Company Name: Snap-on Incorporated (SNA)
Event: Jefferies 2015 Global Industrials Conference
Date: August 11, 2015

<<Bhupender Singh Bohra, Analyst, Jefferies LLC>>

Good Afternoon. Welcome to Jefferies Global Industrial Conference. I am Bhupender Bohra from the diversified industrial team here at Jefferies. Would like to welcome Snap-on CEO, Nike Pinchuk, and post this presentation, we'll have a breakout session in room Juilliard, which is downstairs.

<<Nicholas T. Pinchuk, Chairman of the Board and Chief Executive Officer>>

Thank you. Good afternoon. I'm here to talk about Snap-on. I find myself saying that it's an intriguing company, I think, but I guess almost any CEO would say his company is intriguing. So maybe that's not so much information, but I'll offer this. It is a company that has some extraordinary strength in brand, in product line and in capabilities around that product line, and in having legions of loyal customers that are truly dedicated to it. It's a business that operates in criticality, which has some ongoing and continuous and powerful tailwinds.

It's a business, which I think has demonstrated over the last quarters, an encouraging trend of both growth and improvement in terms of profitability. And it's a business that where the management team believes at least and I think, I hope that many of you believe, that it has an expanded runway for both growth and improvement going forward for the foreseeable future.

And I am told I have to show you the cautionary tale about this, so please read this. Good enough. Okay, now let’s talk about Snap-on from the beginning. Some of you heard this story, I apologize, but I love to tell it, so I'm going to tell it anyway. The thing is, Snap-on was founded in 1920. In 1920 there were 7.5 million vehicles on the road and the automobile industry was just starting and the repair industry was really just starting. And nobody knew what a mechanic was going to do and what kind of tools he would use. In comes an engineer from Milwaukee, Wisconsin and he gets an idea. He says I can rationalize all this. He takes five handles, you see them here on the green felt, of different shapes, an ellipse, a crank, a T and so on. And he puts them together with 10 sockets of different dimensions and he fashions them so they snap on interchangeably. It revolutionized tool sets all over this country and that innovation, that sort of tradition of innovation, echoes down to us even after all these decades and we have among the most innovative product lines in this sector.

He did something else that I think was pretty good, he made these tools out of the best steel of its time and we have some of them in our museum. And I believe if you pick them up, you would say, yes, this feel like in 1920 they would have been the best and they radiate quality and I will tell you if you pick up a Snap-on tool today, a wrench or a screwdriver or a ratchet, you would say, it feels like quality. So that tradition continues, but here's what he did, that was most important.

He instructed his salesman to go into the shops and lay the tool out on green felt as if they were as precious as surgeons' knives, implying that if the technician, the mechanic used these tools he would declare to the world they were doing something special, perhaps as special as a surgeon. And that idea of the Snap-on tool being the outward sign of the pride and dignity of working men and women is as important to the core of our business today as innovation and quality.

And that was in 1920. That's 95 years ago now, and in fact we celebrated our 95th anniversary just recently, and the business has grown. It's now 11,400 employees around 130 countries. The turnover is $3.3 billion and the market cap starting to approach $10 billion. The only other piece is – so that's sort of the tale of the tape of our business here. The only other piece of information on this page you might want to look at is the fact that we pay a 1.3% dividend now and we have paid a dividend every quarter since 1939 and we have never reduced it. So it's probably one of the longest strings of uninterrupted, unreduced dividends around.

So to describe Snap-on, we're shaped by work. The principal value creating mechanism for Snap-on is to observe work. We've shown it here in the auto repair garage, which is our most natural place and we know the most about, but we also are now branching out into aviation and places like oil and gas. And one of our values is, we observe this work and we figure out how to make it easier.

And by that we say we're sparked by ideas coming out of that knowledge of the work to provide innovative new tools. You can see some of the tools here, it's a wide range of products from power tools to 18 Volt power cordless impact or aluminum torque wrenches or the new aligner units or diagnostic workstations or laptops for cars – we show here our SOLUS Edge. So knowledge of the workplace, understanding the workplace, shaped by work, sparked by ideas and the third thing, back to the green felt, celebrated by professionals.

