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Operator: Good day and welcome to the Snap-on Incorporated 2017 Second Quarter Results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Leslie Kratcoski. Please go ahead ma'am.

Leslie Kratcoski: Thanks Anna and good morning everyone. Thank you for joining us today to review Snap-on 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 Financial Officer.

Nick will kick off our call this morning with his perspective on our performance. Aldo will then provide a more detailed review of our financial results. After Nick provides some closing thoughts we'll take your questions. As usual we've provided slides to supplement our discussion. These slides can be accessed under the download tab in the Web cast viewer as well as on our Web site [snapon.com](http://snapon.com) under Investor Information. These slides will be archived on our Web site along with the 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. Finally, this presentation includes non-GAAP measures of financial performance which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding these

measures is included in our earnings release issued today which can be found on our Web site.

With that said I'd now like to turn the call over to Nick Pinchuk. Nick?

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

On an overall basis, our second quarter was encouraging. We believe that it once again offered evidence of advancements along our runways for both growth and for improvement. Reported sales were up 5.6% to \$921.4 million. And that included unfavorable foreign currency translation, this quarter an impact of \$12.5 million. It also reflected an incremental \$38.4 million from acquisitions, last year's Car-O-Liner and Sturtevant Richmond operations, and this year's BTC and Norbar businesses.

Now organic sales for the quarter rose 2.7% with varying increases recorded by every group. The OpCo operating margin reached 19.9%, up from 19.1% in 2016. And that 80 basis point increase, it reflects the higher sales, but it also represents the power of Snap-on value creation to drive earnings growth. For Financial Services, operating income grew to \$54.6 million from last year's \$49.5 million, combining with OpCo to author our consolidated operating margin of 23.9%, up 100 basis points. Our earnings per share, they reached \$2.60, up from the \$2.36 of last year, a rise of 10.2%. Those are the numbers. Now for the markets.

From an overall macro perspective, we do believe the automotive repair arena remains favorable. The Tools Group organic activity was up slightly, smaller gains than in previous periods. That said, we don't believe the second quarter results indicate a softening marketplace. We're not hearing or seeing that. Rather, it reflects the specific headwinds like a sales decrease around our tool stores product line.

On the other side of our automotive repair operations, RS&I had strong volume in the second quarter, organic sales growth with both independent repair shop owners and managers and with OEM dealerships. This marks RS&I's third straight quarter of high single digit progress in organic sales, representing what we believe to be an affirmation of the positive auto repair environment.

Now for the Commercial & Industrial Group, or C&I, organic sales were up mid-single digits, the highest for some time, with progress across most of the industrial sectors and geographies. In critical industries, gains posted in nearly every segment, both in the US and internationally. Strength in sectors like natural resources, heavy-duty fleet, and particular progress in places like the UK and Mexico. Also positive for C&I was SNA Europe. SNA Europe, our European hand tools business, delivering another quarter of solid results in places like Spain, France, Denmark and Sweden, broad gains across the core of Europe. So overall, the results remain favorable. Growth was slim in the Tools Group but advancements with auto repair shops was strong in RS&I. There was a clear recovery in critical industries and there were continued gains in Europe. Opportunities still outweighing the challenges and the sales growth confirms it

And the operating income demonstrated – it demonstrated once again the leverage and the power of Snap-on value creation – safety, quality, customer connection, innovation and rapid continuous improvement. Innovation and customer connection, the principles guiding our organization in the ongoing development of productivity solutions, born out of the insights and observations gathered at our customers' workplace. And together with RCI once again this quarter helping to drive an 80 basis point OI margin gain. Well that's the sort of macro overview. Now let's move to the groups.

Let's start with Tools. Organic sales were up .5%. There were two primary drivers attenuating tool activity, tool storage sales and destocking. Tool storage was simply not the ever upward strength that it's been in the past. We believe there's still abundant market opportunity. The segment isn't saturated. However, our product line wasn't as compelling as we've had in recent periods. The

second quarter enhancements we tried, they worked somewhat but they weren't enough. We need to do more and the upcoming Snap-on Franchisee Conference will be the initial venue for a round of that new product. Also it appears that the Rock N Roll Cabs, our special tool storage vans, have lost some of their excitement. We'll have to retool them to get customer attention and we will.

And finally, we regularly refine our credit programs to match franchisee practice and performance. This time we restriped our credit platinum levels and that change had some initial effect on tool storage. So we saw weaker tool storage activity in both our sales and in the franchisees' volume, the sales off the truck. We're aiming to recover with new product and with a revitalized set of Rock and Roll vans.

The other product lines are a dual story. Sales off the van, sales from franchisees to technicians, are up nicely for products besides tool storage. They were near the top of our targeted range. Our sales of those products, that is the Tools Group sales of those products to franchisees, were mixed and tepid in total. It appears that the traditional destocking that precedes the buying opportunities of the Snap-on Franchisee Conference, or SFC, and always takes place in July and early August, well that contraction crept into part of June. The franchisees were selling robustly off the van with those products, but drawing down their positions and ordering less new products. So the recent SFCs have been bigger than ever, offering more exciting product. Franchisees have been ordering more in that one big weekend. And this year they're getting ready earlier, clearing the decks.

That said, even with the modest volume increase Tools Group operating margins rose 140 basis points to 19.5%. That 120 basis point improvement demonstrates clear progress, the benefits of Snap-on value creation, more effective higher margin product, streamlined product development and nice volume leverage internationally. Advancements in the Tools Group were evident in the overall OI improvement and they're apparent in our franchisee health metrics, the financial and

physical indicators we monitor and evaluate continuously. They remain favorable in important categories like franchisee turnover.

We believe our van network is growing stronger. I just visited several franchisees in the field and I can assure you that the confidence of those entrepreneurs was quite encouraging. And besides those interactions, during more formal discussions like, you know, our National Franchisee Advisory Council meetings, I heard similar comments. The people I spoke to are upbeat, very confident of their opportunity going forward. Well that's the Tools Group.

