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SNA - Q1 2014 Snap-on Incorporated Earnings Conference Call

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OVERVIEW:

SNA reported 1Q14 net sales of $787.5m and net earnings of $95.9m and $1.62 per diluted share.

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PRESENTATION

Operator

Good and welcome to the Snap-on Incorporated first-quarter investment call. Today's conference is being recorded. At this time I would like to turn the conference over to Leslie Kratcoski. Please, go ahead.

Leslie Kratcoski - *Snap-On Inc - VP of IR*

Thanks, Sarah. 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 will take your questions.

As usual, we have provided slides to supplement our discussion. You can find a copy of these slides on our website next to the audio icon for this call. These slides will be archived on our website along with the transcript of the 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 would like to turn the call over to Nick Pinchuk. Nick?

Nick Pinchuk - *Snap-On Inc - CEO*

Thanks, Leslie. Good morning, everyone. As usual, I'll start today's call with the highlights of our quarter. I'll give you my perspective on the results, on our market, and on our progress. Then, Aldo will move into a more detailed review of the financials.

Our first-quarter results were encouraging. They demonstrate clear progress along our runways for both growth and improvement. Our sales were up 6.2% from last year. The operating margin expanded by 100 basis points and the earnings per share increased 15.7% to $1.62. The organic sales increase was 5%. Challenger Lifts, which you will recall we acquired in the second quarter of last year, added another $15.2 million, which along with an 80 basis point impact from unfavorable foreign exchange rates, brought our sales to $787.5 million. The EPS rise included an operating margin expansion to 15.5%, up from 14.5% in 2013.

Financial Services' operating income increased to $34.4 million from last year's $30.5 million, driving the consolidated numbers -- operating margin to 18.6%, also up 100 basis points. Both the operating margin and the total margin were up 100 basis points.

From a macro economic standpoint, our automotive repair related businesses, the Tools Group, the Repair System Information, or RS&I Group, they have enjoyed a reasonably favorable environment for quite some time. And, I would say there is no real change. Now, RS&I overall organic activity was up only slightly, but that primarily reflects the wind down of a major OEM program rather than any real change in market dynamics.

You will also remember that C&I is where the majority of our headwinds have been concentrated. That's an area where I think more discussion is warranted. As you can tell from the Group's 10.4% organic rise, there were encouraging gains backed by some evolution of the environment.

In Europe, one of the big highlights of our fourth quarter was the lessening of our headwinds. In conjunction with that, the first upturn in sales we have seen in some time for our European base hand tool business, S&A Europe. Encouragingly, our first quarter is up again, so that's a real positive. S&A Europe is a solid contributor to C&I's current growth, but I would characterize the C&I performance this quarter less about market improvement and more about day-to-day business progression.

For example, we did see important advancement in our extension to critical industries. It's an area we have been focusing on and it's paying off. At the same time, we've moved past the most difficult comparisons related to the reduced military spending. That's allowing the European contributions and critical industry gains to shine through without as much year-over-year military offset to mask the progress.

So, many of our markets remain strong, and the headwind of Europe is abating. But headwinds do remain. The current situation in eastern Europe does create an overhang and that did have an impact on our businesses. While the military comparisons are not as challenging, the absolute spending in that sector remains depressed without any near-term indication of a return to past levels.

You know at the end of the day, there will always be headwinds. We do believe that no matter the market environment, we're well positioned to continue advancing down our four defined runways for growth: enhancing the franchise channel, extending into critical industries, expanding Snap-on's presence in the garage and building in emerging markets. Along with that progress, that advancement, we believe that the Snap-on Value Creation processes of safety, quality, customer connection, innovation and Rapid Continuous Improvement, our RCI, will extend our positive performance trend and continue to drive us down our ample runways for improvement.

As I speak of the segment results, I will highlight some of the advancements in both growth and in that improvement. Let's start with C&I. Sales in the quarter were up organically by 10.4%. The operating margin reached 13.5%, up significantly from last year's 11.5%. Related to those sales, there were gains in each of the Group's operating units. As I already mentioned, one of the real highlights was a second consecutive quarter of growth for S&A Europe. We're starting to see a trend in Europe.

We also say a double-digit rise in our Industrial division where we have our primary focus on extending to critical industries. In that area, we had some big wins, particularly in aviation. Also noteworthy in Asia was solid growth in important markets like India and the Philippines. Much of that was driven by our expanding under-car equipment line up that was made possible by the further significant ramp-up of the production at our Kunshan plant.

The C&I quarter saw benefits both from higher sales and from RCI. You can see it in the rise of the OI margin, up 200 basis points. Regarding the margins, S&A Europe deserves mention. Even before the volume started coming back late last year, that operation was contributing some noticeable profitability increases. That improvement continued again this quarter, now amplified by the aid of volume.

As for the Industrial division and the robust growth in that business, the activity this quarter with customers in the critical aerospace sector clearly demonstrates traction. That area has been a primary focus of our extension into critical industries and the results are showing through with some large wins. I said for quite some time that there's a bit of a learning curve in understanding the customers in critical industries with the same level of insight we have with automotive technicians.

Now we're making progress with customer connection, spending time in the workplaces, launching innovative new products based on those observations. For example, we're participating side by side at customer sites, in RCI events, and in safety training, becoming more familiar with the work, with the challenges, and with the needs of our customers. You see RCI and safety are often related to making the work easier and safer with the right tool, and that's our business.