These guys by the way are not actors. They're regular mechanics. They look pretty engaged. And really what it is people will use this – our tools to declare to the world. They will use our tools because they know they'll do the job best, but they also declare to the world that what we do, what they're doing is special. One of the interesting things about this I think I tell everyone is that Snap-on has an incredibly powerful brand, but it isn't fully appreciated by everybody.

Consider this, this is our 95th anniversary and every year we have a new issue of tool box. This year we're issuing our 95th anniversary toolbox. It sells for $8,000, $9,000, $10,000 depending on the model – black, clear coat, candy apple red trim, Snap-on 95th, the years 1920 to 2015 on the handles – and mechanics will buy these in the thousands. That means a mechanic will pay $8,000, $9,000, $10,000 to in effect to put a shrine to our company in his workplace. Powerful brand indeed, celebrated by professionals.

And it's not just around the Snap-on brand. We have the Snap-on brand and it is strong but we have the BAHCO brand. We have other brands, BAHCO in Europe. We just recently had a – had a booth in Sweden Rocks. Thirty-five people had their bodies tattooed with a 5-inch tattoo of the BAHCO brand and seventy-eight had to be turned away. In some places in Europe – right, I don't know, I won't show you my tattoos. Anyway some places in Europe, people call, when they ask for an adjustable wrench, they ask for, give me the BAHCO. And we have other brands like Blue-Point, premium brand that we use in Asia and in some parts of the United States. Mitchell1, which is synonymous with capability in software around garages. So we have the brands as well.

Here's how we're organized. We're organized by customer. You can see this here, a customer layout. Everybody when they close their eyes and they think about Snap-on, they think about our vans. These are trucks, panel trucks, about the size of a bread truck that will roll around the country in weekly routes, calling on garages and selling directly to mechanics, directly to a customer base that twirls the wrenches. That's what we call the Tools Group and it's 37% of our business.

There's another piece of our business, which sells to a customer that stands right next to the mechanic but buys on a different cadence. That's our Repair Systems & Information business. They're selling to the repair shop owners and managers, things like electronic parts catalog for the shop, software to run the shop itself, commercially run the repair shop itself, things like lifts and aligners and balancers and certain big diagnostics sold at a different cadence than the tools would be to the technician. We have a different sales force direct and distributor there.

And then you see the little slice of 5%. We have a financial services company, a credit company that basically strategically wields credit to support the Tools Group, the vans selling to those technicians, and the repair shop owners and managers, I mean the RS&I group selling to repair shop owners and managers, but principally selling to the technician.

And then finally, 30% in the lighter blue, that's our Commercial & Industrial Group and they sell to non-automotive customers and to the emerging markets of Asia Pacific. So that's the businesses – all facing the customer – the Tools Group, facing the technicians; Repair Systems & Information, facing the owners and managers of the shop; the credit company supporting them; and Commercial & Industrial, looking at other industries and other geographies.

Now, we have some – I talked in the beginning about – I spoke in the beginning about some interesting tailwinds we have in this auto industry and there are two I'll mention here that are continuing. One is the aging of the vehicles. U.S. vehicle population is now 11.5 years old, on average, and significantly it's gotten older every year since 1980. Now you might say, in fact I get this question all time, they say well, if they sell a lot of new cars, it's going to be the vehicle population is going to be – the aging of the population is going to be reduced, the age of population is going to be reduced. I don't think so. It's increased every year since 1980. Alright, that's in big sales years and small sales years. The deal is that 300 million vehicles on the road, they all get one year older every year. That overwhelms the balance between new cars and scrappage. And so this drives repair requirements. You can see it when you go throughout the land and then go into garages.

And then the most important one is the changing technology. Cars keep changing in technologies – the idea of complexity, the idea of needing to reprogram. On certain cars today you need to reprogram the alternator when you change the battery. The improvement of – the increasing need for diagnostics, it used to be that 50%, right now on average in the fleet 50% of the repairs need a diagnostic unit. About half of the repairs need a diagnostic unit to affect them. Well new cars, it's 80%. So that means more and more diagnostics are going to be sold and other things like new technologies for example, hybrid cars, electric cars. Hybrid cars, you don't want to go poking around on a hybrid car without some insulation in your tools – you're liable to get fried. These are new products that are selling.