Now on to C&I, a 4.7% organic sales rise with higher critical industry activity and increased volumes at SNA Europe, and at our Asia-Pacific operation. For several quarters now the C&I businesses have demonstrated sales acceleration. C&I operating margin was 13.8%, flat versus 2016, with volume and RCI gains being more or less offset by the impact of our recent acquisitions. Importantly though, the industrial division showed strength, showed strong broad based progress across the critical industries with most of those sectors advancing in the quarter. We believe the improving macroeconomic conditions coupled with our array of great new products aimed at solving critical tasks is driving those favorable results.

Speaking of new products in the C&I Group, in the quarter C&I acquired Norbar Torque Tools. Headquartered in the UK, Norbar is a leading manufacturer of torque products offering a full range of wrenches, multipliers and calibrators. That acquisition complements and expands our existing torque line, extending our range up all the way to 220,000-foot pounds, more for the C&I team to sell to our customers in critical industries.

Norbar offers both the power torque and a strong lineup of manual torque multipliers. The latest in that line introduced in the second quarter is the MTMB740 Compact Manual Torque Multiplier. This tool features compact design with a multiplier head just 2.6 inches in diameter, enabling excellent access and easily handling, while still providing a five to one multiplication ratio up to

740 foot-pounds. In the Norbar tradition, its construction is robust, delivering long life and minimal maintenance. And it's ideal for use in tough environments like oil and gas, mining, power generation, railroad and heavy duty fleets in a range of critical industries.

Now C&I has been in torque for some time with our manufacturing facilities in City of Industry, California and more recently with our Sturtevant Richmond acquisition in Carol Stream, Illinois producing great products, selling to automotive, aerospace and other industrial customers. In the second quarter, our City of Industry team launched its ATECH Micro TechAngle quarter inch drive torque wrench, the smallest electronic torque wrench in the market, compact steel body, less than a foot in length and less than an inch in diameter and it weighs just under a pound. That compares with our, by comparison to our, standard ATECH quarter inch wrench at 16-1/2 inches in length, and 1.9 inches in diameter and weighing nearly 2 pounds. Engine compartments they continue to get smaller and tighter with each model year, limiting the access and reducing the work space. The slim design of our new ATECH allows technicians to reach fasteners that are recessed or obstructed, reducing the need to remove components and saving considerable time in the repair shop. And the product's short overall length enables a compact swing arc. That's very important in the tight spaces of modern machinery. We're excited about the compact quarter inch ATECH, access and accuracy in one package. We believe it's a clear winner and early results support that view.

Now let's speak about SNA Europe, positive trends in the uncertainty that is Europe. SNA Europe registered its 15th straight quarter of year over year sales growth. And profit, quarter two marked the 17th straight quarter of margin improvement. Defying the challenges over multiple geographies, roughly four straight years of favorable performance is helping the C&I Group advance in both sales and profitability. And in the quarter, Asia-Pacific operations had sales growth in countries like China and Taiwan, lower volume in places like India, mixed results by country, but positive results overall. C&I, turning in a promising quarter on broad gains and accelerating sales.

Now on to RS&I. Organic sales growth rose 8.3%. High single digit gains of diagnostics and repair information products to independent repair shop owners and managers, a high single digit increase with OEM dealerships, and a mid-single digit advance in under car equipment. . .growth across the board. And on a reported basis, including RS&I's \$22.5 million of acquisition related sales, volume grew 14.5% in the second quarter. Operating earnings of \$81.9 million increased \$7.4 million. The operating margin of 24.2% was down 100 basis points, but that was impacted by 120 basis points of lower margin in the acquisition. The broad organic growth was strong with independents and with dealerships and innovation and new product paved the way.

From the diagnostics division, our newest handheld offering ETHOS Edge, enhanced industrial design, faster response time, configured to match specifically the needs of new techs, those just starting out and working on a more routine maintenance task and light repair. The initial feedback on the ETHOS Edge is quite enthusiastic. In early sales they've exceeded our expectations. For the OEM dealerships, in the quarter RS&I introduced our latest version of the Nexiq branded Electronic Data Link or EDL3. It's specifically designed for the needs of agricultural repair technicians across the service network of a large OEM. This essential tool responded to a need to connect AG equipment in the field to the OEM's diagnostic software to access repair information in any environment. Snap-on solved the problem and made it happen. The EDL3 is just one example of our essential diagnostics program aimed at OEM dealerships and those were a nice part of RS&I's quarter. And under car equipment, it was also up mid-single digits with particular strength internationally, solid line of growth in Europe, and broad gains in lifts and balances. Under car equipment another positive quarter. So to wrap up RS&I, substantial achievement across the divisions, improving our position with repair shop owners and managers, continuing a very favorable trend.

So that's the highlights of our quarter. Tools Group lagging in sales, but C&I and RS&I both recording strong performances. Progress along our runways for coherent growth and clear

advancement down our runways for improvement. Overall sales increasing organically 2.7%. OpCo operating income margin of 19.9% up 80 basis points. EPS \$2.60, a rise of 10.2%. It was another encouraging quarter. Now I'll turn the call over to Aldo. Aldo?

Aldo Pagliari: Thanks Nick. Our consolidated operating results are summarized on Slide 6. Net sales of \$921.4 million in the quarter increased \$49.1 million or 5.6% from 2016 levels reflecting a \$23.2 million or 2.7% organic sales gain, \$38.4 million of acquisition related sales and \$12.5 million of unfavorable foreign currency translation. Foreign currency movements adversely impact our Q2 sales comparisons by 160 basis points. The organic sales gain reflects ongoing progress in serving the vehicle repair sector as well as more broad based sales growth to industrial market segments in our C&I Group and - more than we've seen in some time.

Consolidated gross margin of 50.2% improved 80 basis points primarily due to benefits from higher sales and savings from RCI initiatives, partially offset by 20 basis points of unfavorable foreign currency effects.

Operating expenses of \$279.3 million yielded an operating expense margin of 30.3% in the quarter, unchanged from a year ago, as sales volumes leverage and other benefits were offset by 70 basis points of operating expenses for acquisitions.