Speaking of the right tool, I want to highlight a couple of new products that demonstrate customer connection and innovation applied to solve critical paths. We recently launched a new design of cutters called the Cushion Throat Cutter. They were designed specifically for use in aviation where errant tools or material are commonly referred to as foreign object damage. They can cause big problems in an engine. Well, we took our standard power edge cutters but added a feature that catches wire -- other material that gets cut, preventing it from flying off and causing trouble.

This is a good example of job insight, offering new tools and building our presence. In this case, in the critical aviation sector. A simple idea based on customer connection that makes a great difference.

Oil and gas, another area of focus. We have an expanding offering for applications in the oil fields, in power plants and in off-shore rigs. Our visits to those sites recently highlighted the field technician's struggle with making valve adjustments on the natural gas engines that are prevalent in that environment. As a result of that observation we developed our new pass-through socket to solve that particular problem, creating just the special geometry that ends the struggle. Another clear example of customer connection and innovation coming together to make work easier in a critical application. So, that's a bit of color on the C&I progress.

Now on to Tools, the Tools Group. Sales were up 6% organically. Operating margin of 14.3% compared to 14.4% last year. Including in the quarter, 50 basis points of unfavorable currency impacts from our operations in Canada and Australia.

Organic growth for the past four years of 9%, 9.2%, 10.7% and 7.6% certainly speaks to the improved position of the Tools Group. The growth this quarter, following on the heels of that kind of sustained trend, demonstrates the success we have had on this decisive runway for growth, enhancing the franchise channel.

The enhancement is not just about sales. We see the progress in many places, in the metrics we track, in the low franchisee turnover, in the high enthusiasm, and the external validation by independent surveys of our franchisees. They all confirm substantial progress.

Much of the strength we have seen can be tied to the great innovative new products that Snap-on has to offer when showing up every week at repair shops. Products like the MODIS Ultra hand-held diagnostic unit, faster with a bigger full-color touch screen and our Fast-Track expert information. It was launched last year in the US. It's been a big success and it's helping to drive big ticket volume.

During this quarter we brought the MODIS Ultra to the UK and to Australia. It's been well received in both markets and it's contributed significantly to our international growth.

Also speaking of new products and innovation, you might recall the S6810 flip socket, the MOTOR Magazine Top 20 award-winning tool we introduced last year. Sounds simple. A two-sided socket, 8 millimeter and 10 millimeters on opposite sides, very common sizes on under-body panels. The new socket can be quickly flipped for convenience in removing panels with only one tool. It's a time saver and as a consequence a big success.

Well, we have taken that idea and expanded it to other common sizes, adding a 13-millimeter and 15-millimeter combo and specifically for European makes, a 9-millimeter and 11-millimeter combo. For Asia models, a 12-millimeter and 14-millimeter combo. They're sold in a set to span the range of vehicles a technician is likely to see and they're designed to be used with our Snap-on CT power tool series. That combination is now one of this year's hits.

When it comes to new product and innovation, you think that there might not be much opportunity in a product line like ratchets. They have been around for a long time, but actually we have growing in that category over an extended period based on customer connection, innovation, and design capabilities. You see, preferences differ greatly among technicians depending on the mix of vehicles they encounter and the repairs in which they focus.

So, we have taken advantage of those varying needs by introducing multiple ratchet designs and features against the relatively standard offerings of our competitors. I will mention one of those variations. Our quarter-inch drive extended reach series, it incorporates an extra-long handle. We believe the longest quarter-inch drive available anywhere. It reaches hard to access areas and allows greater leverage. It also adds a quick-release mechanism for those who want speed. Of course, it incorporates our Dual 80 technology for strength and durability, another hit product. Innovation, even in a fully established line like ratchets.

Finally, related to the Tools Group and its growth, I want to mention our Financial Services segment. Aldo will speak of that area in some detail, but I just want to highlight the strategic importance of Financial Services to Snap-on and how important it has been to the advancement, especially in those big-ticket categories of diagnostics and tool storage. Those products has helped blaze the trail in enhancing or franchisees and Snap-on Credit continues to be an essential and strategic player in that progress.

Let's move to RS&I. The results are encouraging, but not as straightforward as for the other groups. Overall sales were up 6.7%. The operating margin of 22.1% compared to 23% last year. We did have higher restructuring charges this year that reduced margins by about 60 basis points, and adding in the lower-margin Challenger sales also had an impact. These two items more than offset what was in fact a reasonable profit expansion in our RS&I, authored by Rapid Continuous Improvement.

The overall RS&I sales gain included $15.2 million of Challenger Lifts with only a small organic increase, reflecting primarily the wind down of some essential tool programs at OEM dealerships, which we discussed quite a bit last year, as you might remember. As many of you know, the essential tool business does tend to be a bit lumpy, thus the tough comparison in the OEM space.

I will say that in this year's first quarter, we also had some new programs so we actually don't see the OEMs are pulling back. This comparison just reflects the nature of this type of business and that lumpiness largely offsets the real progress with the diagnostics and repair information products we're selling to independent shop owners and managers.

We've seen those increases with independents for some time. The gains continued in the first quarter. It's an encouraging picture. The combination of new hand-held diagnostic units, repair information, the expert knowledge of Mitchell1's SureTrack offering, along with the under-car equipment lineup of tire changers, imaging aligners and lifts have established significant momentum with both individual independent shops and with large, multi-location repair chains.