And so you have two things and another more visceral thing I can point out to you is that, the computers are getting greater on a car. Today there's more computing power on a car than was on the lunar module that landed on the moon and in the 1990s we used to measure the number of computer codes on a car in the tens, now we measure in the thousands. So this means a database understanding and interpreting that and repairing on that basis, we have the best database and as it changes, it gives us more opportunity to sell.

But even as that has happened, the demand for hand tools has grown because if you look in the engineer compartment of these cars as they evolve, it's become a geometric nightmare, and so each time we need to sell more and new hand tools. If you think about this, if you don't believe that story about hand tools, consider this. The technician population isn't growing fast, it's 1.3% per year. We are selling them hand tools. We are guaranteeing them for life. How is it that we have any business? And the answer is technology keeps driving the need for new hand tools. This is why we have things like low profile ratchets and new screwdrivers and so on.

So you have this kind of tailwinds and then we would say we have runways for growth. We look out in the future. Our runways for growth and runways for improvement. We have two major runways, to improve our business, become more efficient and more productive and to grow. Let's talk about runways for improvement first. Snap-on has a series of processes. We never used to pay attention to processes. That was for more mortal companies. But for the last six or seven or eight years, we've been paying attention, and we configured what we call our Snap-on value creation around the processes of safety, quality, customer connection, innovation, and rapid continuous improvement. Basically, areas that we believe if we push on we will improve our corporation and improve our profitability.

Let's look at safety. Now you might ask, why is safety in a presentation to analysts? Simple as this, we make implements, we make solutions for working men and women. If we can't make our own people safe, what does that say about our products? And not to mention, it just saves money if they're more productive. Well I am proud to say, in the last ten years, Snap-on people are 92% less likely to have an accident than they were ten years ago. And this year, 70% of our 101 facilities had no lost time accidents and 58 had no incidents whatsoever. So safety has been improving.

Quality. Now it didn't take process to come to Snap-on to get quality. There was quality way back in original "five do the work of 50", those five sockets and five handles, back in 1920, but we have committed it to better process now. And what we've done is, we've established process capabilities throughout the factory, throughout our product development, things like measuring (inaudible) critical defects and factory critical defects; but the best measure of quality, we think, is what the customers think. So every year we ask our customers what they—their preferred form of tool is? The U.S. technicians, when we ask them about hand tools, 70% say Snap-on. Number two is 11. We ask them about laptops for cars, this is basically computers for cars, it's 63 to 7. When we ask them about power tools, where there is a myriad of competitors, it's 47 to 11, and when we ask them about tool storage boxes, it's 63 to 13. If Nick Saban, the football coach at Alabama had these scores, he would be dreaming, he would be happy; these are blowouts. And so we think this is ample demonstration of our quality, continuing quality advantage and improvement.

Now, we have something else in Snap-on value creation called customer connection. A principal value creating mechanism for Snap-on isn't a particular product, isn't a particular technology, it's in being in direct observation of the work and the workplace. And we have this. We have 4800 franchisees around the world. We have multiple direct sales forces that number – the people number in the thousands. We have visited – we're in present in 700,000 shops in Europe – in western world in Europe and the United in North America.

We are in 2,500 vocational schools where we're creating Snap-on customers for life and influencing the way repairs are done, and we have on our site in Snap-on what we call the Innovation Works, which is the place where the engineers can directly observe customers when they come in and do work and we have more than 22,000 visitors to that place or 25,000 visitors to that place since it's been launched and that information rolls back into our innovation process.

Now Snap-on was always good at making new products but we used to be a hard prototype group. Now we've created a different type of group that's balanced itself or used new modern tools. So for the first time in the last several years, we're using finite element analysis. Things like X-ray diffractometers that are good for metallurgy, things like 3-D printing, all of which I think asymmetrically empower companies like us that have so many SKUs. We have 65,000 SKUs. Just for the aerospace industry last year we brought out 996 new products. You can see how 3-D printing and finite element analysis and things like electron microscopes helped this more effectively.

