# SNAP-ON INCORPORATED

## Moderator: Leslie Kratcoski
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## 9:00 am CT

Operator: Please stand by, we're about to begin. Good day, everyone, and welcome to the Snap-on, Incorporated 2015 Second Quarter Results conference call. As a reminder, today's conference is being recorded.

And at this time, I'd like to turn the conference over to Leslie Kratcoski. Please go ahead, ma'am.

Leslie Kratcoski: Thanks, Aaron, and good morning, everyone. Thanks for joining us today to review Snap-on's second 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 Finance Officer.

Nick will kick off our call this morning with his perspective on our performance. Aldo will then provide a more detailed review of our financial results. After Nick provides some closing thoughts, we'll take your questions.

As usual, we've provided slides to supplement our discussion. You can find a copy of these slides on our website next to the audio icon for the call. These slides will be archived on our website along with a transcript of today's call.

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

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

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

Nicholas Pinchuk: Thanks, Leslie. Good morning, everyone. I'll start this call with some highlights of our second quarter. I'll speak about the general environment and about the trends we see, and I'll take you through some of the progress we've made. Then, Aldo will move into a more detailed review of the financials.

Our second quarter results were encouraging. We believe they once again offer strong evidence of clear Snap-on advancements along our runways for both growth and for improvement.

Organic sales were up 8.4% from last year. The operating margin expanded by 100 basis points. And earnings per share, they reached $2.03, up 12.8% compared with the $1.80 reported last year.

Our reported sales increase was 3.1%. That total includes the continuing weight of unfavorable foreign currency translation; this quarter, an impact of $43.4 million. Including the incremental

$2.8 million from last year's Pro-Cut acquisition, our total reported sales for the period - our sales for the period were $851.8 million.

The opco operating margin reached 17.7%, up from 16.7% in 2014. And as I said, representing 100 basis points increase, more than offsetting the 40 basis point impact on profit from unfavorable currency.

Financial Services operating income grew to $41.4 million from last year's $34.8 million, driving our consolidating operating margins, financial services plus opco to 21.1%, higher by 140 basis points. It was an encouraging quarter.

From an overall macro perspective, we believe the conditions remain favorable for our businesses serving automotive repair customers, businesses like the Tools Group and the Repair Systems & Information, our RS&I Group.

In the second quarter, the Tools Group organic activity increased 11.2%. The tailwinds of changing vehicle technology and the ageing of the fleet continue to provide opportunity. And the rising strength of our van network and our robust continuing line of new products, they enabled Snap-on to take greater advantage of those tailwinds and it's clearly evidenced in the numbers.

In RS&I, they had organic gains of 3.3%, led by higher sales of diagnostics and repair information products to independent repair shop owners and managers, increased sales to OEM dealerships, and higher sales of undercar equipment; all serving to offset the particular challenges in Russia, Eastern Europe and the Middle East, where that Group had made particular progress in prior periods.

For the Commercial & Industrial Group, or C&I, there are also continued signs of advancement. Organic sales up 11.2% in the quarter. And for C&I, along our runways for growth, we saw

important and clear headway; headway in our efforts to extend into critical industries, in our European business, and in several emerging markets.

That progress was won against pockets of turbulence in geographies like Europe where the uncertainty of Greece looms; in places like Japan, where recovery is sporadic; and in the US military. The US military has been a somewhat unpredictable sector. Well, in the second quarter, US military activity experienced for Snap-on, another strong period, up double-digits from last year.

You know, however, we do remain cautious on the military business. This is a period of uncertainty. Changing deployments and budget pressure make it difficult to predict the future trajectory of that business with any confidence. But having said that, having said that, we believe we're well positioned in the military sector to make the most of any available opportunities, any available openings.

Overall, the C&I results are quite positive. The opportunities definitely outweighing the challenges, and the results, they confirm it.

More broadly, for the whole operation, for all of Snap-on, the operating income gains across the corporation clearly demonstrate the leverage and the power of the Snap-on value creation processes.

Safety, quality, customer connection, innovation and rapid continuous improvement, they all drive our improvement every day; and they helped to author our 100 basis point gain in the quarter, overcoming the significant challenges.

Now, let's highlight some of the advancements in growth and in improvement demonstrated by the individual groups. We'll start with C&I. As I just said, an 11.2% organic sales gain, and that follows a 9.8% organic sales gain in the first quarter.

C&I's operating income margin was 14.3%, up 100 basis points, both the higher volume and the benefits of Snap-on value creation drove that rise. And there were some very positive volume gains.

SNA Europe registered its seventh straight quarter of year-over-year growth, a promising trend, outperforming the storm clouds that occupied the headlines of Europe. The industrial division saw particularly strong activity in the aviation sector, a key area of our focus in extending to critical industries.

Some of those aerospace gains can be attributed to our growing line of innovative new products specifically aimed at that industry, products like our new array of aircraft tire gauges and inflators. When it comes to aircraft tires and struts, proper measurement and inflation are key for safe takeoffs and landing as well as for breaking predictability and effectiveness. We talk about critical industries, those sound kind of critical for people who travel.

Raising the bar in that arena, our new line of 300 PSI analog and digital tire gauges offer improved accuracy, are approved for hazardous environments and incorporate a reflective glow dial or backlit display, it makes - they make the technicians work more effective, safer and easier meeting all type of challenges in all types of conditions.

Also in the quarter aimed right at aviation, we introduced the new Snap-on Electro Static Discharge-Safe Precision Pliers. They're designed for use on static-sensitive components and circuitry, with specifically designed handles to dissipate electricity, improved squeezing torque

control and a low profile design for greater accessibility than the standard pliers, all features that are valued by professionals, performing those critical aviation tasks.