We've also broadened our medium heavy-duty product offering over the past years, adding specially aimed repair information and diagnostic units, and it has paid off. We had a significant win in recognition recently in this heavy-duty sector when our diagnostic information from Mitchell was integrated into Navstars' OnCommand Connection, remote diagnostic and fleet management system. The combination is designed to increase vehicle uptime and provide improved fleet management efficiency. It will give more shops across America greater access to the broad range of the Mitchell1 features that make repairing all makes of commercial trucks, Class 4 through 8, easier with engine fault code diagnostics, repair procedures, wiring diagrams, test steps and removal or installation instruction.

It's one clear, example of building positions with garage owners and managers in the heavy-duty space. That growing presence is driving new business with large organizations that run mixed fleets, car and truck. They need to support both vehicle types, and increasingly Snap-on has the answer.

Because of that, we're seeing more fleet business with big companies, with utilities and with governments, both city and state. Now, the strength of the RS&I portfolio was also evident this past quarter at the National Auto Dealer Association show, the NADA show in New Orleans earlier this year. Our operations came together under a total shop solutions banner. It allowed Snap-on to clearly demonstrate the depth and breadth of our offerings to support OEM dealerships.

The Challenger acquisition has been an important part of that depth, that portfolio. We believed when we acquired it that that operation would be a fine addition to Snap-on and RS&I. That has certainly proven to be true.

As evidence, I will just point to the lift that Challenger develops, specifically for the quick-service bays that are becoming so common in OEM service centers. It's gotten some strong endorsements and it's another example of how we're able to expand the Snap-on presence with the repair, garage owners and managers.

To wrap up RS&I, we see new diagnostics and repair information for cars and trucks and a growing under-car equipment line that now includes Challenger Lifts. Progress with independents, with multi-location automotive repair chains and with the important medium- and heavy-duty segment, we see positive trends, an improved position with repair shop owners and managers.

That's the highlights of our quarter. Growth and improvement. Sales up 5% organically, overcoming the remaining headwinds. OI margin, 15.5%, up 100 basis points. C&I strength with critical industries showing their potential. The Tools Group growing again, continuing to enhance our franchise network with success. RS&I building its position and its product line with particular success in independent shops. And Financial Services raising its contribution both financially and strategically. It was another encouraging quarter.

Now I'll turn the call over to Aldo for a review of the financials. Aldo?

Aldo Pagliari - *Snap-On Inc - CFO*

Thanks, Nick. Our first-quarter consolidated operating results are summarized on slide 6. Net sales of $787.5 million in the quarter increased $45.8 million or 6.2% from 2013 levels, reflecting sales gains across all segments. Organically, sales increased 5%, excluding $15.2 million of sales from the Challenger Lifts acquisition and an unfavorable $5.9 million impact from foreign currency translation. The 5% organic sales increase primarily reflects sales gains in our businesses serving critical industries as well as those calling on automotive technicians and providing diagnostics and information products to independent repair shop owners and managers.

Consolidated gross profit of $378.7 million increased $21.8 million from 2013 levels. The gross margin of 48.1% in the quarter was unchanged from prior-year levels, as savings from ongoing Rapid Continuous Improvement, or RCI, initiatives were largely offset by unfavorable foreign currency effects and the impact of lower-margin Challenger products. Operating expenses of $257 million increased $7.9 million, while the operating expense margin of 32.6% improved 100 basis points from 33.6% a year ago, primarily due to benefits from sales volume leverage and the effects if the Challenger acquisition partially offset by inflationary and other cost increases.

As a result of these factors, operating earnings before financial services of $121.7 million in the quarter, including $5.3 million or 60 basis points of unfavorable foreign currency effects, increased to $13.9 million, and as a percentage of sales improved 100 basis points to 15.5%.

Operating earnings from Financial Services of $34.4 million increased 12.8% over prior-year levels. Consolidated operating earnings of $156.1 million, including $5.4 million or 60 basis points of unfavorable currency effects, increased 12.9% over 2013 levels. The operating margins of 18.6% improved 100 basis points from 17.6% a year ago.

Our first quarter effective income tax rate of 31.6% compared with 31.9% last year. Finally, net earnings in the quarter of $95.9 million, or $1.62 per diluted share, compared to net earnings of $82.8 million, or $1.40 per share last year, representing a 15.7% increase in earnings per share.

Now let's turn to our segment results. Starting with the Commercial and Industrial, or C&I Group, on slide 7, sales of $290.6 million in the quarter were up 10.4% organically, primarily due to sales gains to customers in critical industries as well as continued sales increases in our European based hand tools business. Gross profit in the C&I Group totaled $112.7 million in the quarter. Gross margin of 38.8% improved 160 basis points over 2013 levels, primarily due to benefits from higher sales, $2.1 million of lower restructuring costs, and savings from ongoing RCI initiatives. These gross margin improvements were partially off set by $4.1 million or 100 basis points of unfavorable foreign currency effects.

Operating expenses of $73.6 million in the quarter increased $5.2 million over 2013 levels, primarily due to higher-volume related and other expenses. The operating expense margin of 25.3% improved 40 basis points, primarily reflecting benefits from sales volume leverage partially offset by inflationary and other cost increases.

As a result of these factors, first-quarter operating earnings for the C&I segment of $39.1 million, including $3.3 million of unfavorable foreign currency effects, increased $8.5 million from 2013 levels. The operating margin of 13.5% improved 200 basis points from 11.5% last year.

Turning now to slide 8. First-quarter sales in the Snap-on Tools Group of $343.6 million increased 6% organically, reflecting mid single-digit increases in both our US and international franchise operations. Gross profit of $148 million increased $4.1 million from 2013 levels, while the gross margin of 43.1% decreased 90 basis points from 44% last year, largely due to $2.9 million or 50 basis points of unfavorable foreign currency effects.