And we win a number of awards, the Motor Top 20 Award, the PTEN Innovation Award, the PTEN People's Choice Award, of which we had seven last year, the Undercar Digest gives us a regular award and even an International Grand Prix Award, where we got an award for the BAHCO Ergo Tool Management System, a truly innovative product in Europe. And you can see what we get them for – for power tools, for heavy duty diagnostics, for car diagnostics, for aligners, for Atech torque wrenches, which allow you to be more – max the precisions that are needed in modern day torquing in new models. So, innovation, new products and we have more new products than ever before, more new effective products than ever before.

So, Snap-on Value Creation. Safety...92% more safe. Quality...70% of the people like, prefer Snap-on in hand tools, 63% in diagnostics. You have got customer connection, where we've got all these people out all observing work directly and it's resulting in award winning products.

Then we have something we call rapid continuous improvement. This lean or Kaizen. We have people at every site, all 101 sites, that work on Kaizen every day. They get up every day and ignite small, small activities. Then we have people who – we have Japanese consultants, the Shingijutsu people who were with Toyota at the beginning when they set up the Toyota Production System. If you look at their ages, you believe this by the way. And then when they do something, we'll do something let's say at the Elizabethton plant, and we'll bring people in from all over the world who will solve problems at the Elizabethan plant under the expert's tutelage, but also raises our own understanding of Kaizen.

And then, once a year, the Snap-on management team including Aldo, the CFO, who is here with me and Leslie, our Vice President of Investor Relations and all of us will go to a factory – last year we went to Milwaukee – and work on the factory floor to improve the factory for that week. We hopefully make an improvement. We secondly learn more about continuous improvement ourselves and we demonstrate to the organization that it's important. And here is the result of all that Snap-on Value Creation, including rapid continuous improvement. You can see it in the numbers...2007...what is it $2.85 billion in sales, 10.6% profitability, and last year $3.28 billion in sales and 16.3, 570 basis points improvement...Snap-on Value Creation.

Now we also have runways for growth and our opportunities for that emanate from this. We used to think of ourselves in this way. We used to think of ourselves as a great company that made terrific tools sold through vans and sold to auto repair mechanics, and we did it well. But that's not – that's only a narrow definition of what we do. What we actually do after we thought about it for a while is we observe work and make it easier for serious professionals performing critical tasks; that is, the penalty for failure is high, and repeatability and reliability are necessary such that they need Snap-on level products, in workplaces of consequence.

And when we look at this, it generates our runways for growth and there are four. Enhance the van network...what we did always before, but reach more customers or do it better, or sell more to the same customers. Expand with repair shop owners and managers...sell to those people who are standing right next to the technicians we were selling to. Extend to the critical industries...people in aerospace or oil and gas respect the Snap-on brand but we haven't really plumbed the opportunity in those things. And, build in emerging markets...because they're going to be our big – they're going to be big customers in the future.

So let's talk about these. You can look at enhance the van channel. The van channel, we've had it for a long time and I am telling when I got to Snap-on I was smiling to myself because the van channel is sort of the business model that fell from Saturn. It's a great model, great model, barriers to entry, great position, has great value added that's unshakable, but we found ways to make it better and to reach more customers, to make the franchisee one, more productive, use Snap-on Value Creation, rapid continuous improvement on his activity; to give him more products to sell, to make sure that when we have a retirement, we fill it quickly and to reduce the turnover, which we moved from double-digits, strong double-digits to down to mid single-digits, and add marketing initiatives that will expand the capability or amplify the capability of those vans.

The vans themselves are rolling retail space, so they have two big barriers. One is the space itself. We figured out how to add that space and amplify it through company-owned trucks that will timeshare or go periodically into these routes and help. And we've figured out a way through other vans to reduce the amount of time our van drivers had to spend learning diagnostics or in training. They actually train while on the job. These things have expanded the van channel, allowed us to reach more customers. We call on 850,000. There are actually 1.3 million customers and so we're reaching more of those and to sell more to the same customers. And if you don't believe this, you can look at the tale of the tape because last quarter the van channel grew at 11.2%, and the quarter before that it was 12.9% organically, and the quarter before that was 11.8%, and the last 20 of the last 21 quarters it grew at 6% or better, and the only quarter it didn't grow at 6% or better was the quarter of Super Storm Sandy, it grew at 3.7%. Enhance the van channel.