As a result of these factors, operating earnings before financial services of \$183.7 million increased 10.4% and improved 80 basis points to 19.9% despite the 70 basis point impact from acquisitions and 20 basis points of unfavorable foreign currency effects. Financial services revenue of \$77.7 million increased \$8.4 million from 2016 levels and operating earnings of \$54.6 million, including \$.5 million of unfavorable foreign currency effects, increased \$5.1 million.

Consolidated operating earnings of \$238.3 million, including \$4.9 million of unfavorable foreign currency effects, increased 10.4% and the operating margin of 23.9% improved 100 basis points from 22.9% a year ago.

Our second-quarter effective income tax rate of 30.6% compared to 31.0% last year. Finally, net earnings of \$153.2 million, or \$2.60 per diluted share, increased \$13.1 million or 24 cents per share, from 2016 levels, representing a 10.2% increase in diluted earnings per share.

Now let's turn to our segment results, starting with the C&I Group on Slide 7. Sales of \$310.0 million in the quarter increased \$24.3 million, or 8.5%, reflecting a \$13.3 million or 4.7% organic sales gain, \$15.9 million of acquisition related sales, and \$4.9 million of unfavorable foreign currency translation. The organic sales increase primarily includes a high single digit gain in the segment's European based hand tools business and a mid-single digit increase in sales to customers in critical industries which was generally wide ranging across the industrial end markets that we serve. Gross profit in the C&I Group of \$120.8 million compared to \$11.4 million last year and gross margin was 39% in both years. Operating expenses of \$78.1 million in the quarter compared to \$72.1 million last year. The operating expense margin of 25.2% was the same in both years primarily due to sales volume leverage offset by increased cost, including higher cost for research and engineering activities, and 30 basis points of operating expenses for acquisitions. As a result of these factors, operating earnings for the C&I segment of \$42.7 million increased \$3.4 million from 2016 levels. And the operating margin was 13.8% in both the second quarters of 2017 and 2016.

Turning now to Slide 8, second quarter sales in the Snap-on Tools Group of \$413.8 million decreased \$2.9 million or .7% reflecting \$2.1 million or .5% organic sales gain and \$5.0 million of unfavorable foreign currency translation. The organic sales increase reflects a double-digit gain in the international franchise operations largely offset by a low single-digit decrease in the US franchise operations. Gross profit of \$183.6 million in the quarter compared to \$182.1 million last

year. Gross margin of 44.4% improved 70 basis points primarily due to benefits from sales of higher gross margin products and savings from RCI initiatives partially offset by 50 basis points of unfavorable foreign currency effects. Operating expenses of \$103 million in the quarter compared to \$105.8 million last year. The operating expense margin of 24.9% improved 50 basis points primarily due to sales volume leverage in the international franchise operations. As a result of these factors, operating earnings for the Snap-on Tools Group of \$80.6 million, including \$3.2 million of unfavorable foreign currency effects, increased \$4.3 million and the operating margin of 19.5% improved 120 basis points.

Turning to the RS&I Group shown on Slide 9, second-quarter sales of \$338.1 million increased \$42.9 million, or 14.5%, reflecting a \$24.1 million or 8.3% organic sales gain, \$22.5 million of acquisition related sales, and \$3.7 million of unfavorable foreign currency translation. The organic sales increase was again comprehensive this quarter, reflecting high single digit gains of sales to OEM dealerships, and in sales of diagnostic and repair information products to independent repair shop owners and managers, as well as a mid-single digit increase in sales of under car equipment. Gross profit of \$158.6 million in the quarter compared to \$137.8 million last year and a gross margin of 46.9% improved 20 basis points as a result of 80 basis points of benefit from acquisitions partially offset by a shift in sales that included higher volumes of lower gross margin products. Operating expenses of \$76.7 million in the quarter compared to \$63.3 million last year. The operating expense margin of 22.7% increased 120 basis points principally due to 200 basis points of unfavorable impact from acquisitions, partially offset by benefits of sales volume leverage. Operating earnings for the RS&I Group of \$81.9 million, including \$1.2 million of unfavorable foreign currency effects, increased \$7.4 million from prior year levels. The operating margin of 24.2% decreased 100 basis points including a 120 basis point impact from acquisitions.

Now turning to Slide 10, operating earnings from financial services of \$54.6 million on revenue of \$77.7 million compared to operating earnings of \$49.5 million on revenue of \$69.3 million last year. Financial services expenses of \$23.1 million increased \$3.3 million primarily due to changes

in the size of the portfolio and an increase in the provision for greater losses. While total provision expense of \$13.4 million in the second quarter is up \$2.9 million year over year, it decreased slightly from \$14.3 million incurred in Q1. As a percentage of the average, portfolio financial service expenses were 1.2% in both the second quarters of 2017 and 2016. In both the second quarters of 2017 and 2016 the average yield on finance receivables was 17.9%. The respected average yield on contract receivables was 9.1% and 9.3%. Total loan originations of \$270.6 million in the second quarter decreased \$10.4 million or 3.7% year over year due primarily to a \$12.4 million or 5.1% decline in finance receivables originations resulting principally from lower year over year tool storage sales by the Snap-on Tools Group in the second quarter.

Moving to slide 11, our quarter end balance sheet includes approximately \$1.9 billion of gross financing receivables including \$1.7 billion from a US operation. Approximately 82% of our US financing portfolio relates to extended credit loans to technicians. In the second quarter, our worldwide financial services portfolio grew \$50.9 million or 2.7%. As for finance portfolio losses and delinquency trends, these are tracking somewhat higher year over year, but continue to be in line with our expectation and view of an appropriate risk-reward balance in this segment of our business.

As it relates to extended credit or finance receivables, the largest portion of the portfolio, trailing 12-month net losses of \$40.4 million represented 2.61% of outstanding's at quarter end, up 51 basis points year over year and 14 basis points sequentially. However, net losses related to finance receivables of \$10.8 million in the second quarter sequentially improved by \$.4 million from \$11.2 million in the first quarter. In addition, finance receivables more than 90 days past due stood at .9% of outstanding's as of second quarter end, which was also a sequential improvement from 1.1% at the end of the first quarter. The sixty-day delinquency rate of 1.4% in our US extended credit portfolio increased 30 basis points year over year, but it remains stable compared to the first quarter. Overall, profitability in the financial services segment rose by 10.3% year over year and improved \$2.1 million sequentially.

