Company Name: Snap-on Incorporated (SNA)
Event: Jefferies 2014 Global Industrials Conference
Date: August 13, 2014

<<Analyst, Jefferies LLC>>

Good afternoon. Welcome to the 10th Jefferies Global Industrial Conference. We have Snap-on here today, and I'm pleased to welcome the CEO, Nick Pinchuk, and the CFO, Aldo Pagliari. Nick, please.

<<Nicholas T. Pinchuk, Chairman, President and Chief Executive Officer>>

Thanks. I'm here to talk about Snap-on. It's an interesting company. I'm not a lifer, so much of what I have to say is not due to me. I've been with Snap-on only 12-years. In Snap-on terms, that's a short time. Look, it is a unique company with a lot of great strengths, it's got an encouraging presence, and we think promising runways for both growth and improvement.

As in all these presentations, you have to have a Safe Harbor, so I will give you a minute to read that. That's good enough. Okay. We'll move on. This is our overview. Here is the thing about Snap-on. Founded in 1920. Not many vehicles on the road, 7.5 million vehicles on the road. This guy from Milwaukee, Wisconsin gets an idea. He says I can revolutionize toolsets around this country. It is just the dawn of auto repair.

He says I will take five handles of different configurations you can see in there: a lift, a crank, a T. And he puts them together with 10 sockets of different dimensions, and he fashions them so they snap on interchangeably. It was an innovation that was brilliant and revolutionized toolsets all of this country, and that tradition of innovation is carried on down with us. We have many innovations everyday.

He made the tools out of a great quality. You picked it up. You say, hey, we have some of these things from 1920, and boy they really feel good today. And even today and if you – the best deal of what you imagine was that they and if you pick up a Snap-on tool today, I think you would say this sounds like – this feels like a good tool. But here's the thing he did, which is so important. He said he understands that technicians were looking for their firmament.

So he said – instructed his salesman to go into shops and lay the tools out on green felt as if they were as precious as surgeons' knives. Implying that if the technician owned the tool, he would declare to the world that he was doing something special and perhaps as special as a surgeon. And that idea of seriousness, of respect and dignity displayed through the ownership of the tools is at the core of Snap-on today.

Now we've grown since then and we are 11,000 and change people, we are all of the world, I guess this is 130 countries. Our revenues are around $3.1 billion. Our capitalization is $7.1 billion. We paid dividend of about 1.5% and significantly I think we paid a dividend every quarter since 1939, and we have never reduced it, which means that we have one of the longest records of uninterrupted, unreduced dividends around.

At its core, Snap-on is a kind of unique company in that it is based on the fact that we maintain a deep understanding of work. We understand what will make the difference in the workplace and make that job easier.

It is what gen – it's the principle, value-creating mechanism for Snap-on, and this allows us to innovate unique productivity solutions for critical applications, and these are a whole bunch of different products, and we're not rooted in single-product what were rooted in is the ability to make work easier and this supplies to a hand tool, power tool, pieces of software, diagnostic unit, laptops for cars, aligners, balancers, tire changers, electronic parts catalogs, wide range of products, cutting tools, and then we enable progress, we enable progress in the workplace as a consequence.

So what this says is any place the task is critical. Where repeatability and reliability are important, where the penalty for failure is high, Snap-on adds tremendous value, and this talks about auto repair, of course, but it also talks about other places like aerospace and aviation and mining and gas and military and power generation. One final thing, like in the tradition of the Greenfield today, we signify the serious professional.

I got in a van a couple of years ago, I found out the van driver was selling 80 - had sold in the last two weeks, 80 jackets with the Snap-on name on it for $89 a piece. He only had 200 customers. So 40% of his customers were willing to pay him $89 a piece for only the one thing, to make the Snap-on name their own. Because they know it signified them and marked them as a serious professional. Now we do have the great Snap-on brand, but we have other brands.

We have Blue-Point, which is kind of a premium brand if you consider Snap-on super premium. We have BAHCO, which is an iconic brand in Europe. Some people, when they want an adjustable wrench, they see give me the BAHCO. We have John Bean, which is the original aligner for four-wheeled vehicles. We've got brands we recently acquired, Challenger, one of the great lift brands in Americana, or Pro-Cut, and under car break laid brand, which has been added to our stable of brands.

So we have a wide range of brands that create strength for us. And if you look at how we are organized, here is how it is. It is organized facing three big customer groups. The red is what everybody thinks about, Snap-on. These are the bands, 3,476 of them around the United States. The number is tattooed on my shorts, of course, so I remember it very well. And these are franchisees who visit the technicians. They sell to the people who twirl the wrenches.