Operating expenses of $98.8 million in the quarter increased $2.1 million from 2013 levels, primarily due to higher-volume related and other expenses. The operating expense margin of 28.8% improved 80 basis points from 29.6% last year, reflecting benefits from sales volume leverage, partially offset by inflationary and other cost increases.

As a result of these factors, operating earnings of $49.2 million for the Snap-on Tools Group, including $2.1 million or 50 basis points of unfavorable foreign currency effects, increased $2 million from prior-year levels. The operating margin of 14.3% compared with 14.4% last year.

Turning to the Repair Systems & Information, or RS&I Group, shown on slide 9. Sales of $262.7 million increased $16.6 million or 6.7% from 2013 levels. Excluding $15.2 million of acquisition related Challenger sales and $0.7 million of favorable foreign currency translation, organic sales were up slightly as gains in sales of diagnostic and repair information products to repair shop owners and managers were largely offset by lower sales to OEM dealerships, including the wind down of an essential diagnostic distribution. Gross profit of $118 million in the quarter increased $4 million over 2013's levels.

Gross margin of 44.9% decreased 140 basis points from 46.3% last year, primarily due to the impact of lower gross margin Challenger products and $1.8 million of higher restructuring costs, partially offset by continued savings from RCI initiatives. Operating expenses totaled $59.9 million in the quarter. An operating expense margin of 22.8% improved 50 basis points from 23.3% last year, largely due to benefits from sales volume leverage and the effects of the Challenger acquisition, partially offset by inflationary and other cost increases.

First-quarter operating earnings of $58.1 million for the RS&I Group increased $1.6 million from prior-year levels. The operating margin of 22.1% in the quarter declined 90 basis points from last year as lower margins associated with Challenger and the 60 basis point impact from higher restructuring costs more than offset benefits the ongoing RCI initiatives.

Now, turning to slide 10. In the first quarter, earnings from Financial Services of $34.4 million increased 12.8%. Revenues of $50.2 million increased 14.1%. In both the first quarters of 2014 and 2013, the average yield on Finance receivables was 17.5% and the average yield on contract receivables was 9.5%. Originations of $202.1 million in the quarter increased $30.2 million or at 17.6% compared to 2013 levels.

Moving to slide 11. Our quarter-end balance sheet includes approximately $1.3 billion of gross financing receivables including $1.1 billion from our US Snap-on Credit operation. Approximately 80% of our US financing portfolio relates to extended credit loans to technicians. During the first quarter, our worldwide Financial Services portfolio grew approximately $28 million. 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 $88.3 million in the quarter increased $12.6 million from comparable 2013 levels, primarily as a result of higher 2014 net earnings. Net cash used by investing activities of $50.9 million, included $30.3 million to fund the net increase in Finance receivables. Capital expenditures of $18.3 million in the quarter compared to $14.7 million last year.

Turning to slide 13. Days sales outstanding for trade and other receivables of 65 days compared with 62 days at 2013 year end. Inventories increased $18.2 million from 2013 year end, primarily to support continued higher-customer demand and new product introductions as well as to improve service levels. On a trailing 12-month basis, inventory of 3.8 times remained consistent with our year-end levels.

Our quarter-end cash position of $127.8 million decreased $89.8 million from 2013 year-end levels, primarily as a result of the March 2014 repayment of $100 million of unsecured notes at maturity. In addition, the net decrease in cash also reflects the impact of funding $169.7 million of new Finance receivables, dividend payments of $25.6 million and share repurchases of $22.1 million as well as $18.3 million of capital expenditures. These uses of cash were partially offset by $139.4 million of cash from collections of Finance receivables, $88.3million of cash from operations and $12.8 million of cash from stock purchase and option plan exercises.

At the end of the first quarter, our net debt-to-capital ratio is 25.5%. In addition to our $128 million of cash and expected cash flow from operations, we have more than $700 million in available current facilities. Our current short-term credit ratings allow us to access the commercial paper market should we choose to do so. At quarter end, no amounts were outstanding under any of these facilities.

With that, I'll now turn the call over to Nick for his closing thoughts. Nick?

Nick Pinchuk - *Snap-On Inc - CEO*

Thanks, Aldo. As I said at the start, we are encouraged by the quarter. We believe the results are more clear evidence of potential. They're added confirmation of what we have been saying for some time, that as we look forward, Snap-on has abundant and wide runways for both improvements and for growth. We believe the quarter's performance adds to a long trend, which reinforces that outlook.

We are moving down our runways for growth, enhancing the franchise network, sales growing by 6%, new products, strong franchise metrics and the Credit company is amplifying that strength. Expanding repair shop owners and managers. New diagnostics and information products. Growing stronger with independent shops. Challenger Lifts giving us more to sell. Extending to critical industries. C&I growing organically at 10%, with an over 200 basis points increase in OI margins. Building in emerging markets. Ramping up or new lift factory and growing even in a place like India, where economic and election uncertainty are major headwinds today.

We're also progressing down our runways for improvements. Snap-on Value Creation, safety, quality, customer connection, innovation and RCI driving margin gains.

We're encouraged by the continuing trends, but we believe there is much more, ample opportunities and clear runway for growing and improving. We believe that with the inherent advantages we hold, the investments we're making, and the capable team we're enlisting, we will extend on a positive trend for the foreseeable future.