The 300 PSI tire gauge...the static discharge safe pliers...innovative new products, adding to our growing aerospace offering and clearly demonstrating our efforts to roll the Snap-on brand out of the garage to extend into critical industries like aviation. And the second quarter results, they confirm that it's working.

Now, let's speak about SNA Europe, our European hand tool - our European-based hand tool business. SNA Europe, broad organic growth and gains in the period, up mid-single digits, growth in Spain, United Kingdom and in the Nordic region.

And besides that volume rise, SNA Europe continued its trajectory of operating margin improving, leveraging the additional sales, but also realizing the benefits of RCI and Snap-on value creation against the backdrop of substantial Euroland turbulence. SNA Europe, sales up for the seventh straight quarter, but, once again, profits up more.

And we're also continuing to build in emerging markets. Asia-Pacific was another contributor to C&I growth. Activity up in relatively uneven markets like Korea and Indonesia.

C&I did have an encouraging quarter, but we know there's still more opportunity. Opportunity to continue building on the momentum generated by our European operations, to strengthen our position within emerging markets, and to proceed forward down our runways of critical industries extending to even more customers.

Now, let's move to the Tools Group. Sales were up 11.2% organically with double digit gains in the US and internationally. Operating margin, up 17.1%, up 70 basis points versus the 16.4% recorded last year. And overcoming within the quarter 120 basis points of unfavorable currency

impact. That 70 basis point improvement brings our Tools Group OI margin to new levels, and that margin performance clearly speaks to our improving position. And when combined with the growth this quarter demonstrates the success we're having on this decisive runway, enhancing the franchise network. You can see it in the sales and you can see it in the overall franchise health metrics, trending positively again this quarter.

Snap-on franchisees are a committed and capable group and you're convinced of that every time you meet one of them. And we're working hard every day to support their effort through creative marketing, access to in-house customer financing with Snap-on Credit, and a growing array of innovative new products.

Products like our new ratcheting combination wrenches with an innovative design, higher strength and enhanced durability. Our new ratcheting gear designs safely delivers 25% more torque and 95% longer fatigue life. Innovative Snap-on technology enabling the transfer of more power in a thinner, smaller diameter wrench head helping to access and remove the most stubborn of fasteners in tight, tight spaces.

The Dual 80 design with an 80 tooth ratcheting gear and dual pawls minimizes the swing arc that's needed to move fasteners. A great enabler, a great enabler in the engine compartments of today's vehicles. And, of course, that - the new wrench features our unique Flank Drive wrenching system that consistently minimizes fastener damage.

Snap-on's new line of combination wrenches raises the bar for professionals in performing critical and difficult tasks. It's a winning tool line on an existing product platform, a direct result of Snap-on value creation, shaped by customer connections, direct observations in the shop, and delivered by the Snap-on innovation process. It's already generating excitement in the repair shops all over this country and there's more to come.

Now, the growing strength of our van network, our rolling selling space to the van network is evident with the increases in big ticket sales. And a considerable boost comes from our hands-on demonstration vehicles like the Rock N' Roll Cab Express vans, 66 of them, bringing a much wider range of our tool storage line-ups directly to the shop. More colors, more shapes, more options and more choices displayed across our customer base.

And if you've been listening to these calls for anytime, you've heard the story of this innovative marketing initiative, the Rock N' Roll van, expanding our van selling space. And they continue to be a significant contributor to the Tools Group.

In the quarter, big ticket sales were up strong double-digits and our demonstration vans were a big driver. But those vans weren't the only factor, big ticket gains were also propelled by new tool storage products. Winning offerings like our special edition 95th anniversary box, another in a long line of our customized tools storage systems.

We mentioned them, I think, on the last quarter's call and they've been popular. Technicians upgrading their workspace, celebrating our milestone year, and providing clear testimony to the strength of the Snap-on brand positioned in shops all around the world.

Another key advantage for the Tools Group is our Financial Services arm, Snap-on Credit, strategic programs aimed at smoothing the way for those big ticket purchases. Our credit company plays an essential role in enhancing the van network, and again this quarter, it did just that.

Well, that's the Tools Group, attractive new products guided by customer connection, innovative marketing and a unique credit facility, all increasing the power of the Snap-on van channel and driving sales to new levels.

Now on to RS&I, organic sales growth of $8.7 million or 3.3%. The second quarter operating margin, 24.4%, rising 120 basis points compared to last year's 23.2%, margin expansion, another demonstration of RCI in Snap-on value creation.

The organic sales gain was broad-based, the diagnostics and information businesses selling to independent repair shop owners and managers with a mid-single digit gain in volume helped by new products.

Products like the ETHOS Tech, our newest diagnostic handheld offering, aimed – it's aimed at individual shop technicians and first-time diagnostic buyers.

The ETHOS Tech is a full function scan tool with a quick boot-up, streamlined interface, a large color screen, and full comprehensive coverage of car makes and vehicle systems, all the features that are so important even for the entry level technician in today's environment where vehicle diagnostics are becoming essential for everyday maintenance as well as complex repair.

More technicians than ever before will be using diagnostics in almost every job and ETHOS Tech is a great way for them to get started. Also in the quarter RS&I released its latest software update for our PRO-LINK Ultra, supplying truck shops with even broader diagnostic data covering both diesel and larger gasoline engines.

The PRO-LINK Ultra, it's capable of diagnosing commercial vehicles from light diesel to Class 8 heavy-duty trucks. It delivers the widest coverage ever available in a single handheld diagnostic tool, including data for major vehicle system.