That is 37% of our business. But there is a customer base that stands right next to those technicians. It's the repair shop owner and manager. Buys at a different cadence as you imagine. Bigger ticket items, so it's almost like a capital purchase for things like aligners and lifts and software that runs the shop. That is 28% of our business. We call it the repair systems and information business. The yellow at 5% of our business is a credit company, which supports principally the sales off the van.

And then finally, the light blue at 30% of our business which is other industries rolling the Snap-on brand out of the garage to places like aviation and the military and education and aerospace, and inside, we have our Asia-Pacific business. Three big customer bases: the technicians, the owners and managers, and those in other industries. Geographically, here's how we split up, 66% in North America.

I think six points of this is Canada, so 60 points in the United States; 20% in Europe used to be bigger till the recession hit in Europe; 10% in Asia-Pacific, used to be smaller – that's been growing – and 4% in the rest of the world. If you step back in our business, it is still, even as we are rolling the Snap-on brand out of the garage, based on the technicians, based on the repair shop owners and managers, it is still 65% to 70% auto repair and have some great tailwinds in that business.

Consider the aging of the North American car park. Its now 11.5 years old and, I guess, 45% of the cars in the United States are over 10 years old another 24% are between seven and 10. That means almost 70% of the cars are over seven-years It's 11.5 years old now, and it's gotten older every year, every year since 1980. Whether we sold a lot of new cars in North America or not so many new cars in North America, this number has moved upwards and is continuing to move upwards.

And so that drives demand for our product. The other thing that drives the demand is the answer to the question of we make hand tools. That's one of our major product lines. We guarantee that for life. Why is it that we have a business? If you are guaranteeing our product for life, why do you have a business? It’s because the technology keeps changing. If you look under the hood of a 2014 car, and you look under the hood of a 2004 car, you will find a big difference.

Those different geometries require different tools. If you understand the vehicle in terms of trouble codes there were tens of trouble codes on a vehicle 20 years ago. Now there are thousands of trouble codes. We make the decoder ring called diagnostics. Hybrids, well, hybrid cars pack a lot of voltage. It needs separate tools. So every time the technology changes, it drives our business, so that's very positive for us.

Now, that's where we are today. Good business, strong fundamentals, growth in terms of understanding the workplace and signifying the serious, some good tailwinds, where are we going when we go forward? We see two broad runways, runway for improvement and runway for growth. Runways for improvement revolve around the processes we call Snap-on value creation.

These are the processes where we get up every day and think about how to make our business better. We focus in on these five areas: safety, quality, customer connections, innovation, and rapid continuous improvements. These are what drives our margin expansion.

Now safety – now you might say what's safety doing in a presentation like this? Well, we make implements for working men and women. If we can't make our own working men and women safe, what does it say about us? Not to mention the productivity advantages for this, and what I am proud to say here is today, as we speak, Snap-on people are 9% less likely to have an accident than they were just 10 years ago.

And 82 last year 82 locations at Snap-on had no incidents whatsoever, so safety is improved, quality didn’t take the word process that dawned on Snap-on have quality because way back in the beginning the guy – Joe Johnson, the original engineer, had the highest quality steel in this product, but we've made that quality repeatable and reliable and dependable based on statistical process.

So we've got statistical process everywhere. Factory critical defects and audit critical defects and all that. But the best way to assess quality is, what do our customer say, we think? So we asked our customers, U.S. auto techs, what is your preferred form of hand tool? When you ask about handtools, 74% say Snap-on. 10%, it is number two. When you say diagnostics, laptops for cars, 61% to 10%.

When you say tool storage, it is at 65% to 12%. If these were football scores, they'd be blowouts. Nick Saban would love these scores, and these scores have only stayed solid over the last year. So the quality is continuing, and we have something else called customer connection. Maintaining a deep understanding of work and we are in more work places for more hours, for more days than anybody else. We have 4800 vans worldwide, 3476 in United States.

We are in 600,000 garages we have 1000s of direct salesmen. We are in 2500 technical education institutions where we make the customers for life at the beginning of their careers and we have innovation works that are – in our facility and we’ve had where product development come close to customer observation and we had 20,000 visitors since the reception just a few years ago. So we have a lot of ideas coming back to maintain what we would call is a clear field for the practical.

In the work places around this country and around the world we understand what will change the work. The flip socket which will allow you address the two different sized fasteners that are under the – on the under panels on the BMW today. That simple product sold more than 1 million dollars. Just a flip sockets just one socket and what we do at the same time is Snap-on has always been a prototype – a hard prototyping company.

In other words, we built a tool, we put it into steel, we tested it out, while we brought modern methods that gives us a clearer view of the possible, things like x-ray diffractometers, finite element of analysis, electron microscopes, 3D printing. And want this is done is a given us an ability to see when a guy gets an idea about a socket we understand whether it’s possible or not.