Before I turn the call over to the operator, I believe it's appropriate to speak to our franchisees and associates. I know that once again many of you are listening. The encouraging results of the first quarter and the positive trends we're demonstrating are a direct result of your extraordinary capability and your continuing commitment.

For the role you play in our ongoing achievement, you have my congratulations. For your unfailing dedication to our team, you have my thanks.

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

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

David Leiker, Robert Baird.

Joe Vruwink - *Robert W. Baird & Co. - Analyst*

This is Joe Vruwink on the line for David. Wanted to start, is it possible to quantify any impact weather might have had on the Tools Group in the quarter? I would imagine some of the van routes were impacted and obviously if fewer repairs are going on, mechanics have lost money in their pockets. Any way to quantify that?

Nick Pinchuk - *Snap-On Inc - CEO*

The short answer is no. My response to that is it's always something. (laughter) Yes, we had some tough winter and routes were attenuated in some time. I rode in a number of these vans. When you stop at garages -- I think I said this on the last call. Some guys would say, hey business is great because we're tearing up transmissions and chassis are getting bumped around, so there's a lot of business here. Other people were saying, hey, the business is terrible. It's hard to quantify it. Certainly it might have imposed some calendarization on us a little bit, but I think, for our perspective, we're not really looking at it as something that is that unusual. It's just something that comes up and we manage over it.

Joe Vruwink - *Robert W. Baird & Co. - Analyst*

Maybe as the quarter progressed, so we obviously started getting better weather in March. April has been a little bit better, I suppose. Has your sales activity picked up in line with that cadence?

Nick Pinchuk - *Snap-On Inc - CEO*

Yes, but it's hard to quantify, Joe, because to tell you the truth, last year -- if you looked at last year, people seemed to go on a sabbatical in early January, so we had a back-end loaded calendarization. It tends to happen from time to time, from quarter to quarter. There isn't always great intelligence looking from month to month. So, yes, we did see some uptick, but I'm not sure you can read much into that.

Joe Vruwink - *Robert W. Baird & Co. - Analyst*

Then, just looking at the origination growth in Financial Services. If I use that as a barometer for activity in the Tools business, 18% is obviously a lot higher than the 6% organic growth for the segments. Is there a way to understand the disconnect there? Is 18% still a barometer for just general activity?

Nick Pinchuk - *Snap-On Inc - CEO*

I can give you as -- unfortunately is from quarter to quarter, it's hard to tie it exactly because there is a -- what we say is -- and you've probably heard us say this over and over, is that the originations should roughly follow the growth of the Tools Group big-ticket items, which is primarily tool storage and some of the larger diagnostics. As a matter of fact, over the last several quarters and in, again, this quarter, big ticket grew greater than the Tools Group in general, so you have that factor. Now, in the full year, we believe that comes out roughly parallel to the originations and big-ticket sales roughly paralleled -- Tools Group, big-ticket sales and originations roughly are parallel and all work out. From quarter to quarter, remember, we're recognizing a sale to a franchisee. He's not necessarily selling it right away onwards. He necessarily doesn't do the deal, so you have some disconnect in terms of calendarization as you cross over the months. It's very hard to tie quarterly numbers between originations and the Tools Group. I will tell you that it is indications that Tools Group big-ticket sales were sold at higher rates, year over year, than the average Tools Group and that's true in this quarter.

Joe Vruwink - *Robert W. Baird & Co. - Analyst*

Okay.

Nick Pinchuk - *Snap-On Inc - CEO*

Other than that, you can't really draw much from one quarter.

Joe Vruwink - *Robert W. Baird & Co. - Analyst*

Sure. No, that makes sense. Switching across the pond and looking at Europe. You talk a lot about runways for growth. I'm just wondering, what is the runway in Europe, not only from revenues, but, Nick, you've been restructuring your up C&I, I think your entire tenure at Snap-on. What could be the optical -- ?

Nick Pinchuk - *Snap-On Inc - CEO*

It seems like it.

Joe Vruwink - *Robert W. Baird & Co. - Analyst*

Yes. (laughter)

Nick Pinchuk - *Snap-On Inc - CEO*

It seems like it. I hate to comment on Europe anymore because I'm usually wrong. The thing is, look, what's happened in Europe is we have been continually applying Snap-on Value Creation, improving our productivity and efficiency even in the darkest of downturns. We have said that our customers have not gone away. Therefore, in doing this, whether it's restructuring and in closing facilities or in creating efficiencies, we have not removed productive capacity. As I said in my remarks, that started to come home with positive traction several quarters ago where S&A Europe, our European hand tool business, was showing improvements in profitability, even as the sales were going down.

Now, with the sales going upwards, it adds to that. That leverage adds to that because there's good leverage because we didn't take out any productive capacity. Remember that, when you talk about where is Europe? And has Europe turned the corner? And what is happening in Europe? It's still down 20% to 25% from the peak, so we're literally coming off of the canvas. While we've had two quarters, I am still from Missouri to see where we're going for a longer term. Still, it's a positive event and it contributed nicely to C&I. Although it was not the only contributor to C&I.

Joe Vruwink - *Robert W. Baird & Co. - Analyst*

Okay. When I think of your former peak margin in C&I, you'd had 13% in 2008. You're doing 13.5% now and that's so with you're up 20% or 25% off of the top. Fair to say that there's still a lot more upset there?