Now turning to slide 12. Cash provided by operating activities of \$127.1 million in the quarter decreased to \$35 million from comparable 2016 levels, primarily due to higher working investment partially offset by higher 2017 net earnings. During the quarter, we also elected to make \$15 million in discretionary contributions into our domestic pension plan, an increase of \$5 million as compared to Q2 2016. Net cash used by investing activities of \$138.6 million included additions to finance receivables of \$231.8 million, partially offset by collections of \$179.1 million. Capital expenditures of \$15.8 million in the quarter compared with \$20.6 million last year. During the second quarter, we also acquired Norbar Torque Tools. Based in the United Kingdom, Norbar, included in the C&I segment, is a leading European manufacturer of a full range of torque products and has a strong presence in the critical industries.

Net cash used by financing activities of \$23.4 million included dividend payments to shareholders of \$41.1 million and the repurchase of 535,000 shares of common stock for \$86.7 million under our previously announced share repurchase program. We saw opportunity in the quarter to step up share repurchase and did so at higher levels than usual. Year to date, share repurchases totaled 745,000 shares for \$122.5 million. These uses of cash were partially offset by higher short term borrowings, principally commercial paper.

Turning to slide 13, trade and other accounts receivable increased \$46.5 million from 2016 yearend levels, including \$15.4 million of foreign currency translation and \$7.1 million from acquisitions. Days sales outstanding of 66 days was up from 63 days at yearend, including the impact of acquisitions which increased DSOs by about one day. Inventories increased \$70.9 million from 2016 yearend primarily to support continued higher customer demand and new product introductions. Foreign currency translation contributed \$16.6 million of the increase, as did \$4.8 million from acquisitions. On a trailing 12-month basis, inventory turns of 3.2 compared to 3.3 at yearend.

Our quarter end cash position of \$89 million increased \$11.4 million from 2016 yearend levels. Our net debt to capital ratio was unchanged from 26.3% at 2016 yearend. In addition to our \$89 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. As of quarter end, we had \$83.5 million of commercial paper borrowings outstanding. That concludes my remarks on our second quarter performance. I'll now turn the call back to Nick for his closing thoughts. Nick?

Nick Pinchuk: Thanks Aldo. The Snap-on second-quarter. . . Tools Group, tepid growth, but having the advantages going forward of a strong franchise network and a robust market. C&I, accelerating growth, up mid-single digits, broad gains in the critical industries and the continuing upward march of SNA Europe. And RS&I, another high single digit quarter, up 8.3% organically, each division contributing to that rise confirming both the opportunities in automotive repair and our progress with repair shop owners and managers. The positives of C&I and RS&I combining to overcome the challenges in Tools making for overall organic growth of 2.7%. And Snap-on value creation driving improvement . . . customer connection, innovation and RCI authoring margin progress again. OpCo OI margins up 19.9% -- a rise of 80 basis points against currency and acquisitions. And acquisitions, presenting near term margin dilution but offering fertile landscape for Snap-on value creation and margin improvement going forward. It was a quarter in which we saw challenges, but overall we overcame and demonstrated growth and improvement again. EPS of \$2.60, up 10.2%. It was an encouraging quarter. And we're confident, we're confident that our markets have the opportunity, our businesses have the position, and our team has the capability to continue our ongoing positive trends and performance going forward.

Now before I turn the call over to the operator, I'll speak to our franchisees and associates listening to the call. The encouraging results of the second quarter reflect your capability and your commitment. For your ongoing achievements you have my congratulations. And for your

extraordinary dedication to our team you have my thanks. Now I'll turn the call over to the operator. Operator?

Operator: Thank you, sir. If you would like to ask a question, please signal by pressing Star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again that is Star 1 if you would like to ask a question. And we'll now take a question from Liam Burke with FBR Capital.

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

Nick Pinchuk: Good morning Liam.

Liam Burke: Nick could you give us some color on diagnostic sales and what the innovation or new product pipeline would look like in that area of the business?

Nick Pinchuk: Well, you know, we don't like to give away.

Liam Burke: Right.

Nick Pinchuk: We don't like to give away the secrets that we're going to roll out say at the SFC or so on because we like to electrify the people who go there. I just talked to a franchisee in California who said he likes to get the fever when he goes on the floor, so we want to have that. But look, our thermal imager is still selling well. That's still got legs. You know, that's the new category that's going well. Overall, you know, in the Tools Group the diagnostics category was up I think mid-single digits in the US, the US numbers. I have those. So that wasn't part of this say malaise. And even in that we saw destocking. So it would have been up bigger without the – without what we perceive to be destocking.

So you have that and you have had the ETHOS which is the next level. We keep refreshing the platforms. Remember there are four levels of platforms, ETHOS for the entry level tech, SOLUS for the guy who kind of works on brakes and does a whole bunch of other little bit more sophisticated jobs, MODIS for the guy who really works on the more complicated jobs, and VERUS for the guy who works on those things that only happen on alternate Mondays. So we're going to – we rolled out the ETHOS and we're bringing out some new wrinkles in the SFC. But the ETHOS has just come out, very early days. We have it in the script here but, you know, that's only been selling for a little while. But the first numbers are pretty good. It was up nicely in the second quarter.

Liam Burke: Okay. And on the Rock N Roll van you said you were going to go back and do some things differently. What would you anticipate doing to improve the space constraint that the van drivers would have on some of the products?

Nick Pinchuk: Sure. You know, one of the things is that, you know, when we saw these results I decided to talk to a bunch of franchisees. So in the last couple of weeks, I don't know when we got the results but let's say a couple of weeks ago, you know, right away I met with guys from Illinois, Wisconsin, Indiana, rode some vans in Arkansas and Texas, talked to guys in New Hampshire, Florida and California, and almost everybody said that the Rock N Roll Cab had lost some of its excitement. So it's a matter of - it's not really the function Liam. It's having people get on the van and saying oh this is something different. It's an experience. I want to get the – I want to get on the van and experience because that's what they did before.

