SNAP-ON INCORPORATED

Moderator: Leslie Kratcoski
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Operator: Please stand by, we're about to begin. Good day, and welcome to the Snap-on Incorporated Fourth Quarter and Full Year Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Leslie Kratcoski. Please go ahead.

Leslie Kratcoski: Thanks, Hanna, and good morning, everyone. Thanks for joining us today to review Snap-on's fourth quarter and full year financial 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. You can find a copy of these slides on our Website next to the audio icon for this call. These slides will be archived on our Website along with the transcript.

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 forward-looking statements are contained in our SEC filings.

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

Nick Pinchuk: Thanks, Leslie. Good morning, everybody. I'll start with the highlights of our fourth quarter and our year. I'll give you my perspective on the results, on the markets and on the progress we've made. Then, Aldo will move into a more detailed review of the financials.

The results of our fourth quarter were encouraging with sales increases and profit gains across our businesses, continuing our positive trend. We had opportunities, and we had headwinds. We took advantage of those opportunities, and we overcame the headwinds.

The result was organic sales growth of 9.8%. If we include a $5.7 million contribution from Pro-Cut and $21.5 million of unfavorable foreign currency translation, overall sales in the quarter were $857.4 million, a rise of 7.5%. Our EPS was $1.97, up 23.1% from the $1.60 in 2013. And that rise reflects an opco operating margin of 16.9%, an increase of 140 basis points.

Financial service earnings of $42.2 million in the quarter were also up significantly. And the consolidated operating margin, including both Financial Services and opco, reached 20.4%, an improvement of 190 basis points compared to the 18.5% of last year.

Looking at our markets. The automotive repair-related segments continue to be favorable, driven of course by expanding and aging car PARCs and year-after-year technology changes, all driving demand for our product. The Tools Group and the Repair Systems & and Information, or the RS&I Group took advantage with volume growth by our van network and gains in OEM dealerships in independent repair shops confirming the progress.

But we also had opportunities rooted in our expanding capabilities and product lineup for the critical industries and in growing physical strength in emerging markets, areas within the Commercial & Industrial, or C&I, Group. Arenas that were challenged by a, you know, a variety of headwinds, fluctuating currencies and macroeconomic turbulence in places like Eastern Europe, Japan, Indonesia and even the core of Western Europe.

Despite those challenges, C&I results were quite positive. Higher volumes and favorable trends continued in our industrial division; progress across a range of critical industries. And in our Asia Pacific operations, the quarter was a period of clear progress, adding to our growing strength in that region.

Another feature of the quarter is that military activity was stronger. I think if you've been listening to these calls, all of you know that the critical -- that critical segment has been quite turbulent. In fact, the way forward is still unclear.

A significant level of budget uncertainty does remain, and it's difficult to predict the military environment for any extended period. However, in the last quarter, we did make the most of the available opportunities and registered considerable military growth. It added to C&I's positive trend.

So to wrap up the broad discussion of the market, I'd summarize the situation as generally positive across our businesses. And though we'll always have headwinds, we do believe that no matter what the environment, we have the opportunity and the capability to advance our position.

We'll continue to progress against challenges, along our runways for growth, enhancing the franchise channel, expanding Snap-on's presence in the garage, extending to critical industries and building in emerging markets.

That strategic advancement, when coupled with the Snap-on value creation process of safety, quality, customer connection, innovation and rapid continuous improvement, or RCI, drives a significant and ongoing positive trend or performance. And we believe that the results in the fourth -- first quarter and over the full year show just that.

Speaking of the full year. Snap-on's EPS in 2014 was $7.14, an increase of 20.4% from 2013. Driving those earnings was an opco operating margin of 16.3%, up 120 basis points. When we include the income from Financial Services of $149.1 million, which rose to $23.4 million, the consolidated operating margin for the year was -- of 19.6%, was up 150 basis points. That performance came on sales of $3.3 billion, a 7.2% year-over-year increase that reflected primarily an organic growth of 6.9%.

In 2014, full year gains were achieved from every group. In the Tools Group, a strengthened van channel, with organic growth of 7.6% for the year. RS&I expanded reach with repair shop owners and managers, up 4.9% organically. And from the C&I Group, growth in critical industries and progress in emerging markets, organic activity rising 9.5%. All clear evidence of forward movement in the markets we serve.

Now let's move to a discussion of the groups and their quarters. In the C&I Group, revenue in the quarter was up 5.3% from 2013 despite unfavorable foreign currency. The organic sales increased 9.9% from broad contributions across the businesses.

