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Operator: Good day everyone. Welcome to the Snap-on Incorporated 2017 Third Quarter results conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Ms. Leslie Kratcoski. Please go ahead ma'am.

Leslie Kratcoski: Thanks Allen 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 our financial results. After Nick provides some closing thoughts we'll take your questions. As usual we've provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the Web cast Viewer as well as on our Web site [snapon.com](http://snapon.com) under Investor Information. These slides will be archived on our Web site along with the transcript and replay of today's call.

Any statements made during this call relative to management's expectations, estimates or beliefs or otherwise state management's or the company's outlook plans or projections are forward-looking statements and actual results may differ materially from those made in such statements. Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

Finally, this presentation includes non-GAAP measures of financial performance which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding these measures including a reconciliation of non-GAAP measures is

included in our earnings release and conference call slide deck which can be found on our Web site. With that said I'd now like to turn the call over to Nick Pinchuk. Nick?

Nick Pinchuk: Thanks Leslie. Good morning everybody. As usual I'll start with the highlights of our third quarter, give you an update on the environment and the trends we see and then I'll take you through some of the headwinds we've encountered and speak about our progress. Aldo will then provide you a more detailed review of the financials.

In the third quarter we again made overall advancements along our runways for both growth and improvement. Total reported sales were up 8.4% to \$903.8 million, including \$5.9 million of favorable foreign currency translation, and a boost from acquisitions including last year's Car-O-Liner and Sturtevant Richmond operations and this year's BTC and Norbar businesses. They combined for an incremental \$44.3 million in sales. Overall organic sales were up 2.3% with varying results across the groups.

It's worth noting I think in this period that the major hurricanes which struck Houston, Florida and Puerto Rico did impact our results. We estimate that the sales in the quarter were reduced by about \$8 million, principally in the Tools Group, but with some smaller impacts in the other businesses. Now the operations in the affected areas have generally returned to normal except for Puerto Rico. But as in the case of Super Storm Sandy in 2012, timing of both further disruption and rebuilding are unclear, so they could extend into upcoming quarters. We also had a -- besides the hurricane we also had a one-time legal charge in the period -- \$15 million to OI and -- or \$0.16 to EPS, reflecting a California state court judgment in an employment related litigation brought by an individual that's being appealed. Excluding the legal charge, OpCo operating margin was 18.6% of sales -- down 30 basis points -- a 90 basis point impact from acquisitions and unfavorable currency offset in part by operating improvements. For Financial Services, operating income of \$56 million compared to last year's \$50.6 million. Excluding the legal charge,

earnings per share as adjusted reached \$2.45. That's an increase of 10.4%. Now let's speak about the markets.

We believe the automotive repair environment continues to be generally favorable. We saw mixed results from our businesses in that arena, but based on what we've been hearing from our franchisees, from technicians, from shop owners and managers, we believe vehicle repair remains a favorable place to operate, and over time, Snap-on's positioned to take full advantage. For the critical industries, verticals like aviation, oil and gas, mining, and heavy-duty, we're seeing recovery. Our activity was strong almost across the board. We like the way the critical industries are sounding and trending.

We have further confirmation of that positive outlook from our European-based hand tool business, SNA Europe. Solid results with substantial growth across the European continent, broad strength, another sign of a favorable environment. You know, we do have challenges but there will always be headwinds. They've been a factor in other quarters and this past one was the same. But our markets do offer attractive runways for growth and we believe we're well-positioned to confront and offset the challenges and continue enhancing our band channel, expanding with repair shop owners and managers, extending to critical industries, and building in emerging markets.

At the same time, those growth run rates are joined and supported by the benefits of Snap-on value creation -- safety, quality, customer connection, innovation and rapid continuous improvement or RCI as we call it. They're a constant driver of our progress, especially customer connection, understanding the work of professional technicians, and innovation, matching that insight with technology. And in this quarter Snap-on value creation, customer connection and innovation led to more prestigious product awards than we've had, more recognition than in any single year. Snap-on was prominently represented with nine Professional Tool and Equipment News (PTEN) People's Choice Product Awards where the actual users, the technicians, make the

selection. That's a great endorsement. We were also recognized with three PTEN Innovation Awards and with three Motor Magazine Top 20 awards. And all three of our groups -- Tools, RS&I and C&I were part of those achievements. An essential driver of Snap-on growth is innovative product that makes work easier. It's always been our strength. And those third quarter awards are testimony that great Snap-on products just keep coming. Well that's the market overview. Now we'll move to the individual operating groups.

Let's start with Tools. Organic sales down 1.6%. Growth internationally more than offset by declines in the US. Operating income in the quarter of \$56.3 million, including \$2.3 million of unfavorable foreign currency compares to \$64.6 million in 2016. OI margin of 14.3% versus last year's 16.3% with the decrease reflecting the lower volume and unfavorable mix, and a 70-basis point impact of unfavorable foreign currency.

The third quarter is when we hold our annual Snap-on franchisee conference, our SFC as we call it. This year it was in Dallas with more than 8,200 attendees, franchisees and family members from over 3,000 routes. It's an opportunity for franchisees for training and for ordering new product and it's a chance for the company to gauge our franchisee's outlook on the business.

Now the order story this year was mixed. Tool storage was up. Other products were down. And orders were down overall from last year's record level. But I can attest that the franchisees displayed confidence in our business and optimism in their future. And that positive outlook is reinforced by the advancements evidenced in our franchisee's health metrics, the financial and physical indicators we monitor and evaluate regularly. They remain favorable and robust. We do believe our franchisees continue to grow stronger. And at our most recent National Franchisee Advisory Council meeting, held just a few weeks ago, I heard the same positive outlook and optimism that was the prevailing mood at the Dallas SFC. And there are real reasons for the confidence. The market remains robust and our product line is getting stronger.