So we'll do stuff like we'll wrap it differently with some of our new [??]. We'll re-organize the toolboxes. We'll try to put some more spiffier stuff on in terms of the boxes on the van. So as to say it's a matter of this, when the technicians were getting on they were – what we were getting feedback on, they were getting on saying, you know, I saw this. Now some of the guys bought because they looked at the boxes but other guys were kind of saying I've been there, done that.

So we're going to try to make it a different experience, move around some of the floor plan, maybe kind of put on a little better computer aids, things like that. So I think it's really to change the, I want to say the cosmetics of it more than anything else, so people feel as though they're getting a different experience.

Liam Burke: Great, thank you Nick.

Nick Pinchuk: Sure.

Operator: We'll now move to David Leiker with Baird.

David Leiker: Good morning everyone. How are you doing?

Nick Pinchuk: Good morning David.

David Leiker: Great. A couple things I'm trying to I guess I'm trying to slice the business up a little bit to get a little deeper understanding of some of the pieces. Can you talk within...you know, first of all you said on the Tools side that there was de-stocking. Is there a way to characterize what the sell off the truck volume was during the quarter?

Nick Pinchuk: Well, you know, look I don't think we want to get pinning down that variable but...

David Leiker: Yes.

Nick Pinchuk: ...what I'll tell you it's sort of like this. You think about it this way, tool storage was down fairly significantly even off the trucks, but less so than we had okay?

David Leiker: Yes.

Nick Pinchuk: That's why we say tool storage, the product line, we believe it needs a refresh. We think that we need the marketing, the Rock N Roll vans need something that helps. And so we're working on that. If you look at everything else, if you take everything else, you know, like the, you know, two types – you're very familiar with this, EC, the finance stuff and the RA stuff, the stuff that the - what we know is the stuff that the franchisee sells under his own credit like, you know, hand tools, and power tools, and shop and tech, and some portions of diagnostics, that was up, fairly significantly, towards the top of the ranges that we expect to see from the Tools Group.

So we would've classified that as a fairly robust quarter looking at the sales off the van. That didn't translate into our sales though. Our sales were quite mixed in those categories and quite tepid. So what we – and, you know, you talk to the franchisees and what they said was and it makes sense is that, you know, always July is our worst, you know, our lowest quarter because people are getting ready.

But what's happened over the years is, more and more, the ordering is taking place in these bursts. That doesn't mean the second quarter becomes, you know, incandescent but they're taking place at these bursts. And so I think they're being more aware of the need to kind of get ready for those orders. Last year the orders in the SFC were up quite strongly and the year before as well. So what's happening is, is that they're bleeding out of July into June. That's what happened. I mean we saw a significantly weaker tail end of June then we have seen in the past.

David Leiker: Okay. And then the other item you had mentioned it a couple of times in your call and, you know, obviously it's a topic going on in the marketplace today, but can you talk about the changes to the terms you did with your franchisees on the credit side, how frequently you make those changes just some additional color behind that?

Nick Pinchuk: We make them about every - we make them pretty much every year, some kind of changes. And I think, you know, since 2009 or '10 we've made them - we've made significant changes in most of the years, in a lot of years. So that happens. What you do is you look at how people are performing, you say how's the business, you know, how are the franchisees who are a big active part? You try to restructure the program so it guides them to get the best out of their opportunity. And that's what we did. And so that had some, you know, initial impact because, you know, we identified some customers who were weak - weaker and we said some of the franchisees aren't having some of the greatest results and that. So we striped it so that those franchisees would be focused on those guys and really couldn't deal with them as much, whereas other guys we had lots of faith in and we let them deal with those - that same category. That was the restriping pretty much.

David Leiker: And then the last item here again on the credit side if we could...

Nick Pinchuk: Yes.

David Leiker: ...talk a little bit about, I mean you can tell by the yield that clearly if you go back a couple years you took in some higher risk customers, you know, and some of that was after, you know, CIT exited from funding of the credit company. Recently that seems to have backed off a little bit. Can you talk a little bit about what those credit losses are and that pool of higher risk customers - when we'll see those flow through the credit losses in terms of peak loss period?

Aldo Pagliari: David it's Aldo. I think you're seeing that now when you look at the year over year of differences in the rate of revision and the rate of charge offs. And I don't think that you're going to see a decline in those rates so to speak, but I don't think you'll see an acceleration either. And I think if you look since the start of the year there's been rather a good amount of stability, so it's rather a constant amount. So the portfolio constituents are more or less where they're at right now and I don't see that changing very much. I think the franchisees are always adjusting, as

Nick suggested, to the facts and circumstances that they face on the street each and every day. But the portfolio losses right now are more or less stable throughout the year at least year to date.

David Leiker: Is it fair then to say – I'm going to jump to the conclusion – but is it fair to say, with that commentary, that credit profile, credit risk profile of the people who are coming into the credit side on the origination side are similar to what the overall pool is today?

Aldo Pagliari: Yes, it's a hard question to answer because you have a – half the portfolio whose customer FICO scores are improving and the other half of the portfolio that actually might be a little bit less than improving. So if you look at the mix overall the average FICO score of the portfolio has been rather consistent, but there's goes in and goes outs as we change and flex over time, but not dramatically.

David Leiker: Okay great. Thank you much.

Nick Pinchuk: Sure.

Operator: We'll now take a question from Scott Stember from CL King.

Scott Stember: Good morning guys.

Nick Pinchuk: Good morning.

Scott Stember: Could you maybe talk about the timing of when comparisons in the Tools Group get a little bit easier, most notably with regards to tool storage? And then maybe secondarily just talk about some of these changes in the vans, making them a little bit more exciting, you know, increasing traffic into the vans for tool storage when that will actually start to take place? Thanks.

Nick Pinchuk: Sure, look I don't know. Look I don't think we ever think we have easy comparisons. I think we kind of look – I mean okay the comparisons are easier but they're up .5%. This is their best second quarter ever in terms of sales. I mean the increase wasn't the best but and the profitability is the best ever so I don't think we think in those terms.