And I think one of the cool things about this is, it shows that this is an under wielded business in general. Because you would have thought that vans that have been around for a long time and have been the signature business of Snap-on and have been prosecuted and led by capable people would have explored the very limits of their capabilities. But there was much more to be had, and we believe there is more going forward.

Let's talk about expand with repair shop owners and managers. We already know a lot about the garage. We can leverage our position with them. We can get more to sell. We can add more to sell. We acquired a business called Challenger Lifts, which gave us more to sell to these buyers. Pro-Cut Brake Lathes. Several years ago we acquired ProQuest electronic parts catalogs. And so this business has been growing and it has, it's software based, based on our understanding of that aged fleet, 11.5 years old, well when you go into an independent garage and you plug-in a diagnostic, you got to be able to read every one of those 11.5 or 20 years of possible cars that are in there and how many badges, 35 or so, not just Fords, but Chevys and BMWs. We have the best database. We can tell you what the car is saying and we can tell you how to solve it, better – how to solve its repair problem better than anyone else. That business had an OI margin of 24.4% in the quarter, it was up 120 basis points.

Extend to critical industries. One of the things about – about Snap-on, the Snap-on brand itself is – it's a tool, its very present in a garage, but if you present a Snap-on card in an aerospace line, on a flight line, or on an oil and gas platform, you get instant respect because working men and women around this country identify the Snap-on brand with superior tools, with making work easier, and with pride and dignity.

It's one of the reasons why we're able to sell jackets. I get on a van one day and they had this guy was selling Snap-on jackets, he had – they were $89. I asked him how many sold, he sold 80 of them in two weeks. $89 Snap-on varsity jacket in two weeks by the way, he only has 200 customers. So the Snap-on brand is strong in a garage, but also in all these places. So we can extend to this. The thing we don't have is we don't have the knowledge of these workplaces that we have of the auto repair.

So what we're doing is we're working very hard to learn the work of aviation, oil and gas mining, the military and we're building a product line around that. I already said, we launched 996 products for aviation, while I didn't tell you that we also launched 640 for oil and gas, 859 for heavy truck. And this business grew at high single-digits in the quarter and it's in the C&I Group, which grew at a 11.2% this quarter, 9.9% in the last quarter, 9.8% the quarter before that, 10.4% the quarter before that, 8.4% the quarter before that. This runway for growth is very lucrative for us and we're just starting to scratch the surface.

And then you can talk about building in emerging markets. Well for us, everybody has got an emerging market story, ours is a little different. Basically, 300 million vehicles on the road in North America, they are old; you go into China and you got 100 million cars, 140 million vehicles, they're pretty new, so and every capital good is like this, so the repair wave hasn't really started. Our view, our approach is to try to build the physicals, the manufacturing, the distribution, the product line. That's what we're doing.

In 2004, 10 years ago, we had two offices and 10 people in all of Asia outside of Japan. Now we have 1,500 people, 41 locations, five factories and a design center. We're preparing ourselves to take advantage of the wave. I believe it's the physicals, which deliver you from evil in Asia and I base this on my experience having lived there 11 years. We see this to be a big opportunity.

So those are the runways for growth, enhance the van channel, expand with repair shop owners and managers, extend to critical industries and build in emerging markets and you can see this is another tale of encouraging performance, you can see the sales. The beginning of this curve in 2006 is what $2.28 billion and it ends with $3.28 billion. But then you can look at the profits, 6.5%, 7.6%, 10.6%, 12.3% then in the recession it dipped down to 9.9%, we couldn't quite hold there...we were recession resistant not immune...

then 12.3%, then up to 13.5%, 13.9%, 15.1% and last year 16.3%. Snap-on Value Creation and our runways for growth.