You heard about the product awards. Well beyond that there's a continuous stream of winning offerings going forward. Attention getters, like our new tool storage PowerDrawer in our Masters and Classic tool storage series. The PowerDrawer gives technicians the ability to organize their cordless tool battery chargers, multiplying these days in the shop, all in one 16-inch wide drawer with five 110 volt outlets for battery charging and two USB power ports for quick charging of cell phones and other electronic devices. It's configured in a tapered device to allow easy access to all seven ports. Power and convenience packaged in the traditional Snap-on tool storage line, and early reports indicate it's a win, helping to restart the tool storage line.

Also new is our 12 volt, inverter driven, Engine Starter+, engineered in our Kenosha, Wisconsin labs and manufactured in our Murphy North Carolina plant. Arcless connection technology that prevents a reverse polarity activation - it does bad things when you hook a negative up to a positive - and a dual circuit feature accommodating both high current jump starting and standard charging of small devices, the benefits of inverter drive. Launched in September, it's been received with the kind of enthusiasm that will make another of our hit products.

Well that's the Tools Group. Now let's move to RS&I. Sales increased \$47.4 million including \$21.6 million of acquisition-related sales and \$2.1 million of favorable foreign currency translation. Organic growth was \$23.7 million or 8.2% -- the fourth straight quarter that RS&I has grown organically by high single digits. Operating earnings of \$83.4 million increased \$11.6 million. The operating margin was close to flat with last year -- 25% compared to 25.1%. The acquisitions had an unfavorable impact of 140 basis points but that headwind was pretty much offset by the benefits of RCI and volume.

The robust RS&I growth represents progress across all our businesses in that group with double digit increases in diagnostic and repair information products sold to independent repair shop owners and managers -- high single-digit increases to OEM dealerships, and a low single-digit rise in our undercar equipment. And again in RS&I, customer connection and innovation stood

tall, offering compelling new offerings, taking advantage of a favorable vehicle repair environment.

Innovative new products like our latest handheld, the Zeus, which joins our award-winning diagnostics lineup as the new flagship platform. The Zeus was launched following the SFC in late August and surpasses our highly acclaimed ETHOS Edge building on the capabilities of that popular product but further incorporating our Intelligent Diagnostics software, providing the technician with pinpoint guidance for repair. Intelligent Diagnostics is made possible by Snap-on's proprietary big data that guides the technicians in solving those very unusual, hard to analyze vehicle repair problems, and as a consequence, saving a lot of time. It's no wonder that Zeus has been well received and in just a short time it helped drive the strong RS&I progress in the quarter. Diagnostics, you know, are becoming increasingly central to vehicle repair. Snap-on is the gold standard and you can see it in the numbers. So to wrap up RS&I, substantial achievements across the division, improving our position with repair shop owners and managers, continuing a very favorable trend, and reinforcing our belief in the strength of the vehicle repair market.

Now on to C&I. The sales of \$314.6 million in the quarter increased 8.7%, including \$22.7 million of sales related to acquisitions, and \$2.0 million of favorable foreign currency. Organic growth was 0.2% but that was the result of significant gains in critical industries, higher activity in SNA Europe and a decline in the sales of power tool products to the Tools Group. Operating margin reached 15.9%, up 80 basis point from last year's 15.1%, an improvement reflecting an ongoing stream of innovative new products for critical industries and a robust effort in RCI. They combined in the quarter to more than offset the 40 basis point impact of our recent acquisitions and a 10 basis point decrease from unfavorable foreign currency. Just a word here on our acquisitions, great additions to our product lines. At this point though they're dilutive to our profit ratios. But going forward we see them as landscapes for improvement. As we apply Snap-on value creation to their operations, they're a great future opportunity.

Now back to C&I progress. The Industrial division showed broad-based gains across most of the critical industries with strong year-over-year performance now accomplished for three straight quarters. Critical industries are coming back and when we couple that favorable environment with innovative new product aimed at solving critical tasks, we get very encouraging results. Advancements driven by innovation, by products like our automated tool control unit or ATC, a smart toolbox. In critical industries, tool use needs to be controlled, safe and productive. Snap-on ATC is the top of the line solution, fully automated organization, tool visibility, access control, and asset management. And our recent enhancements have made it even better. New options like Zoom ID and FastFlag. Zoom ID providing individual tool recognition with special tool tagging essential for serialized, certified, or calibrated tools that need individual documentation, like torque wrenches or gauges -- all-important items for accomplishing critical tasks. And our FastFlag feature display giving the user quick visual feedback on the status of the box, whether it's locked with all the tools accounted, unlocked with tools issued and in use, or problems exist such as wrong tools returned. Its products like these, aimed at industry needs, that are helping to drive our progress across the critical industries. And we believe the advancements will only continue.

Now let's speak about SNA Europe -- 16 quarters in a row of year over year growth and sales, navigating through some difficult geographies and economies. SNA Europe's volume continues to be positive, but its profits are even more encouraging, now up for 18 straight quarters and we believe there's still abundant opportunity. One of the ways SNA Europe's been capturing customers is our new BAHCO ERGO Tool Management System, the BETMS. It provides the ability to customize the product to specific needs. Actually, BETMS demonstrates a key change behind SNA Europe's positive trend, reaching directly to end-users, increasing customer connection, configuring just the right tool kits from the broad SNA Europe line up and matching customer specifications particularly. This new customer direct approach is transforming SNA Europe and helping to drive its ongoing trend of encouraging results. C&I, third quarter maintaining its momentum, extending in critical industries and building both sales and profitability.

So that's the highlights of our quarter. Tools group working to reignite the van channel. RS&I clearly continuing its strong and expanding profitability with repair shop owners and managers. And C&I now establishing its own positive trends of growth and profitability, extending across critical industries. Progress along our runways for coherent growth and advancements down our runways for improvement. Overall sales increasing organically by 2.3% despite the multiple hurricanes. And excluding the legal charge, as adjusted EPS of \$2.45 -- up 10.4% in a turbulent environment. Now I'll turn the call over to Aldo. Aldo?