I think the question is how are you going to restart – it's clear to us that the primary factor in the say like slim situation in tools was tool storage. So, first is product. You know, tool storage is the most – is among the most discretionary things. You've got to excite people. They've got to want it. They've got to aspire to have it. We're working at...the SFC will come up, you know, in early August we'll be launching a whole bunch of new product at the SFC to try to roll people and excite them.

We tried some of that in the second quarter, some of it worked. It wasn't enough. And then the tool storage and the vans, the Rock N Roll Cab there are I think 67 of them. So what we will do over the next say, you know, quarter will be developing a - or in this quarter let's say we'll be developing possibilities for the new van. We'll probably test some of them. And then we'll roll them out, whatever works best. So it'll be a test period, development period, a test period and a rollout period. You know, and you tend to roll them out so you should start seeing some of that as, I don't know, toward the later end of the year – – things like that. But first is product. The first factor is product. The first factor is product.

Scott Stember: Got it. And just last question you talked...

Nick Pinchuk: Yes.

Scott Stember: ...yes sure you talked about the sell through on the vans...

Nick Pinchuk: Yes.

Scott Stember: ...I guess outside of the – outside of tool storage as being relatively strong or actually to the high end of your what you look for. Can you maybe just give us a flavor of how high that was just to give a comfort level to...

(Crosstalk)

Nick Pinchuk: Well I say...

Scott Stember: ...you know, how strong the business is doing?

Nick Pinchuk: Look at. Look at. I say that Snap-on should grow at 4% to 6%. I've said this for a dog's age. That's my range. So I'm talking...

Scott Stember: Got it.

Nick Pinchuk: ...the end of that range. You know, that's the kind of thing we talk about right? Okay.

Scott Stember: Perfect. Thank you.

Nick Pinchuk: Sure.

Operator: We will now take a question from Gary Prestopino with Barrington Research.

Gary Prestopino: Hey good morning all.

Nick Pinchuk: Good morning Gary.

Gary Prestopino: A couple of questions. On the C&I Group I think you said that, you know, you had some pretty good sell through there on hand tools and then across various markets, but I'm wondering, were all of the markets within the C&I Group, is this one of the first times where you've really seen up sales year over year? And I'm particularly interested in if some of those laggard groups like military and energy are starting to regenerate.

Nick Pinchuk: Well energy – look natural resources was up.

Gary Prestopino: Okay.

Nick Pinchuk: Natural resources generally, that sort of natural resource segment was up. The, you know, international aerospace which had been a laggard was up. We were very pleased to see that. Military actually was flat. I kind of view – well kind of flat, it was up a little bit. I kind of view that as a positive Gary because the thing is military, you know, as you know it's kind of lumpy and it had been dominating our quarters, so actually last quarter was sort of the same kind of thing. We had broad growth this time with military not so much a factor in the growth situation. And this time the same thing was the case. So this was a very healthy quarter, you know? And you're seeing acceleration in Industrial. C&I's numbers, you know, if you go back and look at them you see that, you know, four quarters ago, 1.5%, 2.4%, 3% and 4.7%. So, you know, people if you look at this, other people have looked at the segments and say well there's some deceleration. Well this is acceleration. And so that's pretty positive. And the nature of that's been pretty good and Industrials been up higher than that.

Gary Prestopino: Okay. And then, you know, some of the strength you're seeing in the RS&I Group with diagnostic equipment and other equipment really more pertaining to diagnostic, do you feel that that's a function of really rolling out some of these newer products? And in conjunction with that you're starting to get, you know, some cars that are four or five years old that had maybe a higher

technological content than the cars that were ten years old flowing through in the – to the independent repair shop market?

Nick Pinchuk: Sure. There's a – I don't want to shortchange some other factors in there, but if you're looking at diagnostic it's a great tailwind. The increasing need for diagnostics to create repair, you know it as well as I do is that, you know, 40% to 50% of repairs on cars today require diagnostics, that's of all the cars, 11-1/2-year-old average car fleet. But if you look at new cars it's 80% of the repairs. So there's an increasing demand. You hear it in the shops when you go around. We have the best alternatives.

So you see our new products rolling out, exciting customers, solving their problems against the backdrop of their needs, that's partially what you're seeing. And diagnostic was up nicely in that quarter. But I wouldn't want to shortchange Mitchell which is a purely software business which provides repair shop management and provides repair information, you know, the - our SureTrack database with the 1 billion records that only we have of repair shortcutting repairs. That was up big in the quarter, nicely in the quarter. So you take those two things I think RS&I in general is in a situation where the tailwinds are only intensifying and we're the best game in town.

Gary Prestopino: Right thanks. And then the last question really pertains to the tool storage and, you know...

Nick Pinchuk: Yes.

Gary Prestopino: ...you've got - you say you're going to refresh the product, refresh the vans. When was the last time that you actually did something like this? And then how long after you refreshed did the sales start reinvigorating themselves?

Nick Pinchuk: I don't know. We didn't refresh. We launched the tool storage vans and this is -you've got the first, you know, when you launched probably I think it was fair to say we had some periods where we were adjusting. But really they've been pretty much the same since we launched like five years ago.

Gary Prestopino: Okay.

Nick Pinchuk: So we haven't had that - in this kind of fleet. We hadn't had this kind of fleet. This was a brand new idea. You remember I said it's the kind of idea that came to the Tools Group guys. We thought it was brilliant. It accelerated tool storage sales. But, you know, now it's kind of run out of mojo. Now...

Gary Prestopino: Right.

Nick Pinchuk: ...it's still generating some sales but franchisees are telling me that what they used to generate is now half of what they generated when they get these guys in their routes. So we need to pump them up. But this is why we have managers, to figure this out. That's what we do.

Gary Prestopino: I - yes I guess what I was getting at Nick is there something on the product side that you're - you've, you know, do you go - refresh every five years understanding...

Nick Pinchuk: Oh no, no.

Gary Prestopino: ...like how...

Nick Pinchuk: No I think...

Gary Prestopino: No?

Nick Pinchuk: ...we try to. What happens is, Gary, we try to roll out new product at the SFC or the kickoffs every year. This year we're particularly energized to do it. And that's...

Gary Prestopino: Okay.