It's a great enabler for the - it's a great enabler that, I guess, quite simply provides heavy-duty technicians with the range of diagnostic information now necessary to perform their daily task. And it's becoming the choice across the heavy-duty sector.

The Equipment division registered a low single digit organic sales rise, overcoming the turbulence in Eastern Europe. Some of those gains were authored by our new aligner, the V2400 launched just this period. The V2400 designed for premium OEM dealerships and for high-end wheel service shops, places that require advanced alignment techniques.

It offers increased accuracy and repeatability, higher resolution cameras that produce live alignment and diagnostic data, passive lightweight front and rear targets that improve durability, and advanced dimensioning that identifies frame or structural damage or mismatched tire sizes - a regular cause of vehicle pulling or driver complaint - all of those are features that aid greatly in technician productivity. We believe we have an exceptional product in this next-generation aligner and early returns indicate that our customers are saying the same thing.

Speaking about the Equipment division, May marked the one-year anniversary of our acquisition of the Pro-Cut on-car brake lathes. We're excited to have Pro-Cut as part of the team. When we put Pro-Cut advanced brake servicing product line together with another recent add, Challenger Lifts, it gives us more to sell to vehicle repair shop owners and managers, to customers in independent shops, national service chains, and OEM dealerships. And when packaged along with our other established RS&I products, Snap-on now offers a wider range of shop solutions than ever before.

So to wrap up RS&I, we see new diagnostics, unique truck repair information, and a growing undercar equipment offering driving positive trends, improving our position with repair shop owners and managers across the globe.

Well, that's the highlights of our quarter, growth and improvement.

C&I strength at SNA Europe, in emerging markets and in critical industries, expanding margins.

The Tools Group, growing double digits, again, robust sales and operating margin continuing to enhance our franchise network.

RS&I, advancing its position, making gains in both independent shops and OEMs, growing operating margins by 120 basis points.

And Financial Services, raising its contribution and helping provide strategic evidence of growth for our Tools Group.

And overall for the corporation, sales increasing organically by 8.4%. Opco, operating income margin, of 17.7%, up 100 basis points. EPS $2.03 in the quarter, 12.8% higher than the $1.80 last year. It was another encouraging quarter.

Now, I'll turn the call over to Aldo who will take you through the financials in detail. Aldo?

Aldo Pagliari: Thanks, Nick. Our second quarter consolidated operating results are summarized on Slide 6. Net sales of $851.8 million in the quarter were up 8.4% organically.

On a reported basis, net sales including $43.4 million of unfavorable foreign currency translation, increased $25.3 million or 3.1% from 2014 levels. As you know, Snap-on has significant international operations and is subject to foreign currency fluctuations.

Largely due to the strengthening of the US dollar, foreign currency movements adversely impacted our year-over-year Q2 sales comparisons by 570 basis points.

Consolidated gross profit of $419 million increased $18.6 million from 2014 levels, primarily due to benefits from higher sales, savings from RCI initiatives and lower restructuring costs, partially

offset by unfavorable foreign currency effects. The gross margin of 49.2% in the quarter improved 80 basis points from 48.4% a year ago.

Operating expenses of $268.2 million increased $5.9 million largely due to higher volume-related and other expenses, including higher pension expense, partially offset by favorable foreign currency translation and savings from RCI initiatives.

The operating expense margin of 31.5% improved 20 basis points from 31.7% last year. No restructuring costs were incurred in the second quarter of 2015. In the second quarter of last year, we incurred $1.4 million of such costs.

Pension expense in the quarter was approximately $2 million higher as compared to the prior year, mostly reflecting the impacts of lower discount rates as well as increased life expectancies.

As a result of these factors, operating earnings before financial services of $150.8 million in the quarter, including $12 million of unfavorable foreign currency effects, increased 9.2% and, as a percent of sales, improved 100 basis points to 17.7%.

Financial services revenue of $58.7 million in the quarter increased 13.5% from 2014 levels, while operating earnings of $41.4 million increased 19%. The increases in both revenue and operating earnings primarily reflect the continued growth of the financial services portfolio.

Consolidated operating earnings of $192.2 million in the quarter, including $12.6 million of unfavorable foreign currency effects, increased 11.2%. And the operating margin of 21.1% improved 140 basis points from 19.7% a year ago.

Our second quarter effective income tax rate of 32% compared with 32.9% in the second quarter and 32.1% for the 2014 full year. Finally, net earnings of $120 million or $2.03 per diluted share

increased $13.9 million or 23 cents per share, representing a 12.8% increase in diluted earnings per share.

Now, let's turn to our segment results. Starting with Commercial & Industrial, or C&I Group on Slide 7. Sales of $295.8 million in the quarter were up 11.2% organically, reflecting a high single-digit gain in sales to customers in critical industries, a mid-single digit increase in the segment's European-based hand tools business, and a double-digit increases in both the segment's power tools and Asia-Pacific operations.

Gross profit in the C&I Group of $112.9 million in the quarter increased $1.1 million from 2014 levels, primarily due to the benefits of higher sales and savings from RCI initiatives, partially offset by unfavorable foreign currency effects.

The gross margin of 38.2% decreased 70 basis points largely due to a shift to lower gross margin sales, including higher sales to the military and increased sales in our Asia-Pacific operations.

Operating expenses of $70.7 million in the quarter decreased $2.9 million from 2014 levels, primarily due to favorable foreign currency translation, partially offset by higher volume related and other expenses.

The operating expense margin of 23.9% improved 170 basis points, mostly due to sales volume leverage, including benefits from the previously mentioned sales shift.