Aldo Pagliari: Thanks Nick. Our consolidated operating results are summarized on Slide 6. Net sales of \$903.8 million in the third quarter increased 8.4% reflecting a 2.3% organic sales gain, \$44.3 million of acquisition-related sales, and \$5.9 million of favorable foreign currency translation. The organic sales gain reflects ongoing progress in serving repair shop owners and managers in the vehicle repair sector, as well as solid growth in sales to customers in critical industries and in our European-based hand tools business.

Consolidated gross margin of 49.6% declined 60 basis points primarily due to 40 basis points of unfavorable foreign currency effects and lower gross margins on acquisition-related sales, partially offset by savings from RCI initiatives. Operating expenses of \$295.5 million included a \$15 million charge related to the judgment that, as Nick has mentioned, is being appealed. The operating expense margin of 32.7% was 140 basis points higher as 170 basis points for the legal charge and 30 basis points of operating expenses for acquisitions were partially offset by sales volume leverage. Operating earnings before financial services of \$153.1 million, or 16.9% of sales, included \$1.9 million of unfavorable foreign currency effects and the \$15 million legal charge, and compares to \$157.6 million, or 18.9% of sales, last year. Excluding the legal charge, operating earnings before financial services, as adjusted, was \$168.1 million, or 18.6% of sales.



Financial services revenue of \$79 million and operating earnings of \$56 million increased \$7.4 million and \$5.4 million respectively as compared to last year. Consolidated operating earnings of \$209.1 million, or 21.3% of revenues, compared to \$208.2 million, or 23% of revenues, last year. Excluding the legal charge, consolidated operating earnings, as adjusted, was \$224.1 million, or 22.8% of revenues. Our third quarter effective income tax rate of 30.1% was reduced by 60 basis points as a result of the legal charge. The effective tax rate in the third quarter of 2016 was 31.2%.

Finally, net earnings of \$133.4 million, or \$2.29 per diluted share, compared to \$131.7 million, or \$2.22 per share, year a ago, representing a 3.2% increase in diluted earnings per share. Excluding the legal charge on an after-tax basis, net earnings, as adjusted, of \$142.7 million, or \$2.45 per share, represented a 10.4% increase in diluted earnings per share, as adjusted. Now let's turn to our segment results.

Starting with the C&I group on Slide 7, sales of \$314.6 million in the quarter increased 8.7%, reflecting a 0.2% organic sales gain, \$22.7 million of acquisition-related sales, and \$2.0 million of favorable foreign currency translation. The organic sales increase includes a high single-digit gain in sales to customers in critical industries and a low single-digit increase in the segment's European-based hand tools business. These increases were substantially offset by a double-digit increase in the sales of power tools, and a mid-single digit sales decline in the segment's Asia-Pacific operations. Gross margin of 40.3% increased to 130 basis points from 39% last year primarily due to favorable business mix and benefits from the company's RCI initiatives. The operating expense margin of 24.4% increased 50 basis points from 23.9% in 2016 primarily due to 40 basis points of operating expenses for acquisitions. Operating earnings for the C&I segment of \$50.1 million increased to \$6.4 million from 2016 levels and the operating margin of 15.9% improved 80 basis points.

Turning now to Slide 8, third quarter sales in the Snap-on Tools Group of \$392.7 million decreased 1.1%, reflecting a 1.6% organic sales decline partially offset by \$2 million of favorable foreign currency translation. The organic sales decrease includes a mid-single digit decrease in the company's US franchise operations, partially offset by a double-digit sales gain in the international operations. Gross margin of 41.8% decreased from 43.6% last year, primarily due to a year-over-year shift in product mix and 70 basis points of unfavorable foreign currency effects. The operating expense margin of 27.5% increased 20 basis points from 27.3% primarily due to the effect of the lower sales. Operating earnings for the Snap-on Tools Group of \$56.3 million, including \$2.3 million of unfavorable foreign currency effects, decreased \$8.3 million and the operating margin of 14.3% compared to 16.3% last year.

Turning to the RS&I group shown on Slide 9, third quarter sales of \$333.5 million increased 16.6%, reflecting an 8.2% organic sales gain, \$21.6 million of acquisition-related sales and \$2.1 million of favorable foreign currency translation. The organic sales increase is once again solid and broad-based, reflecting double-digit gains in sales of diagnostic and repair information products to independent repair shop owners and managers, a high single-digit sales increase to OEM dealerships as well as a low single-digit increase in sales of undercar equipment. Gross margin of 47.3% improved 80 basis points as a result of 40 basis points of benefit from acquisitions and savings from RCI initiatives. The operating expense margin of 22.3% increased 90 basis points principally due to 180 basis points of impact from acquisitions, partially offset by benefits of sales volume leverage. Operating earnings for the RS&I group of \$83.4 million increased \$11.6 million from prior year levels. The operating margin of 25.0% compared to 25.1% last year, including a 140 basis point impact from acquisitions.

Now turning to Slide 10, operating earnings from Financial Services of \$56.0 million on revenue of \$79.0 million compared to operating earnings of \$50.6 million on revenue of \$71.6 million last year. Financial Services expenses of \$23.0 million increased \$2.0 million primarily due to an increase in the provisions for credit losses. While total provision expense of \$13.6 million in the

third quarter is up \$2.3 million year over year, it is fairly comparable with the \$13.4 million incurred in Q2. As a percentage of the average portfolio, financial service expenses were 1.2% in both the third quarters of 2017 and 2016.

In the third quarter, the average yield on finance receivables was 17.9% in 2017 compared to 18.0% in 2016. The respective average yield on contract receivables was 9.2% and 9.4%. Total loan originations of \$271.8 million in the third quarter increased \$2.0 million, or 0.7%, year over year, as higher originations of contract receivables were partially offset by a decline in originations of finance receivables due in part to lower year-over-year tool storage sales by the Snap-on Tools Group.