The Industrial division paced the progress, achieving double-digit gains in multiple critical industries. Encouragingly, SNA Europe posted a solid mid-single-digit rise offsetting significant European headwinds, while the Asia Pacific division recorded higher activity, growing in emerging markets, overcoming the present difficulties surrounding Japan.

From an earnings perspective, C&I income of $40.5 million, increased $3.4 million compared to the prior year period and that represents an operating margin of 13.6%, a rise of 50 basis points versus 2013.

C&I performance in the quarter is exemplified by SNA Europe. As I said, sales gains despite difficulties and profits up sharply, again. RCI practiced over all those difficult days, while the sales were falling. That effort's paying off, and we can see it in the SNA Europe numbers.

C&I also advanced in penetrating critical industries. Of particular note, I think, were our gains in power generation, railroads and the oil and gas sectors. And one product line that's gained traction in these areas is our tools at height offering, drop prevention systems, designed for a variety of industries and used to keep people safe and assets secure.

You know, falling objects is a leading cause of accidents in the workplace. And a 3-pound tool falling from height can make quite an impact. In other words, don't get hit by a falling wrench. It sounds, you know, rudimentary but it's a real workplace issue and a clear opportunity for Snap-on customer connection and innovation to provide unique solutions.

By ergonomically tethering our tools, we provide our customers an engineered attachment system, a productive and compliant solution, maintaining the functionalities of tools used at height, but with safety.

Guided by customer connection and solving these critical needs on oil rigs in the Gulf of Mexico or in major power plants in the US, our Industrial divisions tools at height drop prevention system are making work safer and more productive for our customers performing critical tasks.

The fourth quarter also grow -- saw growth in the emerging markets of C&I. China and India led the way for the double-digit growth in our Asia Pacific division. And it's clear what's driving the progress. Growing physicals, more distributors, more field training, more Asianized products, products like our new GLS2P4, the compact lift; our new flexible -- our flexible new I-aligner system, both ideal for the smaller footprints in Asian shops.

And our expanding lineup of Blue-Point toolsets for the rising Asian vehicle repair market. Each quarter, each quarter, we believe we build more Snap-on Asia Pacific strength, are better poised to continue our positive momentum and improve our position for the considerable repair wave, we believe, is coming in that emerging region.

Finally, in C&I. Let me speak a moment about the evolution of our automated tool control system or ATC. You may remember that the ATC, we've spoken on often about on this call, is our total security and inventory management system that uses advanced digital imaging technology and proprietary software to automatically keep track of critical tools.

Well in the fourth quarter, the Industrial division reached a milestone; there are now over 1,000 ATC systems deployed and the number's growing. We started out aiming at aviation -- at the aviation industry, but now through customer connection and innovation, we redesigned the product to accommodate the very tool configurations found in the natural resource and railroad industries.

ATC systems are now solving problems for customers in both those segments and the momentum is building. ATC, an effective Snap-on concept, extended to more customers, helping drive C&I growth.

Now onto the Tools Group where we posted organic sales increase, an organic sales increase of 11.8%. The operating earnings of $63.9 million, representing a margin rate of 16.5%, up 200 basis points from last year. We also mentioned Snap-on runways for coherent growth, guiding principles for our long-term sales opportunities, and always prominently included is enhancing the franchise channel. Well the results for the Tools Group in the quarter represent clear validation of the progress being made along that runway.

But in addition to the financial performance, there's other evidence that authenticates the achievements. Snap-on continues to be recognized as a franchise of choice. Once again, Snap-on was ranked among the top 25 in *Entrepreneur* Magazine's list of top 500 franchises. And the *Franchise Business Review*, which measures franchisee satisfaction, recognized Snap-on as a top 50 franchise in its latest ranking, marking the eighth consecutive year we received that award.

And again, this quarter, like always, I had the opportunity to meet directly with franchisees at the fall meetings of our U.S. and Canadian National Franchise Advisory Council. And again on our recent kick-off meetings across the country, each of the sessions generated valuable insight, great feedback from an enthusiastic group of franchisees. Based on their optimism, I believe anyone interacting with these professionals would conclude our van network as stronger than ever before.

The Tools Group success can also be traced to customer connection and innovation, essential parts of Snap-on Value Creation. This is the Tools Group's fifth consecutive year of growth for successful product ideas derived from collaboration efforts with our franchisees, from discussions with technicians or from the independent observations of our associates.

An example of that customer connection and innovation is our newly introduced steering rack socket. The accepted technique for replacing power steering O-rings required removal of the entire power steering rack assembly, followed by the use of a screwdriver and a hammer to change the O-ring. The new Snap-on socket allows the tech to replace the O-ring while the power steering assembly remains in place. It can save a full hour of labor. And it's a winning timesaver, and I can tell you on the van that it's an attention grabber.