Nick Pinchuk: So you can see sales, you can see ordering pretty quickly from the franchisees. And you can get a feeling for that pretty quickly at the - at, you know, how good that works. The question is, is it going to play out into the marketplace? So there are two levels, getting the franchisees interested and then having the technicians look at and say hey I've got to have that box. I've already got a box but I've got to replace mine.

Gary Prestopino: So I guess the question I would have is relative to new products or product refreshes that you, you know, you bring into these - this annual meeting that you have, on the tool storage side, have you done more in terms of maybe intro or refreshing product then you would usually do in...

Nick Pinchuk: We're doing more in tool - we're doing more - we're certainly going to do more in tool storage at the SFC this year than we have done in the past. The thing about the SFC though, no matter how much the SFC orders are, remember they're ordering for like six months.

Gary Prestopino: Right.

Nick Pinchuk: So it doesn't happen immediately right?

Gary Prestopino: Right.

Nick Pinchuk: Okay, but we're doing more sure. This is the whole thing. We think the product line is weak. We do, you know, it's not doing. We've got to pump it up.

Gary Prestopino: Okay, thank you.

Nick Pinchuk: Hey sure.

Operator: We'll take a next question from David MacGregor from Longbow Research.

David MacGregor: Yes, good morning everyone, just two questions here for you. Nick could you just talk about the destocking and the extent to which, you know, that may be related to some of the changes you made in the credit business?

Nick Pinchuk: We don't think it's that – we think the credit is – well the destocking is something completely different. The destocking is we think, you know, I think I tried to – this is my view David is that look, and I think it's our view here. There are two factors we're talking about in the Tools Group, destocking and the weakness in tool storage. Destocking is a completely different thing. The destocking is there driven by the size of the orders that are occurring in the SFC and the feeling that our people want to clear the decks. This is happening in every product line, not just tool storage. So from our perspective, you know, that's not really a factor there. If you come back to the tool storage sales you could argue, and I think I did say that, you know, it was a tertiary effect. So we don't believe it's the primary driver but restriping, you know, had some initial effect on this for sure, but we don't think it's the primary driver when we look at the numbers.

David MacGregor: Okay, second question is on margins in the Tools segment which were, you know, pretty darn good. I guess, you know, if you just talk about the strength at 19-1/2% and just given the flat top line and how we should think about your ability to maintain this level of margin progression heading into the second half of the year?

Nick Pinchuk: Well I think a couple of things are in there. First is that, you know, if you go back and you look at our numbers it's not, you know, if you look at our numbers by division, it's not unusual to see that kind of growth. You know, it isn't necessarily directly proportional to the volume. I mean we have RCI products and new products that roll out that are a lot more capable, add a lot more value and therefore higher margins as they roll out to the industry. So it really plays out how long those new products and how many new ones we rollout how – and how effective they are. And then in this particular – so in this quarter in that area we had things like this the PT850. I think I talked about it last time, our new half inch impact wrench, very, very popular product. In the atmosphere of tepid sales, that one sold very well with nice margins. I talked about the long-handled ratchets that had flex heads and were – gave great leverage and also great – gave great access that sold and better than - great margin.

And these margins transform their categories in terms of margin. What happened in the destocking in a lot of situations is some of the more standard and core product didn't sell as much because they were the products that were already on the van. And so that was the - perhaps lower margin. So it skews the thing towards there. And then we had good leverage in the way they, you know, our businesses were stronger internationally than they were in the US. And the compensation in the international is a little bit different so we tend to get a little bit more leverage and drop through, you know, volume leverage out of the volume. So that's what made for that. I think it's hard to say, you know, what the sustainability is of this but we believe, I've said this over and over and over and over again, that we believe we can drive margins up absent volume increases, and if you look at our numbers, 19.9% ain't chopped liver.

David MacGregor: Yes, no it's great.

Nick Pinchuk: Right. It's our highest ever. And so - and you go back and you look at this quarter, you know, for example this quarter is very similar to, you know, last 20 quarters, nine quarters were

similar to this, and we grew 100 basis points or more. So I really believe - maybe the 19.5 isn't sustainable every quarter. But it's an indication we can reach that level and we keep going off those levels. That's our history.

David MacGregor: Just a couple of quick follow-ups here. The storage growth, I don't want to beat this thing to death, but Aldo in his discussion of the originations mentioned that there'd been a \$12.4 million decline in originations, related to storage, 5.1%. Is that a good proxy for how we should think about the extent to which storage was down year over year?

Nick Pinchuk: No. Storage was down more than that.

David MacGregor: Can you quantify that for us?

Nick Pinchuk: Right, well, storage was down double digits for – so what I'm – I don't want to get confused here because I spoke probably for the first time on this call about sales off the van. Don't get confused about sales off the – I'm talking about our sales. Storage was down double digits. And so that played out into a, you know, different, lower originations. But remember in originations, originations are the franchisee sales. There storage was down, but not as much. And then you also have in that, you have other products like diagnostic units and other things like that. So it's hard to make that characterization but I just, tool storage was, you know, painful.

David MacGregor: Yes. And last question just on the originations. With originations maybe set to go through kind of a negative growth pattern here for at least the foreseeable future, this would presume that you've got a little more free cash, sort of discretionary use of free cash flow. You were jacking up your share repurchase activity this quarter which was good to see. Do we expect to see that pattern maintained going forward? Do you sort of lean a little harder into the repurchases as a use of cash?

Nick Pinchuk: Well I think, you know, we're always discussing the use of cash. And we've always said I think that, you know, you have investment in your business and you have acquisitions, you have a dividend and of course share repurchase is part of that. So we always consider that in the context of the cash availability, the authorizations we have from the board and the attractiveness of the, you know, the pricing.

David MacGregor: Thanks Nick.

Nick Pinchuk: Sure.

Operator: We'll take our next question from Bret Jordan with Jeffries.

Bret Jordan: Hey good morning guys.

Nick Pinchuk: Good morning.

Bret Jordan: A question on the destocking discussion. I guess the franchisees have a minimum, you know, balance requirement anyhow. How close does the average franchisee run to his minimum balance? I mean how much more potential for destocking is there or are we really sort of at a - are we going to find some base relatively soon?

