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SNA - Q3 2014 Snap-On Inc Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Snap-on Incorporated third-quarter results call. Today's conference is being recorded. At this time, I would like to turn the call over to Ms. Leslie Kratcoski, Vice President Investor Relations. Please go ahead.

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

Thanks, Ryan, and good morning, everyone. Thanks for joining us today to review Snap-on's third-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 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 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.

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

Nick Pinchuk - *Snap-On Inc - CEO*

Thanks, Leslie. Good morning, everybody. As usual, I'll start with the third-quarter highlights, provide an update on the environment, and speak a bit on the trends. Aldo will then provide a detailed review of the financials.

In the third quarter, we again showed progress along our runways for growth and for improvement, and we saw those gains across all our business segments. Sales were up 7% from last year, 5.6% of acquisition related volume coupled with a 6.2% organic rise. Our operating margin before Financial Services reached 16.2%, up 140 basis points. When you add the $37.7 million in operating earnings from Financial Services, which increased from $31.6 million in 2013, the consolidated operating margin was 19.6%. And EPS, that was $1.76, up $0.33, or 23.1%, from the $1.43 registered just last year.

For our automotive related businesses, the environment, it continues to be favorable. Actually, it's been this way for a while and our Tools Group and our Repair System and Information, or RS&I group, are both well positioned to take advantage. You can see that in the performance. Another quarter of solid gains for both groups. Clearly, the enhancements to the franchise network and our expansion with dealerships and independent repair shops are driving the continuing positive trend.

In the Commercial Industrial group, in the Commercial Industrial, or the C&I group, there was also direct evidence of growing strength. SNA Europe activity increased again, now up three straight quarters. The Industrial division, critical industries, grew by double digits, showing gains in both the US and internationally. And the bellwether emerging markets of China and India, they also registered a quarter of relatively robust progress.

Now, as in past periods, C&I does have some headwinds. The European economies are mixed, with particular turbulence in East. The US military, somewhat recovered from its prior lows, is still uncertain territory, and various Asian countries can be impacted from time to time by local conditions, elections, or changes in economic policy, like the new tax levels in Japan. But you know, there will always be headwinds. They have been a factor in each of our quarters for some time.

They were present again in the third quarter and we overcame because we are well positioned to confront the challenges and proceed down our runways for growth. Enhancing the franchise network, expanding with repair shop owners and managers, extending to critical industries, and building in emerging markets. These do represent avenues for considerable advancement, and there has been clear and consistent progress along each of those paths, and the third quarter is more testimony.

At the same time, those growth drivers are joined and supported by the benefits of Snap-on value creation, safety, quality, customer connection, innovation, and Rapid Continuous Improvement, or RCI. These are the processes, the tools we use each and everyday to drive improvement. Our quarterly results, the increases in operating margin demonstrate progress along each of these dimensions, but this quarter, especially in customer connection and innovation.

Customer connection. Snap-on's continuing pursuit of repair shop insight, the understanding of customers' work based on the hours and the days we spend with working men and women. Innovation, taking that practical insight and matching it with a keen understanding of what's made possible by modern technology. And in the quarter, those processes resulted in three prestigious product awards, all evidence of Snap-on bringing together the practical with the possible for good effect.

We were again honored with the Motor Magazine Top 20 Tool Award. The winner this time was the two-piece impact swivel extension set, created to assist technicians with difficult to reach fasteners like transmission bolts, drive-line bolts, cylinder heads. It's laser-welded pivot pin allows for smooth, full 30-degree swivel action and more efficient power transfer, great for those difficult bolts and heads in tight spaces. It clearly makes critical work easier.

Snap-on also received two Professional Tool and Equipment News Innovation Awards for the semi-deep flip socket in the hand tools category and for our digital video borescope, the BK6500, in the inspection tools category. Our flip socket saves technicians time. The convenience of using one tool to remove the two most common sizes of under body fasteners, it speeds up things in the shop. We see it. I have mentioned this tool before. The P10 award is just another accolade for what has turned out to be a very popular offering and a great example of customer connection combining with innovation.

Also recognized by the P10 was our new BK6500, digital video borescope, offering a true digital image and the largest viewing screen in the market. It diagnoses internal engine problems, inspects door panels, checks for corrosion inside radiators, examines brake pad wear, and looks inside transmissions and axle housings, all time-saving activities. I mention these awards because they're just the most recent recognitions of a growing list of popular hit parade products that provide unique customer connection and guided advantages, fueled by the observations of our franchisees and direct sales people, all committed to connecting with our professional customers and translating that insight into productivity innovations and Snap-on advantage. And all of that shows in the results of each group in the third quarter.

Now I'll focus on those individual groups. Let's start with C&I. Let's start with the Commercial Industrial group. Organic sales were up 9.4% with sales to customers in critical industries leading the way. Operating margins reached 13.7%, up 60 basis points from last year's 13.1%. Volume growth and the benefits of Snap-on value creation. And customer connection had a hand in those C&I results as well. Our Industrial direct salesmen recognize the difficulty of torquing large fasteners in the constrained spaces so common to power generation plants. Our engineering team used this insight to develop a revised torquing process, utilizing a special compact torque wrench configured specifically for close quarters. The new process makes work easier, makes tasks easier for professionals all over the critical power generation industry, courtesy of Snap-on customer connection and innovation.