The steering rack socket is a clear example of Snap-on Value Creation. Customer connection and innovation, moving us down our runways for improvement, providing the means for ongoing -- for an ongoing trajectory of positive performance and the fourth quarter results for the Tools Group, our testimony, that it’s working.

Moving to RS&I, sales in the fourth quarter were $282.8 million; organic gains of 6.9%, primarily reflecting stronger software sales in independent dealerships; and essential tool activity with OEM dealerships.

If you add $5.7 million from our Pro-Cut acquisition and $5.5 million of unfavorable foreign exchange, overall reported sales were also up 6.9% in the quarter. Operating earnings of $65.2 million rose $4.4 million, with OI margin improving 10 basis points to 23.1%, as the benefits of RCI offset variation in the Group's business mix.

In the fourth quarter, RCI sales to vehicle OEMs grew strongly, driven by several essential diagnostic programs, tools for vehicle dealerships. So we grew with OEMs and we grew with independent shops. For the independent shops, Mitchell 1 also registered growth in the quarter, assisted by several multi-site placements of its ProDemand automotive information product.

Mitchell 1 is advancing ProDemand with continuing integration of repair shop information, enhanced navigation and improved mobility. Strengthening the product line and driving volume gains, ProDemand is becoming essential for effective repairs.

In the quarter, RCI also -- RS&I also continued the introduction of its newest handheld diagnostic unit, the SOLUS Edge. With an updated processor and easier viewing features, our new SOLUS edge offers a 50% increase in speed as well as a 15% larger screen size. And as you might expect, it's shaping up to be one of the most successful diagnostic rollouts.

Along with our advancements to our handheld hardware, we also continue to enhance our software offering. Fewer navigations steps, better user experience, Snap-on diagnostics, simply helping the technicians to fix cars easier and faster.

For heavy trucks, our PRO-LINK Ultra, that diagnostic tool continues to enable top-notch service, from light diesel to Class A heavy duty trucks. The PRO-LINK delivers the broadest coverage ever available in a single handheld diagnostic tool. Including data for major systems like engines and transmissions and ABS brakes and instrument clusters and emissions and body control, it's the ideal tool for heavy duty fleets and dealerships, owner operator repair shops, municipalities and mobile truck services. And as you would expect with those features, sales have been exceptional.

Also in the period for RS&I, the equipment division performed quite well; high single-digit organic sales increases bolstered by an improved North American marketplace, gains in Western Europe and innovative new products. Once again, Snap-on Value Creation was on display in the form of the new Snap-on motorized wheel balancer, ideal for shops of all sizes.

The new balancer comes equipped with a sonar sensor that eliminates manual measurements of rim width, enabling faster balancing. It also features multiple placement mode, allowing users to flexibly match weight location to a variety of vehicle rims that are so much variety, common today in the car market.

And it utilizes Snap-on's virtual plane imaging technology, providing unsurpassed accuracy to ensure an effective balance and a satisfied customer. The new Snap-on motorized balancer, speed, flexibility and accuracy. It's received quite positive reviews, and we anticipate strong sales as the rollout continues. We're very excited about this product.

In fact, we're excited about the entire breadth of the RS&I offering. And in November, RS&I presented its full product portfolio at the annual SEMA show in Las Vegas. The Group's equipment business, including Challenger Lifts and Pro-Cut brake lathes, new acquisition, were featured along with our diagnostics, Mitchell 1, Business Solutions and Equipment Solutions products offerings, all on display, in one booth, under the banner Snap-on Total Solutions. Customer reaction was enthusiastic. And our sales for the event were strong.

We believe the RS&I group, with state-of-the-art undercar equipment, a strong product line of repair information solutions and award-winning diagnostics products is capturing an increased presence with shop owners and managers, and the results confirm it.

Well, that's our fourth quarter. Opco organic sales are rising 9.8%, EPS of $1.97 in the quarter, 23.1% higher than last year, progress registered along all our runways for coherent growth and advancements down each of our runways for improvement, but especially in customer connection and innovation, and certainly rapid continuous improvement or RCI, all of that helping to drive a 16.9% operating margin, up a 140 basis points. It clearly was an encouraging quarter.

Now I'll turn the call over to Aldo.

Aldo Pagliari: Thanks, Nick. Our fourth quarter consolidated operating results are summarized on slide 6. Net sales of $857.4 million in the quarter, increased $59.9 million or 7.5% from 2013 levels, reflecting broad-based gains across all of our operating segments.