Nick Pinchuk - *Snap-On Inc - CEO*

Sure. I've always said that I believe there's a lot of runway in C&I, actually. I'm pretty bullish about the C&I business. It's just that C&I has been the repository of headwinds, I think. They have the military, they had the European headwinds and so on. They have had some difficult bumps, but we feel confidant about that business. S&A Europe, the critical industries, those are great businesses.

Joe Vruwink - *Robert W. Baird & Co. - Analyst*

Yes. I know, good to see it turning a corner. I'll leave it there. Thanks, guys.

Operator

Liam Burke, Janney Capital Markets.

Liam Burke - *Janney Capital Markets - Analyst*

Nick, you talked about Snap-on Tools doing well internationally. Is one country or another doing particularly well, or are you seeing just very solid international growth?

Nick Pinchuk - *Snap-On Inc - CEO*

Generally, I would say, if you look back over -- I think I talked about Snap-on Tools growing over the years like 9% and 9.2% and 10.7% and 7.6% last year. If you look over the 16 quarters that are involved in that, international grew pretty well in general. This particular quarter, UK grew nicely, better than -- about maybe a little bit better than the average. Canada grew even more. Australia was actually down slightly. Some of that could have been currency. The Tools Group, man, they got hammered with currency in terms of transaction because you got the Canadian dollar weakening and you got the Aussie dollar weakening versus the US dollar. We make the products. We're moving into those markets in US dollars. We're shipping them, and so this transition impact, and so that played out a little bit in the Australian volume, I think. UK has been, across the Company, pretty strong.

Liam Burke - *Janney Capital Markets - Analyst*

Okay.

Nick Pinchuk - *Snap-On Inc - CEO*

International, I think on balance you could say international is pretty good, but color in this quarter, Australia is maybe feeling the weight of the currency problem a little bit.

Liam Burke - *Janney Capital Markets - Analyst*

Okay. Great. Aldo, you had DSO step up three days. Is that timing or is there something different? Is it more international?

Aldo Pagliari - *Snap-On Inc - CFO*

I would say about one day due to the timing of sales and where they fall in the collection cycle. What you're seeing there, you're spot on. The international mix is a little bit more robust. The terms structurally in the international markets tend be longer than that in the US. Then, behind the scenes, you have the fact that military is a little bit less than what it had been in prior years. The government pays quick and the governments often times even uses credit cards, so that always helped the DSO calculation.

Finally, if you look at emerging markets, those places that have some spot liquidity issues. Places, you look like at China, India, Brazil, you have a lot less cash-and-carry business and the result, in distribution circles there, you have to provide a little bit more structural terms. That's normal. It goes with the turf, so as those markets mature, and our presence in them mature, I think you see a little bit more classic days outstanding rather than cash-and-carry type activities.

Liam Burke - *Janney Capital Markets - Analyst*

Okay. Well, thank you.

Operator

(Operator Instructions)

Gary Prestopino, Barrington Research.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Nick, when you look at that dealer business, you said that the refacilitations were winding down. If you back out some of that business that is winding down, do you have a sense of just what the growth was, just the dealers overall?

Nick Pinchuk - *Snap-On Inc - CEO*

I don't have a dealer overall growth, but I would say it's a -- if you look at -- Oh, RS&I -- look, one of the things that I wanted to say was is that -- I think we said in the call that RS&I would grow without the wind down of the dealerships. We think it would be mid single digits. That kind of growth, if you pull out that OEM lumpiness. If you went back to our earnings calls last year, it was growing -- we had some pretty good growth in RS&I and we're saying that some of that was accelerated by some of these. We have said overtime that RS&I, the margins can be moved by that and also the growth can be a little bit lumpy. We're actually pretty pleased with it, because the other businesses, particularly in the independent space, are growing nicely.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay. It just makes sense because the dealerships are doing well, too, overall.

Nick Pinchuk - *Snap-On Inc - CEO*

Yes.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Do you have any facilities, business, et cetera, in the Ukraine?

Nick Pinchuk - *Snap-On Inc - CEO*

Yes. We have some business in the Ukraine. We have a sales office there, but it's peanuts.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay.

Nick Pinchuk - *Snap-On Inc - CEO*

I mean really at Ukraine is not -- it's a very, very small exposure. The Ukraine, if you talk about the Ukraine and Russia, it's a little bit bigger, but it's still a smaller piece of the business. Maybe 1% of the total for the organization. That business and these numbers are down -- already, and these numbers are down multiple decades.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay.

Nick Pinchuk - *Snap-On Inc - CEO*

You saw some headwind here.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Okay. Then lastly I had another question on just the growth in the Tool business in Europe. If you look at your business overall in Europe, the southern tier of countries had always been very sluggish and declines really. The northern countries have been doing a little bit better. Are you starting to see a pick-up in places like Spain, Italy, countries like that? Are you starting to see any growth in revenues out of those countries? Or is it just strictly all the north countries?

Nick Pinchuk - *Snap-On Inc - CEO*

Sure. Actually, we see revenue growth in our Tools business, the S&A Europe business in Spain and Italy, Portugal, actually France even, and Germany and so on. So, we see sort of the center of Europe, UK is pretty good. The Eastern European businesses, as you might expect, are weak. There's some growth in Turkey, for example. That's kind of pushing it. Now, I'll say that sometimes I think we went down so far in Spain and Portugal that any kind of growth is not so big, but it's still positive from what we see.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Thank you very much.

Nick Pinchuk - *Snap-On Inc - CEO*

Still positive and encouraging events.

Gary Prestopino - *Barrington Research Associates, Inc. - Analyst*

Thanks, Nick.

Operator

David MacGregor, Longbow Research.