Speaking of critical industries, broad progress was clearly evident in the quarter. Power generation activity, aerospace volumes, shipments to natural resource customers, and sales to the US military, all critical and all up by strong double digits. Let's talk about the US military for a moment. Entering the year, it had been a headwind due to budgetary constraints, but a recent resurgence is cause for guarded optimism. With that said, the availability of future government funding and the timing of order activity remains difficult to predict, and so the overall trajectory of military sales is still uncertain but it's been improving.

As for SNA Europe, that operation recorded overall gains again, our fourth straight quarter of growth, and it continues its positive trajectory of profitability. Operating margin was up again this quarter, well outpacing volume. Not only leveraging the additional activity, but realizing the benefits of RCI and past restructuring activities. SNA Europe, strong. So that provides a bit of color on C&I.

Now onto the Tools Group. Organic sales up 6%, significant growth in the US and internationally. Operating income in the quarter of $49.5 million, compared to $41.9 million in 2013, operating income margins of 13.9% rose 130 basis points from last year's 12.6%. The additional volume, as well as the operating improvements from RCI, translated into significant margin gains. When you consider the root of the Tools Group success, some of it can also be found in the growing power of Snap-on value creation.

I've spoken often about the Rock 'N Roll Cab Express vans. Enhancing the franchisees' sales opportunities through expanded space so we can display the full range of tool storage products to customers. If you have been following these calls you know it's been working, and the third quarter was no exception. But beyond the selling assist, the Rock 'N Roll vans have served as a valuable platform for customer connection. We've uncovered a wide range of tool storage innovations for trim, drawers, colors, and other features, all from the interaction on the van. A recent example is the newly introduced super-wide drawers now installed as a popular option in the EPIQ tool storage line. The idea came from the Rock 'N Roll vans and now it's a big seller helping to stoke the Tools Group growth.

Third quarter is also when we hold the annual Snap-on Franchisee Conference, our SFC. This year was in Orlando. More than 8,000 attended. Principles from over 3,000 North American roots and their families and their guests. Product showcases, business seminars, new van operating programs, all designed to build franchisees' success. And in a follow-up survey, the franchisees almost unanimously recommended participating in next year's conference, a great endorsement. But beyond the formal survey, beyond that survey, I was there myself. I spent time with many franchisees and I believe I have never seen them more positive about their presence or with greater confidence in the future.

The Tools Group. Award winning products, unique mobile demonstration vehicles like the Rock 'N Roll Express, and motivated and committed franchisees. We have made it a priority to invest in the franchisee proposition and it's showing in the third-quarter results. When we speak of the van channel, we also must consider the strategic contributions of Snap-on credit. Our Financial Services arm helps create opportunities across our organization, but especially within the Tools Group. Credit had a strong presence in Orlando at the SFC, supporting franchisees with innovative new programs aimed at enabling sales of those big ticket items which are so essential to franchisees' success. And if you look at the numbers, Financial Services OI up $6.1 million or 19.3% in the quarter, you know it's working.

Now let's move to RS&I. Total sales were up 7.3%, 4.4% organically excluding the Pro-Cut acquisition. The operating margin, 23.3%, increase from 22.9% last year. The volume gains came primarily from higher sales and essential programs to OEM dealerships, and from increases in diagnostics and repair information products serving independent repair shop owners and managers. In the third quarter, the RS&I group, through our equipment solutions division, expanded our profile within automotive dealerships with several essential tool programs supporting vehicle launches, including new models and redesigns of existing platforms.

Equipment solutions also provided new essential diagnostics for a specific repair campaigns. One designed to identify electrical issues and the other to isolate causes of vibration and noise. New essential programs for dealerships launched in the quarter and helping fuel RS&I growth. Serving independent shops, Mitchell 1 again recorded significant gains with its heavy duty repair connect product, securing business with several new key customer networks. Repair connect provides a complete range of truck repair information and solutions for independent and fleet truck shop, and it is becoming widely embraced across the heavy duty market place.

Customer connection also played a large role at RS&I in the quarter. For example, for under car equipment repair shop insight guided the development of a communication link between our wheel balancer and customer information networks. Unique data such as tread depth and radial and lateral run out can now be shared directly with the customers' database. And in the quarter, this feature was the deciding factor in converting a large German supplier of wheel logistics to the Snap-on balance of line up, and there are many more similar examples.

We also introduced our more recent acquisitions to international customers at Automechanika, the bi-annual automotive industry event held during September in Frankfurt. Challenger Lifts were presented at the show for the first time as part of the Snap-on family and they generated broad interest with a wide range of customers from diverse geographies, signaling a new international opportunity for that product line. Pro-Cut was also introduced at the show as a Snap-on product line, and the audience was attentive and appreciative. We believe it's a sign of good things to come.