Now, we have something else in our business, that yellow piece, the credit company. And what happened in the credit company, we've always been in credit. We’ve always for as long as we can remember, in the memory of the corporation, we've been lending to mechanics and shop owners. But it was in recent history, since about the mid-1990s, it's been in a joint venture, the joint venture ended up being with CIT. Well that joint venture was overtaken. How it worked is, the credit company was a joint venture 50/50. We would write the paper and we would on-sell the paper to CIT. So they would be holding the paper, our vans would be collecting and that's how we would proceed.

Well in 2009 that joint venture was overtaken by events when CIT went bankrupt and we brought it home 100%. What that meant is we had the whole credit company, which was a joint venture 50/50 on our books, but we had no portfolio. The portfolio was in the hands of CIT. So here is the numbers in the first half year we ended up the year with $398 million, we lost $9.1 million. Then I think it was $733 million and we made $14.4 million and then it went up to $935 million, I may have these numbers a little up and it went up like $72.9. And then we go up further to that $1 billion over the first time, $84 million, and we make $106.7 million and it goes to $1.232 billion and we make $125.7 million and then last year we ended up with $1.382, almost $1.4 billion when we made $149.1 million.

So the credit company keeps expanding. But I want to point out, the purpose of this is not to lend money. The purpose of this is to support the growth of the Tools Group, and why you see it continuing to grow is the Tools Group grew. And remember my numbers 11.2% and then 12.9% and 11.8% and 6% greater – and greater than 6% for 20 of 21 quarters. Okay, all this has led to us being fairly robust in terms of financial performance and has allowed us to continue our dividend and so you can see the dividends here. Back in 2009, we were at $1.20. Remember, we have never interrupted these dividends, we went to $1.22, then, $1.30, then $1.40, then $1.58, then $1.85 and that was an increase last fourth quarter of 20.5%. We have paid a dividend every quarter and we have never reduced it, so you can feel, you can probably figure out what my view is of reducing dividends. Right, okay.

Then how is going so far this year? What's more contemporary? When you look at the second quarter numbers and I think this is a similar tale. Organic growth 8.4%...that’s what made up the 11.2% and so on and 3.3% from RS&I and the 11.2% from C&I...3.1% as reported because we did have the currency impact. If you look at the OI margin for the OP Co, put aside the credit company, it's 17.7%, I think it’s an all-time high, up 100 basis points.

If you look at, put the credit company in, 21.1%, up 140 basis points, and the earnings per share were $2.03, up 12.8% and by the way, the earnings per share absorbed $0.14 of currency impact. Do the math. Add the $0.14 and see how much the increase would be, year-over-year currency impact. So that’s our story, is that Snap-on is a, I think, an extraordinary company, of course I'm prejudiced I guess, maybe not objective, but I think I am right about this. Snap-on is an extraordinary company with great strengths, terrific extraordinary brand, very wide product line that is valued in a number of industries, legions of loyal customers, operates in criticality where there is some great tailwinds behind us in terms of the aging of the fleets, aging of capital equipment and the changing technology, the changing technology drives everything. I said very often, if the President of the United States would say tomorrow that we would go to 100 miles per gallon in the next two years, I would kiss him personally because everything would change for us. We'd have a lot more product.

And so, operating in this business, despite the fact we've been operating in this business for a long time, we are underwielded. You can see that in the progression from 6.5% to 16.3% over those quarters. You can see it in the effect of Snap-on Value Creation...570 basis points just in the last, since 2007, and you can see it in the growth in the business. And we believe that we have ample runways for both improvement and for growth going forward, and we believe we'll take advantage of this for a long time because we commit to the fact that if we never got, in terms of improvement, in terms of runways for improvement, we believe we have enough things to improve in Snap-on that if we never got another dollar of incremental sales, we keep the margins moving upwards. But we further believe that there will be incremental sales because we know that in enhancing the van channel, expanding with the repair shop owners and managers, extending to those different industries, selling more to the same customers and bringing and reaching different customers in both different industries and different geographies like emerging markets, we have lots and lots of opportunities. And we can do it just doing what we always did...observing work, making it easier for serious professionals performing critical tasks in workplaces of consequence.

And that's – and I'm finished and I think I could take a question, but I think I ran out of time. Okay thank you very much for coming.