David MacGregor - *Longbow Research - Analyst*

Can you talk about the extent to which your growth, the international business, may have supported the large origination number?

Aldo Pagliari - *Snap-On Inc - CFO*

I'll take that.

Nick Pinchuk - *Snap-On Inc - CEO*

Yes, go ahead.

Aldo Pagliari - *Snap-On Inc - CFO*

It was fairly evenly balanced, but the originations are still more influenced by the activity in the United States. Certainly you can look at the international portfolio grew as well, but no undue bias one way or the other.

David MacGregor - *Longbow Research - Analyst*

Okay. You mentioned that the origination should converge with the Tools business over the course of the year. From a quarter-to-quarter stand point you can see divergences, but over the course of the year they should converge. Does that imply that we're going to see a fairly substantial reduction heading into 2Q and 3Q here in the origination?

Nick Pinchuk - *Snap-On Inc - CEO*

No, I didn't actually say that. What I said specifically was, it should converge with big-ticket sales in the Tools Group.

David MacGregor - *Longbow Research - Analyst*

Okay, good.

Nick Pinchuk - *Snap-On Inc - CEO*

That doesn't necessarily correlate exactly with the overall Tools Group number. In fact, for many quarters, they have been higher.

David MacGregor - *Longbow Research - Analyst*

Okay. Within that big ticket you talked about the fact that, I guess storage and diagnostics are really driving the big ticket within the Tools segment, as I understand it?

Nick Pinchuk - *Snap-On Inc - CEO*

Sure.

David MacGregor - *Longbow Research - Analyst*

Do we begin to anniversary something here in the next quarter, too, that would create a substantially slower year-over-year growth?

Nick Pinchuk - *Snap-On Inc - CEO*

I don't know. I have said forever that I think we expect our growth to be at 4% to 6% organically. This is at the top end and we grew, like I said, at 9%, 9.2%, 10.7%, 7.6% in the past year, so that would be outside of that. Eventually you might expect the Tools Group to come down to where I said, but we have great strengths in the Tools Group. We are ramping up the innovation engine with customer connection and innovation, so we have more new products than ever before. We have these new marketing activities, which are breaking the boundaries of the van. The Rock 'N Roll cab has 56 on the road now, and they are breaking the space constraint and adding to that tool storage. We have raised the Techno vans, which support diagnostic sales to 18. A year ago, those numbers, 56 and 18, were 36 and 4. Two years ago it was just 18. We are pumping more support into the Tools Group. I wouldn't want to call for a cooling, on the other hand we do, say over time, it's 4% to 6%. I'm not saying it's going to happen, that we would see a reduction next quarter, though. I don't see a lapping being a factor.

David MacGregor - *Longbow Research - Analyst*

Okay. Just a couple other questions. On the change in working investments, Aldo, you went into some detail about the things that are stressing your DSOs and that was helpful. I notice, though, that going back over say the last two years, in first-quarter 2012 it was a 13.9 good guy. In 2013 it was negative 5.5 and in 2014 we're negative 42.5. Is that reflecting just the structural shifts of the growing international business, the slowdown in military, the things that Aldo discussed? Or is there something else going on there?

Aldo Pagliari - *Snap-On Inc - CFO*

No, I think the same variables do characterize -- you're talking about just the receivables element in working capital is that structural firms in the international market are longer. That's a fact of life. The international mix of business does then impact that. Emerging market, as they mature, does move from a certain percent of business being, as I said, cash and carry in short-term oriented to more traditional distributer terms. Finally, the realization that the government is a little bit of a less of a player in our mix. They were one of the ones that have the most rapid payment terms, usually, and they do pay promptly.

Nick Pinchuk - *Snap-On Inc - CEO*

I'll just jump in here. One of the things that is going on here is, if you shift the C&I, I think, we have, of course, the great progress in Europe where we've gotten another quarter of growth. We have been pounding Snap-on Value Creation, so we have nice leverage rolling out of that. But, there is also a great component of extension to critical industries where we had some big wins in aviation. Those are very profitable, but they're not the military business. They change the nature of the receivables, and we are not only in aviation, but we're also extending internationally. One of the things we worried about in critical industries, were we able to project and roll the Snap-on brand out of the garage into aviation and oil and gas and those things. That is working.

Further than that, are you able to project it internationally? Well, that is really working this quarter. That is one of the things that's driven -- that's one of the big factors, maybe the biggest factor in driving the 10.4% growth in C&I and a great components of the 200 basis points improvement.

David MacGregor - *Longbow Research - Analyst*

Yes. Okay. Last question, if I could? Just last question. You paid down $100 million of debt in the quarter. Clearly, the balance sheet is over capitalized at this point. I don't want the guy to pound the table about you need to do acquisitions. I hate to see you stress that. But, what is your thought process on just using some of this capitalization capacity to buy back more stock rather than wait for the opportunities to surface on the M&A front?

Nick Pinchuk - *Snap-On Inc - CEO*

I think we've made it clear that -- two factors, I'll say. Our priorities for cash are working capital, investment in the organic business. You just pointed out some of the requirements we can have as we expand our business to different places. We see it in our working capital today. We're growing, but it's eating working capital. We knew this was coming. We are looking at M&A. We review, each month we are reviewing a list of M&A, and we will act on this. We are confident we can find targets, because we keep looking at several each month. Thirdly, we keep our dividend in perpetuity and we know are investors like that dividend, like those dividends and depend on it. Then, the idea of buying back stock to offset dilution. We see that as our cash priority. I would add on top of that, though, -- that's our current cash priority, but I would add on top of it, we know that as we generate cash and we have capability, we will be judged on how we wield that. We know that.