Nick Pinchuk: Hey look I think this. I think we're going to see destocking through July, you know, beyond - then they're going to come up to the SFC. This destocking I don't think it was - it wasn't - I don't think it was driven so much by people saying I got too much inventory. It was driven more by the idea that the ordering patterns are migrating toward big orders, more, toward big orders at the buy, you know, twice a year events. And they order these things because they, like I said, the franchisees get on the floor, they get the fever and they - they're able to for the first time touch

the product and they order the packages, they see the new product and they tend to order more. And these things Bret get delivered for like six, eight months after that.

So the lower they are, you know, the better, you know, the more stabilized they are going into that they're starting to realize the better off they are to manage that six to eight-month delivery pattern that they've signed up for when they go into these places. That's what's happening. So there's a little more ordering happening at the big event unless maybe on the whatever the monthly events are. We have monthly events. And so I think that's what you're seeing. And because these SFCs have been so, it's what I'm hearing, because the SFCs have been so successful people are bringing it down. I don't think they're thinking that oh I'm choking on inventory.

Bret Jordan: Okay. And I guess in your inventory you talked about growth around new programs and future customer demand. Can you talk about the categories that you're growing? Is this RS&I inventory that you're building up because you're seeing so much strength there or is this some increase in your inventory as you've seen a little bit of a destock but you're building inventory with the expectation that they pick it up in the current quarter?

Nick Pinchuk: Yes. The answer is for both of those. Look I think, you know, we saw some destock but we're kind of, you know, confident that, you know, as the SFC rolls out that inventory is going to be quite useful. That's what we're building for - building toward. The RS&I business, it is smoking, doing well. You know, so I mean the thing is in RS&I in some cases we can sell, you know, we can – we want to have inventory because we have quite a good demand. And even in the Tools Group really, I mean we sold, I believe, we sold every PT850 we could build this quarter. So I mean the thing is, you do have this kind of thing, so we're happy to have some inventory going into the SFC for that kind of thing.

Bret Jordan: Okay, and then on the last call we talked about running a special sort of tool color program that was going to drive incremental demand. Have we rolled that out yet or is that something that is coming in the current quarter around this big event?

Nick Pinchuk: No, no. We rolled it out and it worked but it didn't have enough effect. You know, we rolled out a special color and we had a couple of split top boxes, a couple of minor changes. We did it as quick as we could because we, you know second quarter we weren't quite ready for it, so we rolled that out and it worked pretty well. It was a purple box. Now we have a number of different things like, you know, different mechanisms for the box, different power configurations for different product lines, different all - an array of more colors that come out at like an SFC. So it's a much more comprehensive thing.

Bret Jordan: Okay. And the housekeeping question for Aldo. On corporate expense I think a couple of years ago maybe you guys had given some – a range of guidance like 90 to 100 and we keep coming in below that. Should I think about future corporate expense being closer to what we're seeing this quarter or does that old guide still hold?

Aldo Pagliari: I think the guide holds Bret but this year we're trending towards the low end of that range. So the 90 is about a good target. The reason we had made a little bit of progress this quarter is every second quarter we true up our pension calculations working with our actuaries. We got a little bit of good news that accounts for most of the year over year improvement this quarter when it comes to that. Then as you roll forward, you don't have quite the benefit of that onetime adjustment, so anyway corporate expense is trending maybe more towards 90-ish.

Bret Jordan: Okay great. Hey thanks a lot guys. I appreciate it.

Nick Pinchuk: Sure.

Operator: We'll now take our next question from Christopher Glynn with Oppenheimer.

Christopher Glynn: Thanks, good morning. Yes, on the, you know, tightened credit a little during the quarter, saw that in originations and tool storage. I think there's probably a relationship there. Would we expect a bigger impact in the third quarter, you know, with a full period of the tighter credit practices?

Nick Pinchuk: Well you'll have – I think we have two months' worth in this quarter where you'll have three months then. On the other hand, you have offsetting that, anytime you make a change in credit people tend to be – take a little time to try to understand the new rules more with more clarity. This is just a fact. So I don't know, you could, because you've got one more month. On the other hand, you'll have people operating with more clarity so I'm not so sure. I – in any case we don't expect a huge impact.

Christopher Glynn: Okay.

(Crosstalk)

Aldo Pagliari: I think it depends on what...

Christopher Glynn: On the inventory it sounds like you are sort of anticipating a tail off of that. Do you think that the tools growth rate has probably put in a bottom here?

Nick Pinchuk: Well I can never comment. I hate to do that because, you know, many times I've been humiliated by saying I thought the things were over. But look, you know, we're not – this is a very slim quarter for the Tools Group. And I know they're going to work pretty hard to try to energize their tool storage business. And we think the market is strong, so we'll see how that plays out. I guess I can't make any predictions, but I think this is what we do. We revitalize product. We

change marketing. This is the kind of things the Tools Group does and over the years they've been pretty good at it. And so I'm confident in them. But I can't make any predictions on a quarter to quarter basis. That's difficult to say. I'm pretty confident though that the Tools Group is a - over time is, you know, in that range of 4% to 6% I'm very confident of that.

Christopher Glynn: Okay thanks. And last one I was going to ask about to Aldo how long he thinks that might cycle through this sort of increasing trend of charge offs? But it sounded Aldo like you thought that that trend has kind of matured at this juncture.

Aldo Pagliari: Yes I think the kind of level of charge offs and provisioning we're seeing right now will be reflective of what we'll likely see in the second half. You never know with certainty of course. But like I said the movement among the credit company's portfolio has been rather stable at this point in time. So will it go back to the - a level of provisions and what we had a year or so ago, probably not. At the same time, I don't see it accelerating.

Christopher Glynn: Great, thanks for the good call.

Nick Pinchuk: Sure.

Operator: And that concludes our question and answer session. I'd like to turn the conference back to Ms. Kratcoski for any additional closing remarks.

Leslie Kratcoski: Okay, thanks Anna. And thanks everyone for joining us today. A replay of the call will be available later on [snaon.com](http://snaon.com). And as always we appreciate your interest in the company. Good day.

Operator: And once again that does conclude today's conference and we thank you all for your participation. And you may now disconnect.