Organically, sales increased 9.8%, excluding $5.7 million of acquisition-related sales and $21.5 million of unfavorable foreign currency translation. Consolidated gross profit of $411.3 million, increased $32.8 million from 2013 levels. The gross profit margin of 48% in the quarter improved 50 basis points, primarily due to savings from RCI initiatives and benefits from higher sales, partially offset by increased restructuring and other costs.

Operating expenses of $266.1 million increased $11.2 million, primarily due to higher volume related and other expenses. The operating expense margin of 31.1%, improved 90 basis points, mostly due to sales volume leverage. We incurred $1.1 million of restructuring costs in the quarter. There were no restructuring costs in the fourth quarter of last year.

As a result of these factors, operating earnings before Financial Services of $145.2 million in the quarter, increased $21.6 million, or 17.5%, compared to the prior year and as a percentage of sales, improved 140 basis points to 16.9%.

Operating earnings from Financial Services of $42.2 million on revenue of $59.4 million in the quarter compared to operating earnings of $33 million on revenue of $47.4 million last year. The year-over-year increases in both operating earnings and revenue primarily reflect the continued growth of the Financial Services portfolio as well as revenue and earnings from an additional week of operations in 2014.

As you may know, Snap-on operates on a fiscal calendar, which results in an additional week to our fiscal full year and fourth quarter every 6 years. As a result, our 2014 fiscal year contained 53 weeks of operating results, with the extra week relative to the prior year occurring in the fourth quarter.

While the impact of this additional week was not material to Snap-on's consolidated fourth quarter net sales or net earnings, our Financial Services segment did earn an additional week of interest income on its financing portfolio. At the consolidated level, the net earnings benefit from the additional week of Financial Services' interest income was largely offset by a corresponding additional week of fixed expenses, primarily personnel-related costs and interest expense.

Consolidated operating earnings of $187.4 million in the quarter increased $30.8 million or 19.7%. And the operating margin of 20.4%, improved 190 basis points from 18.5% a year ago. Our fourth quarter effective income tax rate was 32.1% in both the fourth quarters of 2014 and 2013.

Finally, net earnings in the quarter of $116.2 million or $1.97 per diluted share, increased $21.7 million, or 37 cents per share, from 2013 levels representing a 23.1% increase in diluted earnings per share. For the full year 2014 net earnings of $421.9 million, or $7.14 per diluted share, increased $71.6 million, or $1.21 per share, from 2013 levels, representing a 20.4% increase in diluted 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 $298.2 million in the quarter were up 9.9% organically, primarily reflecting double-digit gains in sales to customers in critical industries and in our Asia/Pacific operations, as well as mid-single-digit sales increase in our European based hand tools business.

Gross profit in the C&I group totaled $113.4 million in the quarter. Gross margin of 38% decreased 90 basis points from 2013 levels, primarily due to a shift in sales activity that included higher volume sales to the military and increased sales in our Asia Pacific operations as well as higher restructuring costs, partially offset by savings from RCI initiatives.

Operating expenses of $72.9 million in the quarter, decreased $0.3 million from 2013 levels. The operating expense margin of 24.4%, improved 140 basis points, primarily due to the sales volume leverage, including benefits from the sales shift just mentioned.

As a result of these factors, fourth quarter operating earnings for the C&I segment of $40.5 million, increased $3.4 million or 9.2% from 2013 levels. And the operating margin of 13.6%, improved 50 basis points from 13.1% last year.

Turning now to slide 8. Fourth quarter sales in the Snap-on Tools Group of $387.5 million, increased 11.8% organically, reflecting a double-digit increase in the United States and a high single-digit gain internationally.

Gross profit of $166.4 million, increased $20.2 million from 2013 levels. And the gross margin of 42.9% increased 130 basis points, primarily due to the benefits from higher sales and savings from RCI initiatives.

Operating expenses of $102.5 million in the quarter increased $7.3 million from 2013 levels primarily due to higher volume-related and other expenses. The operating expense margin of 26.4%, improved 70 basis points, principally due to sales volume leverage.

As a result of these factors operating earnings of $63.9 million for the Snap-on Tools Group increased $12.9 million or 25.3%. And the operating margin of 16.5%, improved 200 basis points from 14.5% last year.

Turning to the Repair Systems and Information, or RS&I Group, shown on slide 9, sales of $282.8 million increased 6.9% from 2013 levels. Excluding $5.7 million of acquisition-related sales and $5.5 million of unfavorable foreign currency translation, organic sales were also up 6.9% reflecting high single-digit gains in both sales of undercar equipment and sales to OEM dealerships as well as a mid-single-digit increase in sales of diagnostic and repair information products to independent repair shop owners and managers.

Gross profit of $131.5 million in the quarter increased $9.5 million from 2013 levels. Gross margin of 46.5%, increased 40 basis points, as savings from 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. The RS&I group also incurred higher restructuring costs in the quarter.