David MacGregor - *Longbow Research - Analyst*

Are you considering large transformative acquisitions? Or, are they better characterized

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Nick Pinchuk - *Snap-On Inc - CEO*

No, nothing transformative. We think we can make acquisitions -- we've seen several large acquisitions, that didn't quite work out, that were sort of semi coherent and on closer look that wasn't. We believe we can make acquisitions that give us more to sell and more strength with the customer basis that are along our runways for growth. That is the technicians, the repair shop owners and managers, people in the critical industries or in emerging markets, and we can do that without having to transform.

David MacGregor - *Longbow Research - Analyst*

So, if we got to the end of the year and you still hadn't done a larger transaction, you still had the over capitalized balance sheet you have today, would you consider accelerating share repurchase activity?

Nick Pinchuk - *Snap-On Inc - CEO*

I'm not sure. I would wait until I get to the end of the year at that.

David MacGregor - *Longbow Research - Analyst*

Okay. Thanks very much. Congratulations on a good quarter.

Nick Pinchuk - *Snap-On Inc - CEO*

Thank you.

Operator

Richard Hilgert, Morningstar.

Richard Hilgert - *Morningstar - Analyst*

I wanted to ask about on the military spending, has that now completely anniversaried? In other words, the first quarter last year was the quarter where we really saw a big decline in that area of the business, correct?

Nick Pinchuk - *Snap-On Inc - CEO*

Actually, I think it was the fourth quarter of the prior year. If the answer is, has it completely anniversaried, the answer is no, because it keeps going down. But the base is smaller, so the impact on us -- it isn't that it didn't impact us. It did, but the base on which the reduction is operating is smaller, therefore it's less of an irritant. It doesn't create the screen in C&I that it did before. The way I characterized it in my script, and I think this is accurate, it no longer masked some of the progress that was happening because it was smaller. I mean, basically, that business is down more than half. From its peak, it's way down.

Richard Hilgert - *Morningstar - Analyst*

Yes.

Nick Pinchuk - *Snap-On Inc - CEO*

So, it keeps coming down. It was down in the quarter a couple of decades of percentages, so it was down again. But, yes, the base that it operates on is smaller.

Richard Hilgert - *Morningstar - Analyst*

Okay. Is the European hand tools business that you mentioned that has improved for the first time in quite a while, was that down about the same kind of magnitude that military was down?

Nick Pinchuk - *Snap-On Inc - CEO*

No, not that much, but it was down, let's say, 25% in sales.

Richard Hilgert - *Morningstar - Analyst*

Okay. Then on the Challenger Lift business, is the nature of that equipment and the historic margins such that this would always represent margins that are less than that segment's average? Therefore, if sales in that business increase more so than the sales in the rest of RS&I, it would cause margins to be slightly diluted?

Nick Pinchuk - *Snap-On Inc - CEO*

If the question is -- I think this is the question. Are the Challenger margins 23%? The answer is no. Therefore, for some time and for -- they're substantially lower than that. For some time, growth in Challenger margins, most talking Challenger sales, would be decrimental to the overall RS&I margin numbers. However, it might raise its profitability for the Corporation and so on. By the way, we will be working on the Challenger margins overtime with Snap-on Value Creation to keep improving them. There's a big gap between the Challenger margins and the overall RS&I margins.

Richard Hilgert - *Morningstar - Analyst*

That gap is actually what I was getting at. What I was getting at is that is Challenger, is just the nature of this product and the pricing in that segment of the business such that you will never get to the 20% some odd that the RS&I Group does? It will always be lower than that general mark?

Nick Pinchuk - *Snap-On Inc - CEO*

Well, yes. I guess. I mean, the thing is, sure -- always is a long time, even for a guy like me. (laughter) I have a lot of confidence in Snap-on Value Creation. I think it can move upwards, so I would never see the idea that it'd never get there. It is certainly a long pull.

Richard Hilgert - *Morningstar - Analyst*

Okay.

Nick Pinchuk - *Snap-On Inc - CEO*

Remember, thought, that we lap the acquisition in the second quarter.

Richard Hilgert - *Morningstar - Analyst*

Yes.

Nick Pinchuk - *Snap-On Inc - CEO*

So, we acquired Challenger, I don't know, halfway to two-thirds of the way through the second quarter of last year. Once we get into the third quarter, it's apples to apples. What you're seeing now with the drag is an apples-to-oranges comparison.

Richard Hilgert - *Morningstar - Analyst*

Right.

Nick Pinchuk - *Snap-On Inc - CEO*

That's why we're calling it out. RS&I actually had a pretty good quarter. It had 60 basis points of restructuring impact year over year and it had another multiple decades, a dollop of Challenger impact and that occluded the relatively strong RCI achievement that it made in the quarter, 50, 60 basis points.

Richard Hilgert - *Morningstar - Analyst*

Right. No, certainly it was an impressive quarter on margin performance. Thanks for taking my questions this morning.

Operator

We have no further questions in the queue at this time.

Nick Pinchuk - *Snap-On Inc - CEO*

Okay.

Leslie Kratcoski - *Snap-On Inc - VP of IR*

Thanks, everyone, for joining us this morning. A replay of the call will be available on Snapon.com shortly. As always, we do appreciate your interest in the Company. Thanks a lot.

Operator

This does conclude today's presentation. We thank you all for your participation.