So as you can see, there was a lot of initiatives across many end customers, dealerships and independents, domestic and international, all contributions to RS&I gains and serving repair shop owners and managers. Well, that's the highlights of the quarter. Sales up 7%, fueled by significant increases across the board in each group, Clear evidence of progress along all our runways for growth. Snap-on value creation driving improvement, customer connection, innovation, solving critical tasks, and authoring hit parade products. Growth and improvement, bringing our OI margin to 16.2%, up 140 basis points. It was an encouraging quarter.

Now I'll turn the call over to Aldo. Aldo?

Aldo Pagliari - *Snap-On Inc - CFO*

Thanks, Nick. Starting with our consolidated operating results as summarized on slide 6.

Net sales of $806.3 million in the quarter increased $53.1 million, or 7%, from 2013 levels reflecting broad-based gains across all of our operating segments. Organically, sales increased 6.2%, excluding $5.6 million of acquisition related sales and $0.7 million of favorable foreign currency translation. Consolidated gross profit of $393.9 million increased $29.6 million from 2013 levels. The gross margin of 48.9% in the quarter increased 50 basis points, primarily due to the benefits from higher sales and savings from ongoing RCI initiatives. Operating expenses of $263.3 million increased $10.3 million, primarily due to higher volume related and other expenses.

The operating expense margin of 32.7% improved 90 basis points from 33.6% a year ago, mainly due to sales volume leverage. Restructuring costs of $2 million in the quarter compared with $1.7 million of such costs last year. As a result of these factors, operating earnings before Financial Services of $130.6 million in the quarter increased $19.3 million, or 17.3%, and as a percentage of sales, improved 140 basis points to 16.2%. Operating earnings from Financial Services of $37.7 million increased 19.3% over prior-year levels. Consolidated operating earnings totaled $168.3 million, and the operating margin of 19.6% improved 170 basis points from 17.9% a year ago.

Our third-quarter effective income tax rate of 31.8% compared with 32.6% last year. Finally, net earnings in the quarter of $103.7 million, or $1.76 per diluted share, compared to net earnings of $84.6 million, or $1.43 per share last year, representing a 23.1% increase in earnings per share.

Now, let's turn to our segment results. Starting with the Commercial and Industrial, or C&I group, on slide 7, sales of $298.8 million in the quarter were up 9.4% organically, primarily reflecting a double-digit gain in sales to customers in critical industries and a single-digit sales increase in our European-based hand tools business. Gross profit in the C&I group totaled $111.8 million in the quarter. Gross margin of 37.4% decreased 70 basis points from 2013 levels, primarily due to a shift in sales mix that included higher sales to the military as well as increased restructuring and other costs. These year-over-year gross margin impacts were partially offset by savings from on-going RCI initiatives, including continued improvements within our European-based hand tools business.

Operating expenses of $71 million in the quarter increased $2.2 million over 2013 levels, primarily due to higher volume related and other expenses. The operating expense margin of 23.7% improved 130 basis points, mostly due to the sales volume leverage including benefits from the higher military sales. As a result of these factors, third-quarter operating earnings for the C&I segment of $40.8 million increased $4.8 million, or 13.3%, from 2013 levels. And the operating margin of 13.7% improved 60 basis points from 13.1% last year.

Turning now to slide 8, third-quarter sales in the Snap-on Tools Group of $355 million increased 6% organically, reflecting mid-single-digit sales increases in both our US and international franchise operations. Gross profit of $154.8 million increased $12 million from 2013 levels, and the gross margin of 43.6% increased 80 basis points, primarily due to benefits from higher sales and savings from RCI initiatives.

Operating expenses of $105.3 million in the quarter increased $4.4 million from 2013 levels, primarily due to higher volume related expenses. The operating expense margin of 29.7% improved 50 basis points from 30.2% last year, principally due to sales volume leverage. As a result of these factors, operating earnings of $49.5 million for the Snap-on Tools Group increased $7.6 million, or 18.1%, and the operating margin of 13.9% improved 130 basis points from 12.6% last year.

Turning to the Repair Systems and Information, or RS&I group, shown on slide 9, sales of $271.2 million increased $18.5 million, or 7.3%, from 2013 levels. Excluding $5.6 million of acquisition related sales of $1.6 million of favorable foreign currency translations, organic sales were up 4.4%. The organic sales increase primarily reflects a double-digit gain in sales to OEM dealerships and a mid-single-digit increase in sales of diagnostic and repair information products to independent repair shop owners and managers. These organic sales increases were partially offset by a low-single-digit decline in under car equipment sales, largely reflecting continued weakness in Eastern Europe related to demand for big ticket items.