Operating expenses totaled $66.3 million in the quarter. And the operating expense margin of 23.4% increased 30 basis points, primarily reflecting operating expenses for the Pro-Cut acquisition. Fourth quarter operating earnings of $65.2 million for the RS&I Group increased $4.4 million or 7.2% from prior year levels. And the operating margin of 23.1% increased 10 basis points from 23% last year.

Now turning to slide 10. In the fourth quarter, earnings from Financial Services of $42.2 million and revenues of $59.4 million, including contributions from the additional week of operations in fiscal 2014 compared with operating earnings of $33 million on revenue of $47.4 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 were 6 -- I'm sorry, it's 9.5% in both periods. Originations of $232.2 million in the quarter increased 17.5% from 2013 levels.

Moving to slide 11. Our year-end balance sheet includes approximately $1.4 billion of gross financing receivables, including $1.2 billion from our U.S. Snap-on Credit operation. Approximately, 80% of our U.S. financing portfolio relates to extended credit loans to technicians.

In 2014, our worldwide finance -- Financial Services portfolio grew $152.2 million. As for finance portfolio losses and delinquency trends, these continued to be in line with our expectations.

Now turning to slide 12. Cash provided by operations of $97.2 million in the quarter, decreased $25.3 million from comparable 2013 levels, as higher net earnings in 2014 were more than offset by net increases in operating assets and liabilities, including the timing of estimated tax and other payments, and $10 million of higher discretionary pension plan contributions.

Net cash used by investing activities of $46 million, included $30.7 million to fund a net increase in finance receivables. Capital expenditures of $17.3 million in the quarter compared with $19.9 million last year. Full year capital expenditures totaled $80.6 million.

Turning to slide 13. Days sales outstanding for trade receivables of 61 days compared with 62 days at 2013 year-end. Inventories increased $41.1 million from 2013 year-end levels, primarily 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 3.7 compared with 3.8 turns at 2013 year-end.

Our year-end cash position of $132.9 million decreased $84.7 million from 2013 year-end levels, largely due to the March 2014 repayment of $100 million of debt at maturity. The net decrease in cash also reflects year-to-date impacts of funding $746.2 million of new finance receivables, dividend payments of $107.6 million, $80.6 million for capital expenditures, the repurchase of 680,000 shares for $79.3 million, and the acquisition of Pro-Cut for $41.3 million.

These uses of cash were partially offset by $591.4 million of cash from collections of finance receivables and $397.9 million of cash from operations. Our net debt-to-capital ratio was 26.3% at both 2014 and 2013 year ends.

In addition to our $132.9 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 2014 year-end, we had $37 million of commercial paper borrowings outstanding.

This concludes my remarks on our fourth quarter performance. I'll now briefly review a few outlook items for 2015. We anticipate that capital expenditures in 2015 will be in the range of $80 million to $90 million. We also expect that our full year 2015 effective income tax rate will be at/or below our full year 2014 rate of 32.1%.

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

Nick Pinchuk: Thanks, Aldo. We believe our fourth quarter full year results are clear evidence of the abundant opportunities that lie along our strategic runways for growth and of our continuing progress of taking advantage of those possibilities and in achieving amidst challenge and turbulence.

The vehicle repair market is both favorable economically and familiar operationally, and we are advancing in that arena. The van channel is being enhanced. The Tools Group is continuing to rise, sales up 11.8%, operating margin increased by 200 basis points. And we believe that franchisee's confidence and capability are stronger than ever.

We're expanding with repair shop owners and managers, profitable growth in dealerships and independent shops, Pro-Cut and Challenger integrated smoothly, giving us more to sell, and OI margin of 23.1% and volume growth of 6.9%.

We're reaching into new areas for new customers, growing coherently. The extension to critical industry is working; double-digit growth with those customers in the quarter, four straight quarters of robust increases. And we're building firm physical capabilities in emerging markets; activity in China and in India, up nicely in the quarter.

Put that progress together with our commitment to Snap-on Value Creation, and you will see encouraging results. You see organic sales increases of 9.8% and a margin gain of 140 basis points to 16.9%. In fact, you see our fourth quarter. And as we move forward, we know there are headwinds.

We know there are more challenges. But we also believe that our team has unique opportunity, rooted in growth and improvement, and has the intent and the capability to continue our positive trend of strategic and financial progress, ensuring that we will exit 2015 stronger than when we enter.

Before I turn the call over to the operator, it's appropriate that I recognize our franchisees and associates, an extraordinary group. Once again, I know many of you are listening. Please know that this encouraging quarter is the result of your effort, for your contributions to our performance, for your support of our team, and for your commitment to our future you have my congratulations and you have my thanks.