And we put together the idea of the practical plus the possible we see it adding up to innovation for us, and there's a couple of way we measure this. First of all, it's nice to see some awards, and when you look at the Motor Top 20 magazines, we're always well-represented in the tools that are recognized by that. The Undercar Digest, which highlights tools – the most important tools of the year.

PTEN, the Personal Tool & Equipment magazine, which were voted on by the actual garage owners and mechanics, we had three awards last year. And things like our SOLUS Ultra, the new diagnostic unit. Or our AC710, a new wheel clamp for the aligner unit, or the Integrity Test line, which allows you to roll the product through the garage and tell you whether it's aligned or the tires need balancing.

And even in Europe, where the International Grand Prix gave us an award for the BAHCO ERGO tool management system. And then when we look at million dollar products, the products that sell $1 million, the numbers of those products last year for Snap-on – the individual new products that in the first year, sold more than $1 million, we have five or six times more of those than we had just in 2006, so innovation is working

And then the final point of Snap-on value creation, rapid continuous improvement. Other people would call it lean. We have a lean core – we have rapid continuous improvement core areas in every site. They get up everyday, try to think about how to make things easier, how to reduce the setup times, or improve product development processes, and we have get-togethers with Japanese consultants, eight or nine a year that try to raise our understanding of this.

And then once a year, Aldo, the CFO, and Leslie Kratcoski, our Vice President of Investor Relations, and the rest of the management team go out to the factory and work on the floor for a full week raising our understanding at kaizen, hopefully making an improvement and demonstrating the organization is important. It's taking traction. If you don't believe it, look at these numbers. 2007, I think sales were $2.84 billion, profits 10.6%. Last year $3.06 billion, profits 50.1%, 450 basis points, Snap-on value creation, rapid continuous improvement. Our runway for improvement, we think we can continue that.

Now, let's talk about growth. Well, to understand our growth pattern, you've got to understand where we were. We saw ourselves as a company that made great tools, sold it to the vans to auto mechanics. But actually, that isn't what we did. When you step back in a broader sense, we made work easier for serious professionals that operated on critical task. Any serious professional.

It didn't have to be an auto mechanic as long as the need for repeatability and reliability was high enough to justify Snap-on level premiums. That is auto repair, but it is also aerospace and mining and military and power generation. So there's a lot of opportunities, and it gave us four runways for growth, enhanced the van channel, expand with repair shop owners and managers, extend the critical industries, and build in emerging markets.

The van channel – we've had the van channel for a dog's age, and under the title of new dog – an old dog learns new tricks. We've learned how to build this business, expand it. The vans – an example, the vans are bounded by the size of the van. It's a space. It's a retail space. Well, we figured out how a timeshare that is by commissioning Company-owned vehicles to help out and augment that space.

Tools group grew at 6.6% the last quarter, and the prior quarter was 6%, and the prior quarter before that it was 10.2% in the prior quarter before that it was 7.6%, enhancing the van channel. Expanding with repair shop owners and managers, these guys stood right next to the technician that the vans were selling – that the vans were selling to but they were not wrench twirlers, they were managers of the shop.

We never paid attention to them. In fact, our share there was less than half of what we have with technicians, but those guys respected us, those people respected us. And so we took our position in that shop, our customer connection in that shop, understood their work and came up with product lines and selling activities that would sell to them things like aligners and repair shop management software and electronic parts catalogs, entire balancers. This business is expanding in what I think are the quarter's 7.7%. And then extending to critical industries rolling the Snap-on brand out of the garage to other places.

Now you might ask yourself, well, do people pay attention to the Snap-on in these areas? I'm here to tell you that working men and women anywhere respect the Snap Snap-on brand and understand that it stands for an understanding of the work, innovation, and signifies serious professionals.

So when you present a Snap-on card on an aviation flight line or on an oil and gas platform, you get respect. And so we are rolling the Snap-on brand out of the garage. The pacing element is simply our understanding – our development of a deep understanding of that work that occurs in that orb. This is what the pacing element is, but that business grew at 8.4% in the quarter. So that's growing well and expanding.

And then finally, building in emerging markets, everybody has an emerging market story. Ours is a little different. I guess if you don't have an emerging market story and you are a guy like me, you're probably fired. But ours is a little different in that it doesn't matter to me how many new cars are sold in China, it only matters to me how many cars on the road and how old they are. And compared to North America, Asia has relatively few cars on the road, and most of them are new.

So the repair wave, our business is just building, and that's true for oil and gas and for aviation and so on. So we are building the physicals. In 2004, we had two offices and 10 people in all of Asia outside Japan. Now we have 31 locations, five factories, 1,500 people, 600 distributors, 2,200 training sessions a year and a design center that is building our capability there.