As a result of these factors, operating earnings for the C&I segment of $42.2 million, including $2 million of unfavorable foreign currency effects, increased $4 million from 2014 levels and the operating margin of 14.3% improved 100 basis points.

Turning now to Slide 8. Second quarter sales of the Snap-on Tools Group of $398.7 million increased 11.2% organically, reflecting double-digit sales gains in both the company's US and international franchise operations.

Gross profit of $176.5 million increased $15.4 million from 2014 levels and the gross margin of 44.3% in the quarter improved 70 basis points, primarily due to benefits from higher sales and savings from RCI initiatives, partially offset by unfavorable foreign currency effects.

Operating expenses of $108.5 million increased $7.9 million from 2014 levels, principally due to higher volume related and other expenses, partially offset by favorable foreign currency translation. The second quarter operating expense margin was 27.2% in both years.

As a result of these factors, operating earnings for the Snap-on Tools Group of $68 million, including $6.7 million of unfavorable foreign currency effects, increased $7.5 million and the operating margin of 17.1% improved 70 basis points.

Turning to the Repairs Systems & Information, or RS&I Group, shown on Slide 9. Sales of $277.4 million in the quarter increased 3.3% organically from 2014 levels.

The organic sales increase primarily reflects a mid-single digit gain in sales of diagnostics and repair information products to independent repair shop owners and managers and low single-digit gains in both sales of undercar equipment and sales to OEM dealerships.

Gross profit of $129.6 million increased $2.1 million over 2014 levels, principally due to benefits of higher sales, savings from RCI initiatives and lower restructuring cost, partially offset by unfavorable foreign currency effects. The gross margin of 46.7% improved 90 basis points year-over-year.

Operating expenses of $61.9 million in the quarter decreased $1 million from 2014 levels, primarily due to favorable foreign currency translation and savings from RCI initiatives, partially offset by higher volume related and other expenses. The operating expense margin of 22.3% improved 30 basis points from 2014.

Second quarter operating earnings for the RS&I Group of $67.7 million including, $3.3 million of unfavorable foreign currency effects, increased $3.1 million from prior year levels and the operating margin of 24.4% improved 140 basis points.

Now, turning to Slide 10. In the second quarter, operating earnings from Financial Services of $41.4 million on revenue of $58.7 million compared with operating earnings of $34.8 million on revenue of $51.7 million last year.

The average yield on finance receivables of 17.8% in the quarter compared with 17.5% last year; and the average yield on contract receivables of 9.4% compared with 9.5% last year. Originations of $253.4 million increased 8.9% from 2014 levels.

Moving to Slide 11. As of quarter end, our balance sheet includes approximately $1.47 billion of gross financing receivables, including $1.27 billion from our US Snap-on Credit operations. Approximately, 80% of our U.S. financing portfolio relates to extended credit loans to technicians.

During the quarter, our worldwide finance portfolio grew approximately $63 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 $160.3 million in the quarter increased $35.9 million from comparable 2014 levels, reflecting higher net earnings in 2015 and net changes in operating assets and liabilities.

Net cash used by investing activities of $85.4 million included $58.1 million to fund a net increase in finance receivables. Second quarter capital expenditures of $27.7 million included $7.8 million to acquire a previously leased band saw manufacturing facility in the United Kingdom. Capital expenditures in the second quarter of last year were $22.7 million.

Turning to slide 13. Day's sales outstanding for trade receivables of 60 days compared with 61 days at 2014 year end. Inventories increased $23.7 million from 2014 year end levels primarily to support continued higher customer demand and new product introductions.

On a trailing 12 month basis inventory turns are 3.5 compared with 3.7 turns at 2014 year end. Our quarter end cash position of $124.6 million decreased $8.3 million from 2014 year end levels.

The net decrease includes the impact of funding $416 million of new finance receivables, the repurchase of 580,000 shares for $86.9 million, dividend payments of $61.7 million, and capital expenditures of $45.8 million.

These cash decreases were largely offset by $319.3 million of cash from collections of finance receivables, $238.4 million of cash from operations, net of $25 million of discretionary cash contributions to the company's domestic pension plans, and $36.5 million of cash proceeds from stock purchase and option plan exercises. Our net debt to capital ratio of 25.8% compared with 26.3% at 2014 year end.

In addition to our $124.6 million of cash and expected cash flow from operations, we have more than $700 million in available credit facilities, and our current short-term credit ratings allow us to access the commercial paper markets. At quarter end, we had $35 million of commercial paper borrowings outstanding.

This concludes my remarks on our second quarter performance. Now, I'll turn the call over to Nick for his closing thoughts. Nick?

Nicholas Pinchuk: Thanks, Aldo. Well, that's the Snap-on results. Once again, we believe the period stands as clear testimony to the opportunities abundant along our runways for growth and for improvement.

And it confirms our team's capability to keep taking full advantage despite the challenges, like unfavorable currency, turbulent economies and varying industry dynamics, we are progressing along our runways for growth.

C&I organic sales rising 11.2%; OI margin 14.3%, up 100 basis points, extending to critical industries, gains in aviation and the military, building an emerging markets.

The Tools Group enhancing the van channel, wielding the network more powerfully than ever. Organic sales up 11.2%; OI margins 17.1%, a 70 basis point increase.

And RS&I, organic sales up 3.3%; OI margin 24.4%, an increase of 120 basis points.

And the overall corporation growing organically at 8.4%, overcoming the headwinds. And we demonstrated progress down our runways for improvement. The Corporate OI margin was 17.7%, up 100 basis points, more than offsetting 40 basis points of unfavorable currency impact.