Gross profit of $127.3 million in the quarter increased $10.6 million over 2013 levels. Gross margin of 46.9% increased 70 basis points as savings from on-going RCI and other cost reduction initiatives were partially offset by a shift in sales that included higher volumes of lower gross margin products, including increased essential tool and facilitation sales to OEM dealerships. Operating expenses totaled $64 million in the quarter and the operating expense margin of 23.6% increased 30 basis points, generally due to the inclusion of operating expenses for Pro-Cut. Third-quarter operating earnings of $63.3 million for the RS&I group increased $5.4 million, or 9.3%, from prior-year levels. And the operating margin of 23.3% in the quarter improved 40 basis points from 22.9% last year.

Now turning to slide 10. In the third quarter, earnings from Financial Services of $37.7 million and revenues of $53.6 million compared with operating earnings of $31.6 million on revenue of $45.1 million last year. The average yield on finance receivables of 17.6% compared with 17.4% last year, and the average yield on contract receivables of 9.5% compared with 9.6%. Originations of $221.6 million in the quarter increased 8% from 2013 levels.

Moving to slide 11, our quarter-end balance sheet includes approximately $1.4 billion of gross financing receivables, including $1.2 billion from our US Snap-on credit operation. Approximately 80% of our US financing portfolio relates to extending credit loans to technicians. During the third quarter, our worldwide Financial Services portfolio grew approximately $39 million. As for finance portfolio losses and delinquency trends, these continue to be in line with our expectations.

Now turning to slide 12, cash provided by operations of $88 million in the quarter increased $3.7 million from comparable 2013 levels, primarily due to higher 2014 net earnings offset by increased working investment. Net cash used by investing activities of $56.6 million included $35.8 million to fund the net increase in finance receivables. Capital expenditures of $22.3 million in the quarter compared with $19.3 million last year.

Turning to slide 13, day sales outstanding for trade and other receivables of 64 days at both the end of the second and third quarters compared with 62 days at 2013 year end. Inventories increased $50.2 million from 2013 year-end levels, essentially to support continued higher customer demand and new product introductions, and from the addition of inventories related to Pro-Cut. On a trailing 12-month basis, inventory turns of 3.6 compared with 3.7 at the end of the second quarter and 3.8 at 2013 year end.

Our quarter-end cash position of $124.7 million decreased $92.9 million from 2013 year-end levels, largely due to the repayment of $100 million of debt in March of this year. The net decrease in cash also reflects year-to-date impacts of funding $549.2 million of new finance receivables, dividend payments of $76.8 million, the repurchase of 591,000 shares for $67.5 million, $63.3 million of capital expenditures, and the acquisition of Pro-Cut for $41.3 million. These uses of cash were partially offset by $425.1 million of cash from year-to-date collections of finance receivables and $300.7 million of cash from operations. At the end of the third quarter, our net debt-to-capital ratio was 25.9%.

In addition to our $124.7 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 $36.7 million of commercial paper borrowings outstanding. I will conclude by mentioning a few outlook items for the remainder of the year. We continue to expect that our full-year 2014 effective income tax rate will be comparable to our 2013 rate of 32.3%, and we continue to anticipate that capital expenditures for the year will be in the range of $75 million to $80 million.

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

Nick Pinchuk - *Snap-On Inc - CEO*

Thanks, Aldo. Well, we are encouraged by our third quarter. Sales up 7%, significant activity gains in each of our operating groups. Be sure, there are headwinds but that's nothing new. Our growth trend has passed through turbulence in almost every quarter, and we believe the third-quarter performance again represents solid evidence of progress along our runways for growth.

Enhance the franchise channel, the Tools Group grew at 6%, continuing its string of positive gains. Group OI rose 130 basis points and we believe our network of franchisees are growing in strength and confidence. Expand with repair shop owners and managers, RS&I grew at 4.4%, had an OI margin of 23.3%, and successfully continued the integration of Challenger and Pro-Cut. Extend to critical industries. Organic sales were increased 9.4%.

Strong gains in aerospace, oil and gas, and the military. SNA Europe sales growing again with profit rising even faster. Builds in emerging markets. Continuing to strengthen the physicals and seeing it pay off. Progress along our runways for improvement. Snap-on value creation, safety, quality, customer connection, and RCI, authoring great new products and improving profitability driving OpCo OI margin for the Corporation to 16.2%, up 140 basis points.

We do believe the quarter's results are tangible evidence of the abundant opportunities available along our runways for growth and are clear confirmation of the power inherent in Snap-on value creation. We're encouraged, but we believe there is more, much more. And our team is positioned with the capability and the intent to take full advantage and to continue the trajectory of positive performance for the foreseeable future.

Now, before I turn to questions, it's time once again to speak to our franchisees and our associates. I know many of you are listening. The encouraging results of the third quarter and the ongoing favorable trends due to your extraordinary capabilities and your considerable effort. For your contribution to our performance you have my congratulations, and for your continuing commitment to our team you have my thanks.

Now I will turn the call over to the operator. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We'll take our first question from David Leiker with Baird.

David Leiker - *Robert W. Baird & Company, Inc. - Analyst*

Good morning, everyone. So can we talk, Nick or Aldo, just the pace of sales through the quarter? I know there is some concern that July and August might have been okay, but September started to slow down at all.