So our runways for growth enhanced the van channel, expand with repair shop owners and managers, extend the critical industries, and build in emerging markets, but we call it coherent growth. Ample opportunity to grow, but only doing the same things we always did for auto mechanics, understanding their work and translating that practical knowledge into new and innovative product that makes their work easier.

How is it all working? Well, you can see the numbers here, you go back to 2005 I guess, and you see the numbers are $2.28 billion in terms of sales, and then it moves out just before the recession to $2.84 billion to $2.85 billion. And then down in the recession, we are recession resistant but not immune, $2.36 billion and $2.62 billion and then $2.85 again, and then $2.94 billion, and then last year, $3.06 billion.

But the real story is the profitability, back in 2005 we said –or 2006, we said our profitability would make it to double digits – mid-teen double digits. And it was 6.5%, and then it went to 7.6%, and then it went to 10.6%, and then it went to 12.3%, then 9.9%. We almost held out to double digits and then 12.1%, then 13.5%, then 13.9%, then 15.1% last year. We actually did make mid-teens, so a good trend.

Now there's another factor. I talked about the credit company. Well, our credit company supports the tools group, it basically funds the big-ticket – it writes paper on the big-ticket items. And we've had this kind of exercise for a long time. But before 2009, it was a 50-50 joint venture with CIT. Well, CIT had a little problem in 2009 called bankruptcy. So this business was overtaken by events.

We had to bring it home to be 100% owned. So in the first year, we had all the SG&A associated with that operation, but CIT had the portfolio. So we had to build the portfolio ourselves, and you can see the buildup of the portfolio, $398 million. And by the end of that, we picked it up in the first half.

In the second half, $398 million and then the $733 million and $935 million and then on to $1.84 and then $1.232 billion and then – but you see the profitability. We lost in the first year because we had all the SG&A, $9.1 million. But then it went to $14.4 million positive, $72.9 million and then $106.7 million and then $125.7 million. That was building the profitability. This is a good company which makes money and has tremendous strategic value for us.

Take a look at our dividends. I talked about our dividends. Well, we never really thought about reducing our dividends because we have maintained dividends since 1939 every quarter, and we have never produced it. You can see in 2009, the dividend was a $1.20, and then it went to $1.22, and then $1.30 and $1.40. Last year it was $1.58, 16% increase. So nice, strong results in dividends. I've mentioned several times the second quarter, so I have showed you the trends going from $2.28 billion in sales and in 2006 all the way out to $3.1 billion this year and the profitability from $6.5 billion at that time to $15.1 billion.

Well, how do we do in the second quarter? Here's the results, and you can see this. $826 million and change, $827 million in revenues, that's up 8.2%. Some acquisitions in that, so 6.6 [ph] without acquisitions. You look at the OI margin for the operating company, excluding finance, 16.7%, up 130 basis points, by the way, that's against 60 basis points of currency headwinds. If you look at 19.7%, if you include the financial operations, also up 130 basis points. And then, you see the overall earnings per share a $1.80, up from $1.50 last year up 20%.

So this is Snap-on, a company with unique strengths around brand and product. Our tradition of understanding work deeply and making that understanding such that it will turn into product – innovative product which makes work easier for professionals and critical industries.

We see tremendous runways for improvement in Snap-on value creation, safety quality, customer connections, innovation, and rapid continuous improvements, and we see runways for coherent growth, enhancing the van channel, expanding with repair shop owners and managers, extending to critical industries, and building in emerging markets, but all are growing coherently, doing only what we have always done so successfully for technicians across this country.

In other words, this is a Company with great inherent strengths, encouraging now and an encouraging record in recent years and recent quarters, and a promising future for both improvement and growth.

Now I have 38 seconds to take any questions, if anybody has any urgent questions. Any questions? Okay, yes.

Q&A

<Q>: [Question Inaudible].

<A – Nicholas T. Pinchuk>: I would be a fool if I said what that number was, wouldn't I? Probably. The question was, how far can the margin go – can the margins go? It's going from 6.5 to 6.7, it's a 20% margin, 25% margin because I will suggest to this to. We knew we would go to mid-teens when we are at 6.5%. I'm not going to – and I've been chasing the mid-teens for long time, right?

Now that we are above it, I'm not going to put myself on another petard and put a target out there, but I will offer this to you. This is one of the world's great industrial properties. It is underwielded. I see no barriers to continued margin growth. I believe if we never got another dollar of incremental sales, Snap-on value creation would keep driving up the margins.

I believe we will get more incremental sales to both organic growth and acquisitions, so I see the margins on top of that. I don't see a barrier to that, and I will simply say that if we cannot drive this business to be among the best in terms of industrial companies, we are not who we think we are. All right? All right. Thank you all.

<<Analyst, Jefferies LLC>>

Thank you, Nick, and we will have to stop you there. The Company is going to have a breakout session in Room Julliard downstairs. Thank you.