Putting it all together with Financial Services contributions, earnings per share reached $2.03, up 12.8% against the wind. Second quarter was encouraging and we believe it demonstrates again that Snap-on has the inherent advantages, the opportunities and the capabilities to advance, to resist the turbulence, to keep progressing, and to extend our positive trend of performance as we go forward.

Before I turn the call over to the operator for questions, I'll speak a moment to our franchisees and associates. As always, I know many of you are listening. Please know that the encouraging results of the second quarter would not have been possible without your dedication and capability. For your demonstrated skill, clear commitment, and extraordinary contribution to our team, you have my congratulations and you have my thanks.

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

Operator: Thank you and if you'd like to ask a question at this time please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone please be sure that your mute function is turned off to allow that signal to reach our equipment. And, again, that is star 1 to ask a question at this time.

And we'll take our first question from David MacGregor with Longbow Research.

David MacGregor: Yes. Good morning, everyone. Congratulations Nick on a great quarter.

Nicholas Pinchuk: Thanks. Thank you.

David MacGregor: I guess I'm struck by the slow originations growth, up 8.9%, and what looks like divergence against a double digit growth in big ticket. And I'm mindful that credit typically exists on the sell-through.

Is it possible that your franchisees are just seeing a much higher level of inventory right now and that would have explained that divergence or maybe you could help us understand that?

Nicholas Pinchuk: There's a lot of windage in that. Fundamentally, there is questions of timing. There is a secondary market that comes into that. There is the question of the how much - what are those actually sold at versus what we sell, what sales price we book versus what the van driver books.

The numbers are something like this, I think they're - what were they, 8.9% this quarter.

David MacGregor: Yes.

Nicholas Pinchuk: And originations at 11.2%. But last quarter, they were reversed, it was 14.2% versus 12.9%. And the quarter before that it was - in other words, 14.2% was the originations and 12.9% was the Tools Group, and 17.5% was the originations in the fourth quarter and 11.8% was the Tools Group.

So, they don't match up perfectly. We are unconcerned - we're not concerned about anything like that. And we don't see anything like buildup of inventory in the vans at all. This is just a matter of timing and the differences I pointed out.

David MacGregor: Okay. And that big ticket growth, you were talking about the double-digit growth. Is there any way you can help us understand the difference between price mix growth versus volume growth?

Nicholas Pinchuk: You mean - well, I think - look, the big ticket items are - you mean, in terms of big ticket growth itself or the effect on Tools?

David MacGregor: Yes. No, the big ticket growth. I'm just trying to understand how much of that was from - I'm presuming you're talking about revenue growth and I'm just wondering how much of that...

Nicholas Pinchuk: Yes, yes. No, you're talking about revenue growth. Generally, big ticket prices are, you know, when we're talking about - when I talk about big ticket growth, I'm talking about what the big ticket items were a year ago, and they've grown actually at double-digits, a little faster than the Tools Group.

And, in fact, that's, I would say, apples-to-apples in terms of pricing. So it's pretty much volume growth in that situation.

David MacGregor: Volume growth, okay. And then last question, just - there's been a lot of talk about competition within the diagnostic space and there's been a lot of evolution lately in terms of how people are going to market the value prop and how it's packaged.

Are you feeling the increased presence of competitive product in the market? That might explain the lower organic growth rates in RS&I or how should we think about that?

Nicholas Pinchuk: I don't think so. I mean, first of all, its one quarter; that's one thing. And that can be moved up and down. But the diagnostics and information business - the sale of diagnostics and our information products into independent repair shops, which is the space we're talking about, was up fairly strongly in the quarter. I think we said high single digits so - or mid-single digits. So that was a little bit better than RS&I.

And then second thing is, I would offer that - I was just on these Rock N' Roll - I was on one of these TechKnow vans recently. And the van driver told me, he said, we're not associated - we're not worried about competition, our biggest competition is the difficulty in getting to a technician and explaining to him the product, getting him to appreciate the value of our business.

He didn't cite any competitors at all. In fact, I never see - I was just with 1,200 customers over the weekend and that - 10 days ago, and they were talking about this product and basically they

talked about the idea that it was better than anything else we had - better than anything else we had brought out.

Secondly - I mean, thirdly, I would suppose that when you - when we survey independent technicians, when we ask them what's your preferred form of diagnostic, it's still overwhelmingly Snap-on. I think the numbers, the latest numbers we have are 60 for Snap-on, 11 for number two. So you see all those.

Now, if you come back to RS&I, I suppose your question was RS&I; I personally think, we were encouraged by the RS&I growth because of the equipment business, which tends to get dinged because of Eastern Europe.

So ironically, equipment business was - grew, I think Aldo said, low single-digits. So it's somewhat of a drag from a volume point of view, but from a margin point of view, because in my remarks, I talked about that new aligner, the V2400, hey, that's a great product and it's selling very well and it's a great margin generator for us.

So what you saw from an equipment business actually was a little bit of drag on RS&I revenues, but a boost on RS&I margins, because of the aligner business, because it helps you understand RS&I a little bit more.

But we don't see, actually we don't see, at least in my interactions from the market, so logically or at least in talking to the market we don't see much pressure and then empirically, we don't see it in our numbers as pressure either.

David MacGregor: Is there any way you can size for us the size of the Eastern European undercar business as a percentage?

Nicholas Pinchuk: I don't think I want to get into that granularity, but...

David MacGregor: Sure.

Nicholas Pinchuk:...but I can just say that that business is bigger for equipment -bigger than for equipment than anybody else, because - and it becomes a historical thing. We made better inroads in Eastern Europe and the Middle East than almost any of our other businesses.