Now I'll turn the call over to Hannah for questions. Hanna?

Operator: Thank you. 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, press star 1 to ask a question. And we'll pause for just a moment to allow everyone an opportunity to signal for questions.

And we'll take our first question from Liam Burke with Wunderlich Securities.

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

(Crosstalk)

Liam Burke: Nick, can you give us a little color on how much incremental growth you got from company supplied vans like the Rock 'N Roll van to help supplement the van franchisee effort?

Nick Pinchuk: Well -- yeah, sure. Look, the Rock 'N Roll vans, you know, as you know, are sort of like a time shared event which add retail space on a time sharing basis; each technician they go around and they visit various technicians for two to three days. We've grown them from, I think, 18 in the first quarter of 2012, up to around 59 in North America last year. They're not growing anymore.

But suffice it to say that big-ticket items, which tool storage is one of them, was up ahead greater than the overall Tools Group of 11.8% in the quarter. So they pace the -- they were among the pacing elements -- big-ticket items were among the pacing elements for our growth in the Tools Group.

And it's clear that the -- that those 59 North America, and I think it's 64 international -- in total because we have some in the UK now and Australia, have helped drive the way. And of course, that's together with our TechKnow vans, which have increased the same way. Yeah, the TechKnow vans are now up, I think, to 31, which started at 14. So those are both helping grow this business. And it's moved faster than at 11.8%.

Liam Burke: Okay. And on new product introductions or innovation, did you have a good year in terms of hit products and were they divided equally between industrial and automotive?

Nick Pinchuk: I would say we had a good year, yeah. I'm pretty positive about the year. You know, we had some really fine new products and the numbers were like last year. You know, compared to just what 2006, they're several times, as I said many times, that number.

And I would say that they are divided, kind of, not quite equally. I say the Tools Group gets a little more of those because we have more people really in the workplaces for the automotive repair business. And therefore, those ideas are rolling back with greater frequency. But we are getting a good representation from the industrial business, from the critical industries.

And you know, I can offer to you that we've advanced our critical industries, not hit products, but we're expanding that business, for example, we added in the year 996 new aviation products. We added over 600 oil and gas products, military products over 800, power generation. So we're adding products. They are not all the hit products. I'm not saying that but we added new products to create excitement in that business.

The hit products are those that sell over 1 million and create the excitement. We're getting those in industrial. We're still today getting more out of the vehicle repair side of the business.

Liam Burke: Great.

Nick Pinchuk: Still, very good year for that, I'm very pleased. And in fact, when you look at these numbers, it's hard for you to appreciate it, but I believe very strongly that it's generated by the enthusiasm and the attention-getting that these great new products get when people in the vans or when our salesman call-on and customers say, "wow, that's a new product, I'd like to get it," and they add other products to it.

Liam Burke: Great. Thank you, Nick.

Nick Pinchuk: Sure.

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

David Leiker: Good morning, everyone.

Nick Pinchuk: Good morning, David.

David Leiker: I wanted to start on the organic growth in the Snap-on Tools Group. You were running 6% or so, the last, you know, the first 3 quarters of the fiscal year, you know, and you jumped up approximately 12% here in Q4, almost double the growth rate. Anything in particular that's behind that? And any sense on how sustainable, you know, that kind of a growth rate is going forward?

Nick Pinchuk: Yeah, I know -- I don't know. I think, you know, we have been, you know, you and I have talked about this many times. I mean, the Tools Group numbers, like you say, 11.8%, 6.0%, 6.6%, 6.0%, 10.2%, 9.5%, in fact, the Tools Group now -- the Tools Group has now grown greater - 5% or greater in, I think, the number 18 over the last 19 quarters. So they've shown some fairly strong performance.

And all I can say about it in general, David, what I can say first, in general, is that what's happening here is the effect -- the continually increasing effect of understanding how to help the franchisees be more effective, which offered things like the vans, the Rock 'N Roll cab and the TechKnow van.

And we're just getting better at bringing out new products and finding those sweet spots in the -- for the customer needs that excite the customers and get that stuff moving off the van. That's what's happening here.

You know, our ability to make the franchisees more productive and effective and the experience that's building in our team to be able to wield this model, which has always been, I've said, the model that fell from Saturn, more effectively. One of the world's great models, those guys in the Tools Group are probably wielding it better than ever before.

In this quarter, I think you might say, we had a particularly great customer connection and innovation season, like Liam just asked, that's one. And two, we had, you know, like things like power tools and some great power tool products that came up.