Moving to Slide 11, our quarter end balance sheet includes approximately \$1.97 billion of gross financing receivables, including \$1.71 billion from our US operation. In the third quarter our worldwide financial services portfolio grew \$59.4 million, or 3.1%. As for finance portfolio losses and delinquency trends, these are, as expected, tracking higher year over year. We believe these trends, however, continue to reflect our view of an appropriate risk reward balance in this segment of our business. As it relates to extended credit, or finance receivables, the largest portion of the portfolio, trailing 12-month net losses of \$43.7 million represented 2.77% of outstandings at quarter end, up 61 basis points year over year and 16 basis points sequentially. However, net losses related to finance receivables of \$11.1 million in the third quarter were up sequentially by only \$0.3 million from \$10.8 million in the second quarter. The 60 plus day delinquency rate of 1.7% for US extended credit increased 30 basis points sequentially as compared to a more typical seasonal increase of about 20 basis points. Overall operating earnings in the financial services segment rose 10.7% year over year and 2.6% sequentially.

Now turning to Slide 12, cash provided by operating activities of \$95.5 million in the quarter decreased \$16.4 million from comparable 2016 levels primarily due to higher working investment. During the quarter we also elected to make \$30 million in discretionary contributions into our

domestic pension plans, an increase of \$20 million as compared to Q3 2016. Net cash used by investing activities of \$62.1 million included net additions to finance receivables of \$35.2 million. Capital expenditures of \$22.9 million in the quarter compared with \$16.5 million last year. Net cash used by financing activities of \$29.5 million included dividend payments to shareholders of \$40.7 million and the repurchase of 603,000 shares of common stock for \$90.1 million under our previously announced share repurchase programs. Year to date share repurchases totaled 1.35 million shares for \$212.6 million. These uses of cash were partially offset by higher short-term borrowings, principally commercial paper.

Turning to Slide 13, trade and other accounts receivable increased \$76.4 million from 2016 year-end levels including \$22.2 million of foreign currency translation and \$9.1 million from acquisitions. Days sales outstanding of 67 days was up from 63 days at year end, including the impact of acquisitions and currency, which combined increased DSOs by about three days. Inventories increased \$119.4 million from 2016 year end primarily to support continued higher customer demand and new product introductions resulting from, as an example, increased penetration into critical industries and emerging markets. In addition, foreign currency translation and acquisitions contributed \$24.1 million and \$6 million of the increase, respectively. On a trailing 12-month basis, inventory turns of 3.1 compared to 3.3 at year end.

Our quarter end cash position of \$94.1 million increased \$16.5 million from 2016 year end levels. Our net debt to capital ratio increased to 27.6% from 26.3% at 2016 year end. In addition to our \$94.1 million of cash and expected cash flow from operations we have more than \$700 million in available credit facilities. As of quarter end we had \$170 million of commercial paper borrowings outstanding. That concludes my remarks on our second quarter performance, our third quarter performance sorry. I'll now turn the call back to Nick for his closing thoughts. Nick?

Nick Pinchuk: Thanks Aldo. Well that's the third quarter. Sales growth and expanded profit in turbulence.

We feel quite positive regarding our position. Our markets, vehicle repair remains attractive, and

the critical industries are recovering. Our businesses, RS&I is expanding with repair shop owners and managers, strengthening its already extraordinary hardware and software product lines with the Zeus breaking new ground in vehicle diagnostics. RS&I registering its fourth straight quarter of high single-digit growth and a profitability that keeps improving, offsetting the dilution of acquisitions. C&I extending to critical industries, the Industrial division achieving broad growth -- the third straight quarter of positive performance, driven by new products that match the needs of professionals and SNA Europe's ongoing growth trend, sales up for 16 straight quarters and profits rising 18 straight in this difficult environment, with more to go. And C&I profitability 15.9% -- up 80 basis points against a 50 basis point impact of acquisitions and currency. And the tools group undergoing some tuning, but still a strong business in a strong market. The Tools Group is a combination of market, brand, business model and teamwork that we believe are natural advantages and that we believe will author positive trends going forward. And our acquisitions, dilutive now, but as we apply Snap-on value creation we see abundant possibilities for gain. And all of that added up in the quarter to growth and improvement. Sales up 8.4% as reported, 2.3% organically against 80 basis points of hurricanes. And excluding the legal charges, adjusted EPS of \$2.45 -- a rise of 10.4%. Going forward, we believe we have wide runways for growth and improvement, and we have the business models, the processes, and the capabilities to take full advantage and continue our progress on into the fourth quarter and beyond.

Before I turn the call over to the operator I'll speak to our franchisees and associates. The advancements we've made and the headwinds we've overcome are a direct result of your energy, your capability, and your dedication. For your success in authoring our progress, you have my congratulations, and for your dedication to our team, you have my thanks. Now I'll turn the call over to the operator. Operator?

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

question. We'll pause for just a moment to allow everyone a chance to signal. We'll take our first question from Gary Prestopino.

Gary Prestopino: Hey good morning everyone.

Nick Pinchuk: Hey Gary.

Gary Prestopino: A couple of things Aldo could you just go through on the RS&I the percentage increases that you cited there in terms of the sales for the various, you know, broad based product categories? I couldn't write quick enough.

Aldo Pagliari: Well again I think I framed it this way is that it was solid really pretty much across the board. They were up high single digits. If you look at the diagnostics and repair information sector. They were up in sales to OEM dealerships mid-single digits and also I think they're low single digits in sales of undercar equipment. You know, so a pretty solid performance across the board.

Gary Prestopino: Okay thank you. And then Nick, did I hear you say right, at the franchisees, the conference that you had, that tool storage sales were up but other sales were down? Is that correct?