And so it has been particularly impacted by this particular downturn and in this particular set of economic dynamics. Now, we have other - we're not moaning or wringing our hands over that, but when you start slicing the corporation down into pieces you start to see it a little bit more like it comes out in RS&I.

David MacGregor: Okay. Thanks very much. Great quarter.

Nicholas Pinchuk: Sure. Thank you.

Operator: And we'll take our next question from David Leiker with Baird.

Joe Vruwink: Hi. This is Joe Vruwink for David.

Nicholas Pinchuk: Hi, Joe.

Aldo Pagliari: Hello, Joe.

Joe Vruwink: Sticking with diagnostics, Nick, when you originally started throwing out a gross target for that segment and thinking it would grow kind of near to 5% rate, I believe the strategy at that time

was to sell a diagnostics unit to a repair shop, and now you're talking about selling diagnostics units to each technician within that shop.

And so how might that change maybe the longer-term growth profile for the business knowing the evolution of that strategy?

Nicholas Pinchuk: Well, first of all, I'm not abandoning the idea we're selling to the shops. You know, I think we still have a lot of runway in terms of, what I would call, the downtown diagnostics, the things that'll stand up and tell your fortune, you know, the more the high - the higher level ones that a shop would buy and might have one or two of them in the shop. We still have a lot of runway in that area, so - and it's a very important product line for us. And, in fact, we feel pretty positive about the possibilities and the opportunity for that opportunity, but I think what you say is very true.

We now know that more and more of the repair activities in a shop are going to require diagnostics. I think I said possibly on the last call that roughly 40% of repairs require diagnostics today, and the new car is 80% of the repair, so you can see how that's going to go as new cars roll into the marketplace. And so maintenance techs, as opposed to the repair techs, guys who do oil changes and battery changes, and just tune up the cars are going to have to use diagnostics to do these kinds of things to reset some of the parameters that they start with, that they change when they make these changes.

And so we'll be looking to sell diagnostics for those things, thus the purpose of the ETHOS Tech. So you would expect that that would add a boost to that.

But I would still say, I would still say, you know, let's not talk the 4% to 6%, I would still say that if you look at the long-term sort of over the horizon opportunities for our businesses, I would rank

C&I with the critical industries and the emerging markets as the highest growth opportunity. It's got unbounded opportunity.

If you look at - I would say, this particular one sits in the middle. And then the Tools Group, we've been able to wield that model better and better, reach more technicians, but at the end of the day, it is bounded. So I'd put them in those pieces.

Now maybe you might see it up between the 4% to 6% number for our overall business, but I still see RS&I in that middle, in middle.

Joe Vruwink: Okay. And I probably won't get you to update the range itself today. So I guess I can move on to my next question.

(Crosstalk)

Nicholas Pinchuk: Really, what I'm saying - let me just try to clarify. When I said 4% to 6%, I meant generally we can grow at that level. If you want to look at the Tools Group, we said it'd be at the ((inaudible)). We can grow at that level, roughly double GDP, without necessarily coming up with things that would make our models more powerful.

We could capture more customers; we could have more - no accelerators. Now, you see what happened in the Tools Group, we got accelerators on top of that breaking through the barriers of space and time.

I was just on a TechKnow - I just said I was on a TechKnow van, we talked about that. We always - we always thought about that, well, it saves time. And what it does is both the Rock N' Roll cab and the TechKnow van save time for the franchisees, because when the franchisee rides in parallel with these vans a couple times a year, it's like a training seminar. Because the guy who's

running the van is an incredible salesman, and it saves our franchisee from going to a training center - seminar to learn how to sell tool storage or to learn how to sell diagnostics.

And that's one of the reasons why the sales are up, we not only added to the retail space, but we also boosted the capabilities of our franchisees. That's why same-store sales have been up greater than 6% twenty of the last 21 quarters, that's the kind of effect.

So I think if we keep discovering ways to do that, we'll beat that 4% to 6%.

Joe Vruwink: Sure. No, that's great color. Shifting gears a little bit, you know, with your experience around China, before Snap-on and while at Snap-on, is there anything going on in that region that gives you pause or areas of concern that you might be seeing just given your experience there?

Nicholas Pinchuk: Look, China is - I lived in China through Tiananmen. You know, you got to remember. So, I was there when - I remember going to the hotel, The Shanghai Hilton and I stayed there three days, I never saw another guest.

And three months before that, it was like going to the gold rush. So you see a lot of variations in China. I think this is quite normal. You're seeing some variation, but nothing that would affect my view of the long-term trajectory.

I see opportunities for us. The repair ways will rise; we will take advantage of it. The shape of that advantage, we have to figure out going forward; that's really our situation.

Of course, Asia is now - I think it's correct and popular to say that Asia is varying and it is. You see variations in India, you know, Modi isn't catching on quite a bit. You see Indonesia coming back actually.

Japan is actually getting a little better. We had a pretty good - we had a reasonable quarter in Japan. Korea came back, even though MERS is given us some problem, we had a good quarter in Korea.

So you have variations, but nothing that interdicts the long-term view. And I spend six weeks a year there.

Joe Vruwink: And nothing, you know, if the long-term in China is so positive, what about more the near-term, any risks or volatility?

Nicholas Pinchuk: Well, yeah, sure, there's volatility, but we're not looking for a meltdown, that kind of thing, there's volatility. There is volatility in China of course. We have good - we have great quarters, we have medium quarters, those kinds of things. Our Asia-Pacific business, as Aldo said, they grew double-digits in a quarter. Okay?

Joe Vuwink: Okay. Great. Very good. Thank you.

Operator: And we'll go next to Liam Burke with Wunderlich.