I was just -- I was in a shop the other day, and in fact, Tuesday -- Monday -- Tuesday -- sorry, Tuesday, I was in a shop and the technician said, "Boy, I got this new CT8850, you know, my cordless impact. I used to use these pneumatics. I used to be proud of my pneumatic. Now I've turned my compressor off because this thing is so powerful, I won't let it out of my hand." So that was a terrific endorsement. He really had gone completely to the new product, and that's driven some of our sales. So you see that.

The other thing about the fourth quarter is, we had a particularly great SFC -- great SFC. And the tool -- again, this is the experience of the Tools Group guys that are very positive about this. You know, they're very effective in doing this.

You know, this is one of the things that I feel about this business, if I can just say this. I think we are on a trend of continual operating improvement. I know there's a lot of discussion about currency. In fact, you can see the numbers of -- you can see it in our numbers. In the fourth quarter, we got about $20 million worth of translation hit and, you know, when you see the K you'll see a couple of million dollars of profitability is associated with it.

And, you know, you never know what the eventual numbers will be because you got a lot of variation in terms of what happens in the marketplace. But we're exposed in places like -- our big exposures are places like, you know, the euro, 9% of our sales are in the euro and 8% in the pound and then another 5 in the Canada and so on. And we have some drips and drabs around Australia and Japan.

But when you -- and the actual number depends on, you know, where those -- what activities are each of those markets. So translation and transaction depends on the cocktail of that.

But one thing we know is that, you know, as we move forward, the rates from the end of the year are moving up more unfavorable. So we'll see headwinds from currency, but we are confident. We know that our operating position will keep improving despite the arithmetic associated with the currency. So things like the Tools Group, the extension of critical industries, four straight quarters of high single digits or double digits, those will continue to grow. And we'll exit, as I said in my comments, better in 2015 that when we entered.

David Leiker: And then just a follow-up on that, if we look at, you know, the activities that you're doing with your dealers to improve their productivity, you know, find ways to push more through the channel, inherently, that's somewhat of a barrier. You are creating more and more of a barrier of entry. How is your competition competing with your franchisees changing their business? Are they trying to figure it out? Or they copying what you're doing? What's happening down in the trenches there?

Nick Pinchuk: Well, we have some great guys in the competition. You know, we have some great companies, Stanley and Danaher behind Matco and so on. But at the garage level in the vans, from each of our positions, we see that our franchisees don't often mention the competitors. They reference themselves versus where we have been or where we are going.

I just did a van ride, like I said, on Tuesday. And my van driver never mentioned the competitors. He only mentioned how we could get better or how satisfied he was with certain of our new products. So I see this.

And I see it across our product line. Our people are confident of our hand tools. Our people are confident of our tool storage because they are beautiful pieces. Our people are confident about our diagnostics and our software because they provide a better insight to repairing the car than ever before.

And you know what's happening in a marketplace now it used to be garages wanted diagnostics. Well, with the extension of all the computers on cars, every technician needs to have a diagnostics to repair these days. And so you can see this kind of confidence in our franchisees.

And yeah, they say, "Well, I'd rather have this or I need something else." But it's always with reference to themselves, it's not much compared to their -- it's not really compared to their competition as much. I hardly ever hear about that. That's not to say, they're not capable and capable people and aggressive people, but when I go out, I hear mostly about ourselves.

David Leiker: Great. Excuse me. Great. Thank you very much.

Nick Pinchuk: Thank you.

Operator: Our last question is from David MacGregor with Longbow Research.

David MacGregor: Yeah, good morning, Nick. Great quarter.

Nick Pinchuk: Thanks.

David MacGregor: You and your organization have built a tremendous compound earnings growth story here, and it's-- it really shows. So congrats on all the progress. I wanted to ask a couple of questions that are just kind of following up on the earlier questions.

And I start with the Tools Group and you'd made the observation that you aren't adding any more vans, I guess, on the Rock ‘N Roll Cab Express. Just looking at the 17.5% origination growth in the finance portfolio, suggest that, you know, the storage is still a big part of the Tools growth story and the margin, 200 basis points probably is driven in part by that as well. How do you keep the growth growing if you've stop to open new stores in this enterprise and maybe talk to that for starters?

Nick Pinchuk: Well, let me say a couple of this. First, just thanks for your compliments about compound earnings growth. But you know, actually, I don't think it's that surprising; this is a great business. It's a great business that has a lot of opportunity and runway further. So we are not so surprised by such things because it is a business that has so much untapped opportunity for both growth and improvement.

Let me come back to the idea of keeping it growing. Yes, it is a challenge. But you know that we've grown -- the Tools Group has grown 11.8%, 6%, 6.6%, 6.0%, 10.2%, 9.5% in the subsequent quarters, same-store sales. And then the other thing is, we're getting better at bringing out new products.