Nick Pinchuk: That's what you heard. Now I want to make sure that everybody who's listening to this understands. The SFC, when we talk about the SFC, we talk about orders not sales. These are orders that occur off the SFC floor, you know, this big floor that shows product. And so they're orders and those orders can be distributed over several quarters. You know, some of them are for the third quarter, some are for the fourth and they stretch out into the first quarter, maybe even to the second quarter of next year, so it's spread out over a period of time.

So SFC orders aren't necessarily a direct indicator of what's to come in any particular quarter or even in total but that's the characteristics of it. Our tool storage products, you know, remember we said we were going to try to adjust the tool storage product line, make it more attractive? I think it looks attractive and the orders on the SFC floor seem to say so.

Gary Prestopino: And can you give us an idea of the magnitude of the increase and the decrease or not?

Nick Pinchuk: Well, you know, I think we're talking about mid-single digits -- that kind of thing, you know, not -- but if you remember it was - last year was record. I said in my remarks last year's SFC was a record performance for orders. Now again I want emphasized nobody should get overheated about orders off the SFC. They're just indicative of things. They're not necessarily definitive about things. But it's better than a poke in the eye with a sharp stick for...

Gary Prestopino: Thank you.

(Crosstalk)

Gary Prestopino: Yes thanks.

Operator: We'll take our next question from David Leiker.

David Leiker: Good morning everyone.

Nick Pinchuk: Good morning David.

David Leiker: Aldo just two numbers questions first. On the acquisitions, I know you went through by segment and you talked about how much dilutive they were along the way, but can you at the corporate level at the EBIT line, the acquisitions were dilutive by what kind of a number?

Aldo Pagliari: Sure if you look at the overall corporation, you know, the acquisitions depressed earnings by about 50 basis points if you look at the OpCo operating margin as a percent of sales. And again that's just strictly the ratio that the acquisitions start with an OI percentage that's lower than the average of the business units that they've been subsumed into. And over time we expect to be able to add some value creation tactics into those results and improve them.

David Leiker: And is the intent within those businesses to get them, within each of those segments, so they're at segment level margins or is there room for further – something further than that?

Aldo Pagliari: I think each acquisition stands on its own and is unique as you know.

David Leiker: Okay.

Aldo Pagliari: The acquisitions of recent time, there's a small one that was software related. A hardware related business such as undercar equipment is not going to reach the levels of a software business, but we think there's opportunity to improve.

David Leiker: And then you had mentioned a transactional item in Snap-on Tools segment. I'm guessing that's exports out of the US with the weaker dollar into Canada...

Aldo Pagliari: Sure.

David Leiker: ... and the UK?

Aldo Pagliari: Sure. If you look at it again though you still have the dilemma of – not dilemma, it's just that we manufacture tools in the United States and sell them internationally. So if you look at the timing of when currency changes in Canada and in the United Kingdom, particularly in the United



Kingdom, you have timing differences related to inventory. But that's where most of the transaction negative effect occurs.

David Leiker: And then if we take a look at the storms and I know this is - we're not dealing with, you know, hard data on this, but if you look at what happened in Texas and Florida and you talked about the sales impact of that, can you flesh that out just a little bit in terms of what kind of an impact there might have been at Snap-on Credit in terms of originations, delinquencies, losses at all? Any color you can share there?

Aldo Pagliari: Sure. You know, we took some I'd say still rather nominal increases in the provision within the quarter. So the provision is up specific a bit to some of the effects of the hurricanes. Now, traditionally, when we look back over events in the past like Katrina and Super Storm Sandy, over time there's no clear evidence that storms such as these result in permanent disruption to the credit business. Having said that, certainly Puerto Rico is a bit of a different animal so we'll look to the future and see how that develops. But to give you some dimensions David is that if you look at the portfolio in these areas, if you look at Texas, that was affected, and Florida, a little bit of Georgia and into the Caribbean, you're looking at probably 9.8% of the US EC portfolio, just to give you a dimension. And if you look within that, about 2.6% of the whole US portfolio, people have asked for extensions. We have a process where people can ask, if they're in good standing, they can ask for an extension and we certainly honor that request if they're in a distressed situation. So it gives you a little bit of the dimension as to what is out there.

As we go forward, you know, in Q4 we'll see what the impact is on collection activity and remittances. But it's certainly too early to tell. So we took some provisions in Q3. I think Q4 will be a little bit more telling. If you go back to super storm Sandy, we didn't see the full effects of Sandy really until the one or two quarters after.

David Leiker: And then two or three quarters beyond that do you see a positive impact I would guess?

Aldo Pagliari: There's a potential. Obviously most of us I think would expect there to be rebuilding. Certainly there is going to be auto repair if your car has been damaged and garages will have to replace equipment that's been underwater or adversely impacted. And I think that's been the tradition. Again and Puerto Rico could be a little bit longer for it to return and how...

David Leiker: Right.

Aldo Pagliari: ...it returns and stuff but, you know, our activity in Puerto Rico is we sell annually in Puerto Rico \$5 million maybe.

David Leiker: Okay and then one last item. Nick, if you could talk a little bit about the power tool weakness. That's something that we haven't really been seeing. It's been more of a growth driver for your business, but if you give some color on what's going on there?

Nick Pinchuk: I think look I think part of this has to do with attention. One of the things we talked about in the second quarter was that the profitability of the Tools Group was very strong and a lot of that was driven by the introduction of new power tools, particularly our PT 850. And that really had a big spike in the second quarter driving both the profitability and some of the sales through that business. And I think we had some of the - one of the big factors here was just sort of like a giveback for that strong power tools quarter in the second quarter. That's the primary situation. And, you know, David every one of our quarters if we gave you the, you know, if you wanted to focus upon these things there'll always be ups and downs and so this is just...

David Leiker: Yes.

Nick Pinchuk: ...a down quarter for power tools and those power tools come out of Asia and our Murphy, North Carolina and our Kunshan factory. So that's what – and they're both in C&I.