Is there anything you can characterize in terms of what you saw as you moved through the quarter?

Nick Pinchuk - *Snap-On Inc - CEO*

Well, we never really characterized the calendarization our sales, but those who listen to us like you do, those who listen or watch us would know this, in that July and August are vacation seasons in Europe and the United States. For Europe and Northern Europe it's July and then August, in Southern Europe.

So, July and August are afflicted by vacations and the same pretty much applies to the van business in the United States where we have the SFC in August for a reason because that's when the guys who are driving the vans want to take a little vacation. So you might be entitled to the fact that those months might be a little bit more tepid, or certainly more variable, and then you might be entitled to the fact that in a relatively strong quarter, that quarter would have to be delivered at the end.

I think this is kind of logical sense. So without commenting on the week by week or day by day, I think you can infer that we had a fairly strong end given that our quarter is so large.

David Leiker - *Robert W. Baird & Company, Inc. - Analyst*

How much of the strength that you're seeing both on the revenue side and the margin momentum carries over into Q4 and into 2015?

Nick Pinchuk - *Snap-On Inc - CEO*

Well, I don't see anything that interrupts that strength, I'd say that. We never comment on the forward-looking months, but I think when I look at our positions along our runways for growth and the power of our improvement, we see it carrying over.

The positions with the franchisees, they are more confident than ever before. I said it just a few minutes ago. You can see the critical industries. The critical industry seems to be humming.

Military is coming back, although I did say it can be uncertain, but boy, increases are better than a poke in the eye and it's been increasing fairly well. So you see that.

RS&I just cranks along. And anything in the auto repair business I think is fairly strong at this point.

David Leiker - *Robert W. Baird & Company, Inc. - Analyst*

And then just the last item on this, what about Europe? Obviously, there is a lot of concern. We talk to a lot of people. Some think Europe might be rolling over.

Your business has been flat on its back for several years here and just starting to bounce up. Any thoughts on how that might play out?

Nick Pinchuk - *Snap-On Inc - CEO*

Well, a couple of things. First of all, certainly we see turbulence in the east, like we said for several quarters. We were up again, fourth straight quarter of growth in Europe, and again, they were on vacation in July and August so from that perspective it was a fairly positive quarter in terms of trajectory, sort of like trajectory.

And I will say, our European business is coming off the mat. We are still down 20% to 25%, so we've got a long way to get back to where we were in 2008. So I feel okay about Europe at this point.

David Leiker - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then just one last item here. Aldo, on the working capital, looking at the cash flow statement.

It's about a $24 million increase in the use of working capital year over year. I don't think the acquisitions are in there, but can you talk to that a bit?

Aldo Pagliari - *Snap-On Inc - CFO*

Certainly. The increase is largely reflective of higher demand plus our intention to provide better service levels to our customer base.

At this time there, you do pick up a little bit of seasonality effect coming out of the Snap-on franchisee conference that you've mentioned. It was a pretty well attended conference, pretty good order book, and some of the inventory increase reflects that ordering activity.

Also, accounts receivable are up pretty much the same, 64 days as it was at the end of last quarter. But again, that's tied more to the sales increase.

David Leiker - *Robert W. Baird & Company, Inc. - Analyst*

Okay, perfect. Thank you very much. Take care.

Nick Pinchuk - *Snap-On Inc - CEO*

Thanks.

Operator

We'll take our next question from Gary Prestopino with Barrington Research.

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

Good morning, everyone. Aldo, I kind of missed your narrative in terms of the sales increases in the RS&I segment. What did you say? It was high-single-digit sales to OEM dealerships and low-single-digit sales to independent repair shops?

Aldo Pagliari - *Snap-On Inc - CFO*

No, I think I said it was double-digit sales to OEM dealerships and mid- to high-single-digits in sales of repair information and diagnostic products for the independent shops.

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

Thanks. All right. Nick, I wanted to just talk obviously Europe, and David mentioned this with his questions, but could you tell us exactly how much the sales in Europe were up in the quarter, if at all?

Nick Pinchuk - *Snap-On Inc - CEO*

Well, the sales, if you are talking about SNA Europe, it was up, I would say, you can characterize it as low-single digits. Kind of the same as it was the last quarter, although last quarter we would have characterized as mid-single digits.

So, I mean, it was a little bit lower, but I think when I look at the total that goes ins and goes out, we saw some really strong growth in places like Spain and Italy and Denmark and Finland and some weakness in some other places. Europe has always varied from quarter to quarter. We think we had the same quarter with volume growth again and leverage on the bottom line that outpaced the growth.

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

Okay. Collectively, if you put the whole European the economies together they're a mess. They're not growing.

Is it still a function of that you are penetrating the market at a greater rate, adding new products, just executing better? Is that really what -- ?

Nick Pinchuk - *Snap-On Inc - CEO*

I think that's it. I spent a lot of time on this call trying to emphasize the power of customer connection and innovation. By another way, the mechanism by which we generate new products.