We just launched another tool storage unit at the kick-offs, David. And you know what it is, it's a tool storage - it's these tool storage big boxes; you can envision. And they're gleaming in different colors. They've got great features. You know, you can plug in your power to them and stuff and now we equip them with a downtown sound bar.

Now I don't know if you've ever been in a garage, but a sound bar and a tool storage box sounds like a cool thing to me. Everybody who sees them and hears them is going crazy. So new products it's a great -- are a great advantage, so that helps it, too.

You know, and then the other thing is, we just have to keep thinking of new ways. The Rock 'N Roll Cab was an innovation by the -- brilliant innovation by the Tools Group guys to figure out that they could help the van -- virtually expand the space of the van, which is one of the limitations. They just have to keep coming up with ideas.

That doesn't mean that the Rock 'N Roll cabs won't contribute more, I mean, they've been, you know, they've been pretty stable for a fairly long time. You know, I want to say that the vans have been, you know, like year-over-year if you wanted to look at last year at this time -- last year at this time, North America had 56 vans, now we have 59.

So they only moved up 3 and still it grew at 11.8% in total. And tool storage of big ticket was above that. So they figured out some way to do without too much increase in sales. Having said that, they also - we'll be tasking them to come up with new ideas to try to help this situation.

The final point is that, you know, when you look at the originations versus the Tools Group, it's a little more complex. You know, you have the question of originations, and it does -- it is driven by big-ticket items, but it's also a little bit driven by the variation between our sales and the franchisees' sales, of course. The originations track a sales to a technician; our sales track a sale from us to the franchisee. So there's a little bit of timing difference, and it can muddy the water a little bit.

David MacGregor: That's good detail. Thank you. I guess, the second question I had was, again, following up on our previous question on competition, and you talked about with respect to, you know, Stanley and Matco and the others. What if you could just talk about how much competition you're feeling and maybe, particularly, within the diagnostics business? But how much competition you're feeling from the automotive retailers? And I guess the question really is the category...

(Crosstalk)

Nick Pinchuk: What do you mean?

David MacGregor: I'm sorry.

Nick Pinchuk: What do you mean automotive retailers? Can you define it for me?

David MacGregor: Yes, the Auto Zone, Pep Boys, O'Reilly's, those guys. And I guess my question really is, you know, as that diagnostics category evolves and the technologies that represent, kind of, the foundation of that category become less expensive, how do you respond to protect your great business from, you know, price competition, increasing availability, I mean, is it innovation, is it warranties, is it credit, or is it support and service? How do...

(Crosstalk)

Nick Pinchuk: I'll tell you what, all of the above, I think. Remember first, that we start with a great product, enabled by an extraordinary base of information with, I think, better insight on repair than anybody else.

You know, we have a product that will tell you okay, you have a make and model and power train of a car, and it's a certain model, what the typical repair is on that model based on big data, the only one available.

And we have an understanding. A lot of the competition comes at the lower end with code readers and so on, a little bit less sophisticated. Technicians are looking for more levels of sophistication. They want to read what the car says. They want to be able to put the car through functional tests, through its paces. They want to be able to reprogram it. They want to be able to see what the OEM says is a standard fix. And then they want the whisper tips and the tips that come out of the big data. We have all of that, almost no one else does.

So our product keeps evolving and getting stronger in that regard. And if anything, the requirements for this gets bigger because, you know, it used to be -- the computer content on the cars will get more and more. This is one of the reasons why nobody can repair cars anymore because they're so complicated.

And even in garages, you need, what used to be a situation where you needed one big unit to handle everybody and you could pass it around, well, you can't be working on a car today in many cases without these things, so every technician wants one. And so you have that.

And then finally, finally, we have our franchisee armed with the TechKnow vans, up close and personnel with the technician to help him through the product, tell him what he needs to know, how to use it, and find out what his particular problems are. We have customer connection and customer delivery like no one else has.

And so that's why we don't feel so much heat from those guys. We think this is a robust market that's going to keep growing. We think it's only going to get more demand in this area. And we think we have significant advantages in data, in hardware and in software. And our software business, you know, our hardware business was strong, we just had a great launch. And our software business was up more than the hardware business in the quarter.

David MacGregor: Great. Good answer. Thank you very much.

Nick Pinchuk: Okay?

David MacGregor: Yeah, thank you.

Nick Pinchuk: Sure.

Operator: That concludes today's question-and-answer session. Ms. Kratcoski, I'll turn the conference back over to you for any additional or closing remarks.

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

Operator: That concludes today's conference. Thank you for your participation.

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