David Leiker: And then just one follow-up on that one.

Nick Pinchuk: Yes.

David Leiker: If you looked, if you took kind of Q2, Q3 together with power tools, would that have been consistent with what the pattern had been?

Nick Pinchuk: Yes I think so. I think, you know, this might be a little weaker but nothing to get in the twist of – nothing to really get our attention.

David Leiker: Great. Thank you very much for the time.

Operator: Our next question comes from David MacGregor.

David MacGregor: Yes, good morning everyone. Nick I wonder if you could just talk about the deterioration in Tool segment operating margins. And, you know, I'm guessing some of this may have been attributable to the storms, but it also looks kind of working through the numbers as though maybe you had some weakness in some of the small ticket sales as well. And so I'm wondering if you could just sort of...

Nick Pinchuk: That's right. That's certainly right. The – what happened was is that the deterioration of the – if you might remember what drove the strong margins in the second quarter was I think we cited two particular products, the power tool, the 850 and particularly the – some of the new offerings, sort of the long-handled flex head ratchet, which sold very well. Well one of the things that drives profitability in the Tools Group are the products they make themselves. You see they make tool storage and they make hand tools.

And when those are weak it tends to put a pretty strong head – when those are weak in combination, it puts a pretty strong headwind on their profitability. And that's really what you're seeing in this – what you were seeing in this quarter. You saw some weakness in tool storage, although it wasn't as weak as the second quarter, and you saw weakness in some of the hand tool business.

Diagnostics was up because of the Zeus, but Diagnostics the margin is shared between the Tools Group and RS&I so it doesn't accrue. And that's what you saw. And then you saw, of course, it's lower volume. You know, you have the volume affects and then you do have the hurricane. So those things combined for that kind weakness.

David MacGregor: What should we be thinking about that business for 4Q and into the first half of '18?

Nick Pinchuk: Well, you know I think every quarter is a different situation. And I'll only say that I've said for a dog's age that the third quarter is kind of squirrely and isn't any indication of things going forward. I think we feel pretty positive about where the business is going. I mean tool storage in the SFC it seems as though maybe, you know, we've kind of solve some of the product problem. And that's a very good indication.

We're retooling the Rock 'N Roll cabs. About 50% of them will be retooled by the end of the fourth quarter and so we see that kind of coming back in that situation. So we're pretty positive about it. Sort of hit a, you know, a time for tuning and that's what we're doing refurbishing the product line. That applies a little bit to hand tools. We're going to be coming out with some new hand tools that will shake people up a little bit and get that restarted. So it all has to do with product, but I think we're optimistic going forward.

David MacGregor: Cull that out. Can you just say if you expect the drag on the tool segment growth to be less pronounced with each quarter from this point forward from storage?

Nick Pinchuk: You know, it's hard for me to say that but I would expect - I was encouraged by the – even though the orders were down overall in the SFC year, I was encouraged by the tool storage results which tends to be a kind of bellwether. Hand tools can move up and hand tools and power tools can move up and down depending on how the bundles are made in the SFC and so on and how people get excited about it. And the franchisees tend to have a broad array of hand tools on their vans and so that can move up and down depending on when you install new products. So I'm pretty optimistic. I think the drag goes down. We think we're recovering from the product line malaise in tool storage and we're retooling the Rock 'N Roll cabs and I think we have some exciting new product, like I talked, about coming out.

David MacGregor: Great. Last question just on competition I guess, you know, Matco and Mac both talked about adding trucks to their fleet and you've talked about holding your truck count constant. I guess on the surface it would seem that your share is being at least threatened. Can you talk about what Snap-on is doing maybe to defend and even grow its shares while your percentage of the industry fleet is being diluted by competitors' expansion?

Nick Pinchuk: Well it comes down to trying to expand and enable the vans, you know, with new product. New product is the first and foremost. We think we have the best product. Zeus is the best. Zeus is going to change everything. In other words, you heard our idea about SureTrack. You know, for example, SureTrack allowed the guy to look at the car and say 92% of the time this was solved by changing the mass airflow sensor. That helps for the high volume. But every once in a while something comes out that comes up on alternate Tuesdays and it takes forever to fix. Intelligent Diagnostic guides them through this like no one else can. And so those kind of things help.

Secondly, we're expanding the space on the vans. One of the reasons you see, in a lot of cases, you can see it reflected in franchise finance, is that the van drivers are buying or leasing bigger trucks, 20-foot trucks, not the 16-foot trucks, giving them more retail space. And we believe these

kinds of things -- better product, more space and then we're working on helping them with their time so they have more time to sell. That's what wins for us.

Operator: And our next question will come from Liam Burke.

Liam Burke: Morning Nick, morning Aldo.

Nick Pinchuk: Hey Liam.

Aldo Pagliari: Good morning.

Liam Burke: Nick in the C&I division you made some significant investment upfront in emerging markets. Could you give us a little color on the Asia-Pacific and what happened during the quarter?

Nick Pinchuk: Sure. Asia-Pacific in the overall result, the local sales, the sales into the Asia-Pacific theater was up. Particularly good quarters in China and India. You know they're always mixed. So China and India were good quarters. China and India were good quarters year over year. And Indonesia was down for example. But in the region overall those sales, external sales rose in the quarter so we're pleased with that.

The sales in supplying the Tools Group principally, basically power tools coming out of the Kunshan factory, were down relatively sharply and therefore that tended to overwhelm the growth and it made it down somewhat in the quarter. That's how that works. So if you're looking at the local activity, I think a quarter of progress. If you're looking at as a supplier to the divisions in the West principally the Tools Group, it was a down quarter.

Liam Burke: Got it, okay. And Nick you pointed out both inventory and receivables were off based on acquisitions. If you net out acquisitions would you anticipate those ratios to be normal? And...