And so in Europe you have new products. For example, in Europe we something called the Bahco Ergo Tool Management System, a system which we put in critical applications. The box, which takes care of tool control, is customized to the customer and we put Bahco tools inside.

It's a version of what we do in the United States with the Snap-on brand, only it's with Bahco and it's fitted to each individual customer. That's driving some of our sales.

So individual product improvements is helping. Secondly, we are just getting better at selling than we were before because of RCI and our efficiencies.

And thirdly, I think to be frank here, as I have said, I think I've said on many of these calls, we are coming off of a pretty deep dip. We were down 20% to 25%. So the world doesn't have to be that rosie for us to grow.

And so, I think, you put those three things together and you would say, look, we have been growing in Europe for several quarters, four straight quarters now, and people have been moaning for a while and we've just been growing through those headwinds.

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

Okay. And then can you give us some idea with the Rock 'N Roll vans and the Techno vans, they're just US based phenomenon, correct?

Nick Pinchuk - *Snap-On Inc - CEO*

Not exclusively, but mostly. To give you an idea, for example, this quarter, I think in the end of the quarter we had like 59 Rock 'N Roll cabs. I think about five were in the international outside of North America.

So there was a few and they grew a couple. One in the United States, one in North America, and two in Europe, and we have 25 Techno Express vans and they are just in the US.

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

Okay. Are there plans to expand the actual physical van count for both of those categories?

Nick Pinchuk - *Snap-On Inc - CEO*

Well, there is certainly a plan to. The Rock 'N Roll cab, we've got quite a few. I would think internationally we would be adding a few more perhaps. We would be looking at that.

US, we've got pretty much the nation covered. You might add one or two as you go forward. The Techno Express, there are plans to add more as we go forward.

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

Okay. And just in terms of your best guesses that on a basis points of sales. I mean, what would be the incremental contribution from having these vans out there to the tools group sales?

Nick Pinchuk - *Snap-On Inc - CEO*

It's hard for me to say, Gary, because they don't actually sell, they just promote the product. And so they go out there and they're like a rolling showroom. And the guy gets on, as you know, he gets on the van, he sees all these tool storage boxes or these diagnostics units, and he ends up ordering from the franchisee who is in that territory.

So it's a tough guess to say, well, would it have sold anyway? Certainly, what's happened is since we have had the Rock 'N Roll cabs for like a couple years now, tool storage has outpaced the tools group for sometime. And our big ticket items, again, which is a favorable sign actually, big ticket items outpaced the tools group sales in general.

And that, of course, has been driven by this, but I don't think we have a number. We just know they're helping us. We believe they're paying back. We can afford them because of the 6% growth, the 6% growth this time, the 6.6% last time, 6.6% the time before that, and the drop through 130 basis points improvement.

We believe it is in the mix. But we haven't worried about payback in general or how much it is boosting. Sorry, I can't help you too much.

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

Well that's fine. Thank you very much.

Nick Pinchuk - *Snap-On Inc - CEO*

Yes, sure.

Operator

Take our next question from David MacGregor with Longbow Research.

David MacGregor - *Longbow Research - Analyst*

Good morning, everyone. Great quarter, Nick.

Nick Pinchuk - *Snap-On Inc - CEO*

Thanks.

David MacGregor - *Longbow Research - Analyst*

Outstanding execution.

Nick Pinchuk - *Snap-On Inc - CEO*

We did a great job.

David MacGregor - *Longbow Research - Analyst*

Everybody really pulled together and it really shows.

Nick Pinchuk - *Snap-On Inc - CEO*

Yes.

David MacGregor - *Longbow Research - Analyst*

I guess I had similar questions about franchisee productivity for next year. You have had the Rock 'N Roll Cab Express and the Techno vans, clearly financing opportunities have been facilitator to some degree, and, of course, you have had a very strong new product introduction queue.

Are there other things driving franchisee productivity into 2015? And maybe can you talk specifically about the extent to which financing opportunities are enhancing franchisee productivity? You talked about at the conference there was a strong --

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Nick Pinchuk - *Snap-On Inc - CEO*

Sure, I can talk about this a little bit. The thing is there is a number of things. I think first is just general productivity.

We've got the Rock 'N Roll van at Techno Express. And what they are doing is they are amplifying the power of the space that's the van. The van after all is rolling retail space.

David MacGregor - *Longbow Research - Analyst*

Yes.

Nick Pinchuk - *Snap-On Inc - CEO*

And Techno Express and the Rock 'N Roll cabs are amplifying that on a time share basis from route to route. And that's clearly allowed us to reach out for more technicians.

As I said, we don't have all the technicians on our sales books at one time in the United States, so we have opportunity to add more just from those existing bases. That's helping.

Secondly, it's a productivity issue because our guys are real busy. And so, the idea of doing something like RCI, just like a factory, looking at the van like a factory, figuring out how to make work easier for them. Ratchet repair, for example, making the ratchet repair more easier is one thing we can do.

Things like that, how to balance inventory. We have just rolled out, we are rolling out and it's kind of completing the roll out of a brand new point-of-sale computer system. We call it Chrome. It's going to help the van drivers productivity immensely.