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

Nicholas Pinchuk: Good morning, Liam.

Aldo Pagliari: Good morning.

Liam Burke: Nick, I'm sorry, I'd like to stay on Asia-Pacific for a moment. You have had a fair amount of upfront investment there. It seems like you're getting growth. But in generally, directionally, are

the margins you're getting out of the region or the direction of the trends, are they on track with expectations?

Nicholas Pinchuk: Sure. Actually, we have no worry about, you know, I think, the margins in that regard. I mean, it's the geography; it's the P&L geography. I think, you saw in Aldo's discussion again on C&I how - I think, gross margins were down 70 basis points and we made it up on SG&A, with our SG&A up 170 basis points.

And what's - the principle component of that was the geography of certain big players, and Asia-Pacific is one of them, lower gross margin, lower SG&A, but OI margin kind of on track for what we like to do, if you adjust for that forward investment. So we feel okay about that. I think we continue to be confident in that regard.

Liam Burke: Okay. And staying with C&I, you mentioned power tools as being a driver of growth, typically that's - is that unique to the quarter or is there something going on in the market where you're getting a step-up in demand there?

Nicholas Pinchuk: I don't think it's anything in the market, I think it's - look - I think - actually, I think we hit bonanza this quarter and you know what we did? We actually took power tools and garbed them in the 95th anniversary colors.

And remember me talking about the box, how people like, signed up for this $10,000 box to put in effect a shrine to our corporation in the workplace. Well, if you offer it to them at a couple of hundred dollars, they’re even more enthusiastic.

So part of what we're seeing there is this kind of push. We put the - our half inch pneumatic impact, which is a popular product, but we garbed it in the 95th anniversary or the cordless

ratchet or our air hammers, things like that, or our cordless impact, and those have become popular.

I don't think it's a special demand thing. I think power tools are kind of people - they wear out, people buy them periodically and it's like a new car, you show up with a new color and especially 95th anniversary colors for Snap-on is a collector item and it's particularly compelling color. And so they like that.

Liam Burke: Thank you, Nick.

Nicholas Pinchuk: That's what's driving it.

Liam Burke: Okay. Great. Thanks.

Nicholas Pinchuk: Sure.

Operator: And we'll go next to Tom Hayes with Northcoast Research.

Tom Hayes: Hi. Good morning gentlemen.

Nicholas Pinchuk: Hi, Tom.

Aldo Pagliari: Morning, Tom.

Tom Hayes: Hey. Just wondering - staying on the C&I Group for a little bit, you called out, Nick, aviation and military doing well. I was just wondering if there was any segments that were lagging your expectations. And then just...

Nicholas Pinchuk: Yes...

Tom Hayes:...maybe just kind of a follow up is, just kind of reset where you have the larger international exposure in the C&I Group.

Nicholas Pinchuk: Sure. You know, we had a good quarter - this happens every quarter. We have variations because we have six or seven critical industries in that area. This quarter, we happen to have a good - we had good progress in aviation, heavy duty - the heavy duty sector was strong for us, railroads were strong, oil and gas was weak.

I think - but actually, I'm not so sure, last time it was up against the wind. And I think, for us, we're just starting to penetrate these areas. So they're not so driven by the economics as they are, when you're just starting to penetrate, you can get quite a variation from quarter to quarter, that's the kind of thing we saw.

We saw some flatness in things like mining, stuff like that. But, generally, that's the ((inaudible)). Military was up double digits. You know, we kind of expect, you know, C&I to keep - the idea of extending to critical industries to keep going, to keep moving.

Now, I don't say it happens every quarter. I mean, this is a great example. I mean, I'd say every second quarter that we feel very good from a C&I - we feel very good right now about our Commercial & Industrial trajectory, we feel very good about our Tools trajectory, we feel very good about our software and diagnostics trajectory.

But that's the trajectory - and without giving - I'm not warning anything or saying anything about, but the third quarter is always squirrely. I mean we have vacations in the third quarter and so on.

So you can't tell what sectors will be going in and out, because we have our franchisees going on vacations sometimes usually in the third quarter, Europe is on vacation.

So it's hard for me to predict it for every quarter. But I can tell you, we feel very encouraged by the trajectory. And I'm not in any way trying to say that we're going to have a tepid third quarter or anything like that.

Tom Hayes: Okay, great. And then just following up on the Tools Group, certainly there is a nice step up in operating margin both on a sequential and year-over-year basis.

Being relatively new to the story, just wondering if there is anything unique in the quarter kind of one time that moved it up or does it just reflect, you know, continued strong growth in the RCI and maybe new tool roll outs.

Nicholas Pinchuk: Yes, all of those. Look, I think what's happened in the Tools Group is in the quarter - as you know, we focus on quarters, but the limited information - the limited indication of what's going on in the Tools Group though has been doing this for some time now.

Like I said, the numbers are something like this, 11.2% this quarter organically, 12.9% the quarter before that, 11.8% the quarter before that, 6.2% the quarter before that, 6.6% the quarter before, so they're kind of - they've been growing at 6% plus for, as I said, 20 of the last 22 quarters and in fact almost defying GDP gravity. And so they're learning, they've learned, this management team has been in the route, they're learning how to wield this capable, tremendous model even better, things like the Rock N' Roll cab, the TechKnow Express, learning what products, learning the power of garbing the power tools into the 95th anniversary.

Figuring out how to do that, figuring out how to do - that's the things that are occurring. And that when you marry it up with RCI, that allows you to do these things more effectively, allows you to drive profitability upwards as well as volume.

One other thing is that, you know, I think I've said this is that one of the things that works for us, kind of a tailwind in a way is that we're a company that has complex product offerings, 65,000 SKUs.