(Crosstalk)

Aldo Pagliari: The ratios are fairly similar to the working capital ratios in total for the corporation. What I did say Liam was that one day more or less is what impacts DSOs and it's related to the acquisitions. But the inventory turnovers are similar to our core business.

Liam Burke: And you wouldn't anticipate any change with that going forward? I mean within reason?

(Crosstalk)

Liam Burke: I mean of course you'll get quarter to quarter, you know, variability but...

Liam Burke: Yes I think as we move forward we look at the opportunities that the inventories present. We expect there to be a return on our inventories. We're not unwilling to invest in them if we think the returns are there. So I don't like to get ahead of myself on a conclusion that the inventory is not required because so far the acquisitions have been performing nicely with respect to our expectations.

Liam Burke: Great.

Nick Pinchuk: Yes I think we'd say that necessarily working capital isn't necessarily a source of cash going forward. And our overall return on assets when you adjust for the acquisitions, the RONAEBIT is up 80 basis points. So I think we feel okay about that. Now that doesn't mean it doesn't move.

Liam Burke: Great. Thanks Nick. Thanks Aldo.

Nick Pinchuk: Sure.

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

Bret Jordan: Hey good morning guys.

Nick Pinchuk: Good morning.

Aldo Pagliari: Good morning.

Bret Jordan: Hey to follow-up on that Matco and Mac question, are you seeing any increasing price competition out of those guys as they're building up the franchise base a bit? And I guess how do you see Craftsmen entering the market in 2018 obviously with some broader distribution under new ownership? Is that a price competitor or is that just really not in the same product set?

Nick Pinchuk: Let me ask – let me answer them in the reverse order. I mean Craftsmen's been ubiquitous for a long time, you know, of course not on a van, but ubiquitous. And people-- they've been in flyers all over the place, in every Sunday morning's papers-- so people are well aware of the price difference. So I don't see the balance of - balance changing with the Craftsmen. It may work in some instances, but those people may not be our customers to begin with.

Secondly, for the other guys, you know, they've been expanding but I'm not hearing competition on price from them from our franchisees. I don't hear that. Actually I continue to hear questions turning in on our self. Gee, this is a great diagnostic unit. It's better than everybody else. Gee, I'd like to have the power tool with a little different features because other people might have those. This was better than – this was - wasn't as good as our old power tool, not enough better than our old power tool. Those are the kinds of things I hear. Tool storage, I hear "Gee the tool storage line isn't catching our imagination. It isn't getting technicians to come out and say I got have that



box." By the way I think we had some of that at the SFC. So those are the kinds of things I'm hearing.

Now maybe there is that. Of course you would think as Mac and Matco declare better performance they would be doing – they would be gaining – they would be at least growing their sales and therefore taking business that theoretically could be ours even if it's maybe not our business to begin with. But I'm not hearing it from the rank and file from the...

(Crosstalk)

Bret Jordan: Okay and then a question, and I think Aldo maybe you addressed this, but the US tools growth versus US credit originations growth, did you break out what was in credit, what was in the US? It would seem like maybe we're going to be ticking back up since you're putting – you're seeing more strength in some of the high value product?

Aldo Pagliari: Well I think growth in originations if you look at the cash flow statement you'll see that finance receivables were down a little over 2%, which is pretty consistent with what you see in the performance of our activity in the United States, so they were fairly similar in that regard. This time of the year we pick up some original additional originations at the SFC in particular, the Snap-on franchisee conference, where we have higher contract receivables. Again it's a seasonal item, but it was up year over year, which I find is a nice indicator of the franchisee willingness to invest in their business. So in particular we saw them expanding their investment in vans, in particular some of them getting new vans which are larger than the old ones and people making upgrades. So I don't know if I've gotten an answer to your question but they were pretty similar I'd say in terms of the performance in quarter.

Bret Jordan: And we'd expect maybe some – a better percentage of high-value product sales into the second half of the year so maybe a tick up on the loan to the mechanic as well?

Aldo Pagliari: Well I'm not going to predict a Q4 mix of sales going forward. Nick said that tool storage orders -- orders -- at the show were positive. That has -- if that follows through with sales of tool storage, no doubt Snap-on Credit will be a beneficiary.

Bret Jordan: Right. Thank you.

Operator: And next we'll go to Christopher Glynn.

Christopher Glynn: Thanks. Good morning. Just wondering if we could take a look at the Snap-on Tools linearity in the quarter. It was kind of interesting you had the destock in June and then the order softness at the tradeshow. You know, we heard about maybe less discounting. Did you see a pickup in the normal flow of orders outside the tradeshow as the quarter drew to a close?

Nick Pinchuk: Well yes because -- look I think this Chris. It's like, you know, at the tradeshow last year - we don't call it that - at our franchise conference, we launched that thermal imager which was incandescent in terms of product -- profit -- product. You know, everybody got excited and we sold a lot of - remember I said, I think I might've said, that it adds a new version of diagnostics and it sold quite a bit. That was launched at the show.

Now, we didn't launch the new Zeus till after the show, you know, ten days two weeks afterwards. So in terms of the product offering, if you just look at diagnostics for one, it wasn't quite as compelling in the show. We had a number of reasons to do that, but what happened is the Zeus launched in late August then sold out through September, so you did see a pop from that. And to the extent the tools -- to the extent that diagnostics from the Tools Group was up in the quarter, that was on the back of that late selling. And, you know, you have all kinds of things around the tool storage. Sometimes it's -- sometimes the SFC you have different offerings that more or less

appeal or don't and people say, "Okay I am going to wait for later to take advantage of some of the product that inevitably comes out on a monthly basis."

Christopher Glynn: And are you starting to see any, you know, replenishment to vans on the hand tool set?