And then when you come to finance, finance is just a matter of sense, it's now in the house. The finance programs are tailoring, the credit companies are tailoring their programs just to what the franchisee need and, therefore, making it easier for him.

One, from an actual point of view and an execution point of view, and two, not insubstantial, making it easier to understand. We have done a lot of work in making these programs easier to understand.

I would say four years ago you needed a semi -- you needed to be an analyst at one of the Wall Street firms or one of the investment firms to be able to understand some of these credit programs, but now it's a lot easier. And so those are the kinds of things we are doing.

David MacGregor - *Longbow Research - Analyst*

So, when you talked about rolling out a lot of new credit programs at the conference this year, were they just easier to understand? Or was it making credit more available?

Nick Pinchuk - *Snap-On Inc - CEO*

Well, easier to understand, one, and two, making credit more available in this way. We did a couple of things.

One is we refined our models so that we can think about the actual credit, the actual applicant, and better decide whether he is good risk or not a risk and would want to take the credit. And then look at the franchisee and consider more effectively the franchisee's record in choosing and recommending and collecting when making a choice around that.

And putting that together in the credit profile and allowing more people to get credit because the combination of the franchisee's endorsement and the credit rating of the individual borrower, the customer, made for a more target rich environment for us, a more informative environment and, therefore, we were able do a little bit more activity.

David MacGregor - *Longbow Research - Analyst*

Just shifting gears to maybe growth by acquisition. You've been putting up some great organic growth numbers. You've talked about being willing to go forward, making growth by smaller acquisitions, bolt-on acquisitions. Give us a sense of what you see over the next 15 days, maybe 18 months?

Nick Pinchuk - *Snap-On Inc - CEO*

We've got a long pipeline of possibilities and every quarter we're acting on, we're reviewing acquisitions and considering possibilities. Some of them are small. Some of them are pretty large.

I think, but they're all what I would call coherent. That is, they lie on one of those four runways for growth in terms of enhancing the van channels and expanding repair shop owners and managers, extending to critical industries and those things.

And so, we've looked at some really big ones that would eat up a huge portion of our fire power and decided, well, maybe that isn't for us or it isn't quite, it's only got not enough of the business fits us. And we've looked at some smaller ones, like Pro-Cut and so on, and we pulled the trigger.

But we are looking at them actively all the time. The pipeline, the prospects are fairly large though and it continues to refresh. So, I -- yes, go ahead.

David MacGregor - *Longbow Research - Analyst*

I was just going to say, can you remind us on your priorities? Is there a particular segment you are leaning towards, or just how should we thing about -- ?

Nick Pinchuk - *Snap-On Inc - CEO*

The priorities are any of those runways for growth, but as a practical matter. As a practical matter, expanding repair shop owners and managers, giving us something more to sell, like Pro-Cut Brake Lathes or Challenger Lifts, is something that is high priority.

Giving us something that would give us more to sell or give us more presence with critical industries is another area that we would be looking at. Now, we would consider emerging markets of the vans, but I think the acquisition targets are less -- there is less available in those areas that fits so coherently in those places.

David MacGregor - *Longbow Research - Analyst*

Last question is just across your three segments, where do you still have the most immediate opportunity for RCI?

Nick Pinchuk - *Snap-On Inc - CEO*

I'd say C&I, but C&I had an encouraging quarter, 13.7% OI margin. That is the highest OI margin ever by C&I. It tied the highest OI margin and we hit it in the second quarter of 2008.

It was on considerably more sales, I think $20 million or $30 million more sales. So in fact, C&I has made a lot of progress and we see more opportunity going forward, but I hate to say that because to tell you the truth, I think there is ample opportunity in all our businesses. Like I've said many times, if we never got another dollar of incremental sales, we would drive the profitability upwards.

David MacGregor - *Longbow Research - Analyst*

Great. Thanks very much.

Operator

We'll take our next question from Liam Burke with Wunderlich Securities.

Liam Burke - *Wunderlich Securities - Analyst*

Thank you. Good morning, Nick. Good morning, Aldo. Nick, could you give us a sense as with innovation being a big driver of growth, how the pace of hot products have been this year?

Nick Pinchuk - *Snap-On Inc - CEO*

Well, yes, sure. I don't like to pin myself down, but we're ahead of last year's -- last year was a record. I hesitate to say a record because it was as high as more than we've seen since we have been measuring our hit parade products, which by definition, our definition is a product which sells $1 million in the first year after launch.

And you might remember that I said that last year we hit a level that was, let's say, between four and five times what we had just in 2006. And we are ahead of last year's pace as of now.

Now, of course, you've got to launch it, it's got to sell a $1 million, so who knows? I think there's some great products in the pipeline, but whether the customers are going to like it or not, I am not sure.

Sometimes I am not simpatico with the customers. But fortunately, the guys who launch the products and design them are, so I have confidence that we are ahead.

