty confident that if we never got another dollar of incremental sales, we would keep improving profitability. But we do believe we have opportunity to grow because we're a business that hasn't really wielded the Snap-on value proposition to these customers who are receptive to us. So the idea of expanding to repair shop owners and managers, extending to critical image [ph] in growing and emerging market and enhancing the van are going to create coherent growth, doing what we always did before, but for broader customer basis. And so we see ourselves doing both on quarter. And therefore driving those margins.

<<David Leiker, Analyst, Robert W. Baird & Co. Inc.>>

Great, thank you. Management will be available for a breakout session on the seventh floor in the Elk Room. Please join me in thanking Nick and Aldo for their time.