Nick Pinchuk: Well, you know, I think I see nothing that – I'm not saying I don't see that, but I'm saying to you this is in effect we're coming off the third quarter. The third quarter's – it's a tough quarter to find any directional idea because it can result – you can of blips with technicians coming back from vacation. Our franchisees to the extent they're – they've been doing well, take longer vacations. And that can create perturbations in the third quarter. So I don't know. I think we're positive going forward though. I think we like our product line. We like where we are. We like the reception of the franchisees. We like what they say about the market, so you would think you would see some recovery in that situation.

Christopher Glynn: Okay. And then on, you know, delinquencies up and tools not growing right now, I'm wondering if you're seeing more volume on collateral resale?

Aldo Pagliari: Well the residual values have been pretty steady. Again there's variation and I don't know if the hurricane is going to cause - I'm not saying it did in Q3, but it's going to be harder to repossess things that have been washed away. That could be, but residual valuables have been pretty steady Chris. We don't see a lot of variation in that.

Christopher Glynn: Okay and lastly you're not implementing or contemplating any changes to your pricing models?

Nick Pinchuk: Well I don't – I wouldn't say that going forward. I mean we're always reviewing situations. You know, for example, steel costs are going upwards. We could look at pricing associated with

it. We've always said we can price for physical steel. We kind of make those kinds of decisions on a regular basis, maybe monthly or...

Christopher Glynn: Yes I kind of meant outside the normal, you know, reactions to commodity costs and things like that.

Nick Pinchuk: No I don't think so. You mean just move our prices up or down? No I don't think so.

Christopher Glynn: Okay thanks.

Operator: And we'll take our last question from Richard Hilgert.

Richard Hilgert: Hi thanks. Good morning everybody.

Nick Pinchuk: Good morning.

Aldo Pagliari: Good morning.

Richard Hilgert: I just wanted to follow on to the delinquency question there. You know, we were headed downwards from the December numbers on the delinquency, looking to improve a little bit, and then we ticked back up well above the December delinquency rates and I was just curious, would that cause you to rethink any of your credit policies at this point?

Aldo Pagliari: Richard just a reminder, this is Aldo – first off there is always a seasonal effect. The delinquencies tend to creep up in Q3 and Q4 as you approach the holiday season. They tend to improve a bit as people get close to tax refund dates in and around, you know, March and April. So there is that underlying seasonal trend. And as somebody tried to point out, usually you see a creep upwards of about 20 basis points historically in the delinquency metric. This time it's up 30.

So it is up and we are up year over year in terms of to a higher level of delinquency performance. I expect that to kind of continue. It's been fairly stable looking at factoring out the seasonal trends since Q4. So again, will it affect our thinking? We're always looking at it. However, this is still pretty good business. If you look at this at a high level, remember it's there to support sales of the tools group, principally. Ninety-five percent of what the credit company does is for that purpose and Tools Groups make some decent margins when they sell tools. And if you look at the yield on these receivables, despite the bad debt and SG&A, it's a pretty good return to the bottom line. So we look at it but we're pretty comfortable that it's performing as expected.

Richard Hilgert: Okay great. On the acquisition dilution, how soon would you expect that dilution to reverse itself and what are the measures that you needed to take in order to do this? Is this a matter of gaining some type of distribution synergies or cost reductions? What are the actions there?

Nick Pinchuk: All of the above. Look here's the schedule. I think we acquired Car-O-Liner on October 31<sup>st</sup> of last year, so we lapped that, so it will go into the base as of October 31. Sturtevant Richmond goes in in November, so two of the four acquisitions we talk about here start - will have a partial effect on the fourth quarter and then disappear in January. And then the BTC and Norbar was sometime last year. I think Norbar was acquired in May or something like that. So you have that kind of schedule where they cycle off.

If you're talking about how we're going to improve them with Snap-on value creation, there two things. One is of course we acquired them for product, primarily to give us a position with customers we weren't accessing or to give us more to sell to either repair shop owners and managers or people in critical industries. And they do that, so we'll gain from selling their products. Norbar's to critical industries. Car-O-Liner's to repair shop owners and managers and so on.

But there's another factor. Snap-on value creation authors improvement, margin improvement, doing things better every day like we have in the operations throughout Snap-on. So you'll see both of those working in tandem in the acquisition. And it usually takes a while to get an acquisition on board, integrated and then you start finding traction for those processes.

Richard Hilgert: Okay very good. Last question the - are -- or excuse me the SFC, you mentioned that the orders for new tool storage equipment those orders would get filled over time.

Nick Pinchuk: Yes.

Richard Hilgert: That – have you already ramped up production of the new tool storage equipment or is this a matter of, you know, it's going to take time to ramp that up and then get the product out?

Nick Pinchuk: It's not a production problem. It's not a production problem but, you know, I – like I said it's a long way thing. I mean the SFC – the SFC echoes through several quarters through... it's in the third, fourth and in the first quarter. So we have time to recover depending on what those orders are, and then remember every month people order and it overlays on top of that, but we don't see a production problem.

Richard Hilgert: So when you go into SFC you've already got the new product that you're showing at the conference in production and it's ready for...

Nick Pinchuk: Almost always.

(Crosstalk)

Richard Hilgert: ...the franchisees to order immediately?

Nick Pinchuk: Almost always, but in fact, you know, not that much gets ordered immediately. You know they don't walk away with tool storage, but they can, you know, so we're ready for that. We have models that kind of say this is likely the distribution of these products depending on the particular product, depending on the size of it, depending on the cost. And so we model it in a fairly complex way so we're ready to go.

Richard Hilgert: Okay great. Thanks again.

Nick Pinchuk: Sure.

Aldo Pagliari: Have a good day.

Operator: That's all we have – the time we have for questions so at this time I'd like to turn the conference back over to Ms. Leslie Kratcoski for any additional or closing remarks.

Leslie Kratcoski: Thanks Allen and thanks everyone for joining us today. A replay of the call will be available shortly on [snaapon.com](http://snaapon.com) and as always we appreciate your interest in the company. Have a good day.

Operator: That does conclude today's conference. We thank everyone again for their participation.