Liam Burke - *Wunderlich Securities - Analyst*

Okay. And on the diagnostics, you spoke a lot about the system sales, both OEMs and the independent service stations. How have hand-held diagnostics been selling to the technicians, to service technicians?

Nick Pinchuk - *Snap-On Inc - CEO*

They have been strong. We've had a good strong year in diagnostic. We just launched a new product which is rolling out on our Solus line.

It's got some great new features, faster than ever before, more capabilities, bigger screen. It's incredibly profitable and it is incredibly popular, sorry, incredibly popular. And so, I am positive about that.

Diagnostics is the movement of -- people can relate to the RS&I business because you see the information, you can see the technology in the products.

But one thing I want to offer is when you are talking about critical industries, you're talking about some, in the C&I side, you are talking about fairly sophisticated items. I was just down at an aerospace facility, at an aircraft manufacturing and repair facility, and I talked to, talking to customers, speaking to customers because that's where we're expanding.

And I talked to one young technician there who started to talk about low frequency eddy currents, assessment of structural damage or structural weakness in airplane fuselage, and is one of our customers who is using our tools and he is talking with great authority about this kind of technology, or another same guy saw a different guy talking about magnetic resonance to determine weakness in the fuselage.

Even on the RS&I side, I mean even on the C&I side, in critical industries, you are seeing a tremendous deployment of technology in criticality that gives us opportunity to innovate around that.

Liam Burke - *Wunderlich Securities - Analyst*

Great. Thank you, Nick. Sure.

Operator

We'll go next to Richard Hilgert with Morningstar.

Richard Hilgert - *Morningstar - Analyst*

Thanks and good morning, everybody. Good quarter. I just wanted to -- most of my questions have already been asked, but I wanted to visit a little bit about the difference between margin expansion from RCI during the quarter verses the improvement that we saw in volume in areas like the military and over in Europe, especially Europe C&I, and in the hand tools side.

Can you differentiate there or give us some kind of an idea of what the degree is of margin improvement from both of those?

Nick Pinchuk - *Snap-On Inc - CEO*

I kind of resist doing that. If you look at our numbers over time, I view it like this. I view volume leverage and productivity at flat volume as horns on the same goat.

You basically get higher sales and you do it with the same people or slightly less that and it drops through at a great rate, that's RCI, because you fundamentally enable your people to do more with the same. Now, other people might call that leverage, but we can consider that RCI if we see reasonable drop through.

And the same kind of thing, it's sort of the same version of if the sales are flat and we're able to reduce costs, like spend less or maybe use less, do the same kind of support to the tools group but do it with less cost, less freight, for example, less freight cost or less material cost or less design cost. Those kinds of things are positive at flat sales, but we try not to differentiate them.

We try to put them together and not worry about the difference. Our only view is we will go up every quarter. Not every quarter. We will go up in a trend continuously.

And we believe in that trend of improved profitability whether there is increased sales or not. Increased sales, it contributes to it, but we believe we'll go up even if we don't have increased sales. But I can't parse between the two styles because I think they intermingle and support each other.

Richard Hilgert - *Morningstar - Analyst*

But obviously breakeven has improved bottom line. And I look at what EBITDA was five years ago verses where you're at today, we're looking at a 900 basis point improvement from the bottom.

Nick Pinchuk - *Snap-On Inc - CEO*

Sure.

Richard Hilgert - *Morningstar - Analyst*

So, any idea? Can you give us some kind of an idea of magnitude on has the breakeven improved maybe 100, 200 basis points in your opinion?

Nick Pinchuk - *Snap-On Inc - CEO*

I again resist it. I don't think of it in those terms. I really don't think of it in those terms.

I think of it in the terms that I and the Snap-on team think of it in these terms. We don't necessarily look back so much. We look forward and say, and not that we don't know where we have come, but we say to ourselves, look, our task, we sit here now, our task is to improve next year, improve going forward.

And we find components of that in we have programs which will generate savings associated with things like design cost reduction for products, less material, maybe a little bit less expensive way to do the same thing with somewhat more quality. We'll do that.

Or we'll find ways to enable our people on the line to be able to do more. For example, I have done this myself. We'll work at a factory and bring down set up times.

And that will allow more throughput to the factory and more change overs in the factory so, therefore, more throughput, and I can do more volume with the same people. And we have a myriad of projects in both those areas. Some of them work really well. Some of them don't.

But I don't think we worry ourselves so much about which ones contributed to us. More or less, we think about what's the total result at the end? That's what's worked for us for 900 basis points.

Richard Hilgert - *Morningstar - Analyst*

Okay. Thanks for taking my questions, and again, congrats on the quarter.

Nick Pinchuk - *Snap-On Inc - CEO*

All right. Thank you.

Operator

And we have no further questions in the queue at this time. I'd like to turn the conference back over to Ms. Leslie Kratcoski for any additional or closing remarks.

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

Thanks, everyone, for joining us today. A replay of the call will be available shortly, and as always, we appreciate your interest in Snap-on. Have a good day. Thanks.

Operator

And that does conclude today's conference. Thank you for your participation.