And we keep turning out more, because we try to solve everybody's - we try to solve a wide array of problems with the idea of modern technology, 3D printing, finite element analysis, X-ray diffractometers that allows you to look more accurately at the metallurgy.

The kinds of things we get out of - more accurately getting the information out of customer connection into the market - into our innovation process; those kind of things accrue with amplified advantage to somebody who has a complex product line, you're seeing some of that.

Tom Hayes: Great. Thank you.

Operator: And we'll go next to Gary Prestopino with Barrington Research.

Gary Prestopino: Good morning, everyone.

Aldo Pagliari: Hey, Gary.

Nicholas Pinchuk: Good morning, Gary.

Gary Prestopino: A couple - good morning. A couple of quick questions. Your emerging markets business, Nick, I don't think I either quoted or you said it, but what was the growth there? And what's the percentage of sales now out of emerging markets?

Nicholas Pinchuk: It's 10%. And the growth was - well, it depends if you talk about Eastern Europe as emerging markets, right. Eastern Europe...

Gary Prestopino: Right.

Nicholas Pinchuk:...right. Okay, so I mean. Yeah, okay, if you want to roll that in, it isn't so good, but the thing is Asia-Pacific grew double digits. So, you can look at it that way. I think - we actually have some businesses that weren't so bad in Eastern Europe, but, generally, it was an element of pain this period.

And I - so I think you could call that an offset. Asia, okay. Asia, okay. Middle East, if you want to call that emerging market that was kind of weak. South America was okay. Chile was up. Argentina was up. So you kind of got a balance there, a cocktail of things.

So let me just summarize. Asia-Pacific double digits. I think South America, the South, you know, the Latin American countries, the bigger ones for us were up more kind of double digit-y type stuff.

Eastern Europe tough, down. And Middle East, down. So that's where we are. And you roll it all up, you know, when you classify something reasonably, a rational man would classify as emerging markets 10% of our business.

Gary Prestopino: Okay, great. Thank you. And then, you - at times in the past you've talked that you try and do 40 plus products, new product introductions that generate over $1 million of sales. It just

appears to be, from the last couple of calls that that number has increased. And could you comment on that?

Nicholas Pinchuk: Actually...

Gary Prestopino: Is there more...

Nicholas Pinchuk: Go ahead, sorry.

Gary Prestopino: No, I was just going to add. I would assume then that as newer cars proliferate, that is going to dictate to you - your company as to, you know, what new products you're going to come out with as the car parts...

(Crosstalk)

Nicholas Pinchuk: I agree. You're right. Actually, I agree. I think we have great opportunities. And the thing I've said is the way we measure the effectiveness of our innovation process, one of the measures is the number of hit products, $1 million sellers in the first year of after first year of being on the market.

And I think you and I have been in this conservation that we were four, five - in the last couple of years, we were four times or five times what we were just in 2006 and we keep pushing that envelope.

It's not so much - I think we're getting better at doing that. It's not so much a number counting game. It's getting better and they're having more impact and they're driving more sales and they're doing better things.

Like - just like, I'll tell you what, it sounds like not so important, but the idea of the combo ratcheting wrench that will have a low profile, 25% more - 25% more strength, 95% more life, will get in smaller spaces, that one is going to be a great product for us, and people are so excited about it.

People are saying that's the kind of thing we're - so I think we're not only bringing out a lot of them, bringing out better ones, because the whole product development process, we're more effective at it.

Gary Prestopino: Thank you, Nick.

Nicholas Pinchuk: Okay, Gary.

Operator: And we'll take our final question from Richard Hilgert with Morningstar.

Richard Hilgert: Thanks. Thanks for taking my questions this morning. Congrats on the quarter.

Nicholas Pinchuk: Thank you.

Aldo Pagliari: Morning, Richard.

Richard Hilgert: Just curious about, you know, on the new product development side, we're seeing more and more penetration of things that are related to active safety and autonomous driving or assisted-driving automated systems, these kinds of things.

Nicholas Pinchuk: We love it.

Richard Hilgert: Yes. I was just going to ask, are you already preparing for these kinds of things? What are...

Nicholas Pinchuk: Yes, we love that.

Richard Hilgert:...you hearing from customers?

Nicholas Pinchuk: Sure, because we love this thing. I mean, think about it. Okay, autonomous driving. You know, the thing is that - if they go to autonomous driving, there used to be an incredibly - before autonomous driving, there would be an incredibly complex computer system that adjusted for any imprecisions on the car, that was called the human brain.

Think about alignment for example, if the car was a little bit out of alignment, you could adjust the wheel a little bit. Now, if you have autonomous driving, let's say automatic parking, you better not be out of alignment, you're going to hit the parking meter.

And so that's going to require many more procedures and more precise procedures and we're the company to give it to you. So we love those kinds of actions. And so we're thinking about it, particularly around anything around calibration very much helps you.

And that's sort of the equipment business. That's why we're so excited about the new V2400 aligner, because it's kind of a downtown aligner which creates more accuracy and therefore fits right into this.

Richard Hilgert: Okay. Very good. Thank you.

Nicholas Pinchuk: Sure.

Leslie Kratcoski: Operator?

Operator: And with no questions in the queue, I'll turn it back over to our speakers for any comments or closing remarks.

Leslie Kratcoski: Okay, thanks Aaron and thanks everyone for joining us today. A replay of the call will be available shortly on our website. And as always, we thank you for your interest in Snap-on. Have a good day. Bye.

Operator: And this does conclude today's conference everyone. We thank you for your participation. You may now disconnect.

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