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Operator: Ladies and gentlemen, good day and welcome to the Snap-on Fourth Quarter and Full Year 2019 Results Investor Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Sara Verbsky Please go ahead, ma'am.

Sara Verbsky: Thank you, Abby, and good morning, everyone. Thank you for joining us today to review Snap-on's fourth 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 have provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the webcast viewer as well as on our website, [snaon.com](http://snaon.com), under the Investors section. These slides will be archived on our website, along with the transcript of today's call.

Any statements made during this call relative to management's expectations, estimates or beliefs or otherwise state management's or the company's outlook, plans or projections, are forward-looking statements, and actual results may differ materially from those made in such statements.

Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

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, including a reconciliation of non-GAAP measures, is included in our earnings release and in our conference call slides on pages 14 through 17. Both can be found on our website.

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

Nick Pinchuk: Thanks, Sara. Good morning, everybody. Today I'll start as usual with a view of our quarter – our fourth quarter, give you an update on the environment and the trends we see. And I'll take you through some of the turbulence we've encountered and the advancements we've made. Aldo will then provide a more detailed review of the financials.

The comparative results for the quarter and the full year each include special non-recurring events that affected our as reported levels. So to provide greater clarity, as we have in the past, we'll refer to the amounts excluding the one-time effect as an as adjusted number to make everything comparable. And when you look through it all, similar to the third quarter, Snap-on did see external headwinds in a number of areas. But we met those challenges and moved forward. We did have disparities from group to group and within each group, but overall we're encouraged by our position and our possibilities.

The fourth quarter demonstrated elements of progress that were somewhat attenuated by economic turbulence and challenged geographies and by the impact of unfavorable foreign currency. As in the recent past, we show progress in the U.S. with growth across most of our operations in that area. So volume in the U.S. continued its upward trajectory, but our operations in Europe, they show countervailing weakness in several major countries.

And as I said, there was also a meaningful impact from currency, translation and transactions. So we had significant headwinds. But once again, I think our advantages prevailed.

Organic sales were up 0.6%, sales gains in critical industries, in repair information, in independent – in equipment for independent repair shop owners and managers, and continued growth in the U.S. van channel. We had advancements in power tools and in tool storage and customized tool sets. It all combined to circumnavigate the variations and move us forward overall.

Opco operating income before financial services of \$171.4 million, including unfavorable foreign currency compared to \$182.1 million in 2018, which included a \$4.3 million one-time benefit from the settlement of an employee-related litigation matter. Excluding that legal matter, fourth quarter as adjusted OI was \$177.8 million. Now RCI was evident in the quarter, but it wasn't able to offset the negative foreign currency and the economic weakness of Europe.

For Financial Services, operating income of \$62.2 million was an increase from last year's \$56.1 million. That result combined with Opco for a consolidated overall operating margin of 22.5% compared with 23% last year, or 22.5% this year compared to the 22.6% as adjusted, excluding the legal benefit, last year. Our quarterly EPS of \$3.08 was above the 2018 as adjusted EPS of \$3.03. As reported Q4 2018 EPS including the one-time legal matter was \$3.09. So those are the numbers in general.

Let's speak about the markets. We believe the automotive repair environment continues to be generally favorable. Having said that, in the areas serving vehicle OEMs and dealerships, we have seen some pause, lower new car sales in the year did impact dealer buying habits and the number of projects commissioned by the vehicle OEMs decreased.

For independent repair shops, however, the things look different. Based on what we've heard – what we're hearing from franchisees, from technicians, from shop owners, the optimism in the

independent repair shops is strong and unaffected by new car sales. And our sales in that sector in the U.S. have been positive and they continue to be so. So we believe vehicle repair remains a favorable place to operate.

For the critical industries we're seeing progress, strong activity in the U.S. aerospace, military, and heavy duty sectors, somewhat offset by softness in the international area, centered on general industry and international aerospace.

But our overall activity trend continues to look quite promising and the trajectory of our critical industry business is clearly positive. Our Industrial division demonstrated the opportunities in critical industries. Overcoming the headwinds of Brexit and the general softness in Europe, registering gains driven by its customized product kits, matching the product to the task. We do believe we're well positioned to confront the challenges of this particular period, making progress along our runways for growth, despite the turbulence.

We also have confidence that we have continuing potential in our runways for improvement. The Snap-on value creation processes, safety, quality, customer connection, innovation and rapid continuous improvement. They're constant fuel for our progress, especially customer connection. Understanding the work of professional technicians and innovation, matching that insight with technology. We believe our product lineup is getting stronger every day and we keep investing to make it so.

You see, vehicles are getting more complex, technicians need assistance and so our products are getting more sophisticated to match the rising requirements. And Snap-on products are keeping pace. And our franchisees and our direct sales force, face to face with technicians are in the perfect position for showcasing our powerful new offerings and for demonstrating their use right in the workplace. It's a great opportunity in the changing environment of today and we're working hard to take full advantage.

So across the corporation, I would characterize our markets as mixed. Positive, with significant potential, yet turbulent from period to period and place to place.

Now for the full year, sales of \$3.73 billion represented an organic increase of 1.2%, a similar story to the quarter, growth in the U.S. buffeted by Europe. The U.S. franchises rising, particular turbulence in the UK van channel, critical industries growing against the wind, and strength with independent repair shop owners and managers balancing the shortfall in OEM dealerships.

As reported Opco OI margin for the year was 19.2% compared with last year's 19.4%. Excluding the one-time benefits in both years, the full year as adjusted Opco OI margin was 18.9%, including 20 basis points of foreign currency drag compared with the as adjusted 19.3% in 2018. And when we include the operating income from financial services, the \$245.9 million, which rose \$15.8 million, the consolidated operating overall margin for the corporation was 23.7% or, as adjusted, 23.4%, flat with last years as adjusted level. So reported earnings per share for the year was \$12.41, up 4.5%. And excluding the non-recurring events, the EPS was \$12.26, up 45 cents or 3.8% compared to last years as adjusted number. So those are the numbers.

Now let's talk about the individual operating groups. Let's start with C&I. Fourth quarter reported sales for the group, including \$900,000 of acquisition related volume and \$3.5 million of unfavorable foreign currency, grew \$9.2 million or 2.7%. Organic sales for the group increased \$11.8 million or 3.5%. The period saw strong performance from our Power Tools division, up double-digits, affirming that our innovative new power tools are resonating with automotive technicians.

Beyond that, the Industrial division registered low-single digit growth with mixed results across the industries and geographies. As I said, military was strong and the U.S. in aerospace and heavy duty also rose, overcoming declines in the international sector.

For the first time in a while, in a long time actually, volume for SNA Europe, our European-based hand tool business was off in the quarter, driven by weakness in several major arenas, including Germany, the Nordic countries and France. C&I's operating margin was \$45 million, down \$5.8 million, including \$0.6 million of unfavorable currency. That reflected primarily the industrial gains being more weighted toward the lower military sector, diluting the group's operating income down to 12.8% compared to the 14.8% recorded last year, when there was a more typical balance of customers.

I mentioned earlier that our power tools operation registered a strong quarter, sales were up double-digits. Well that gain was on the strength of our new cordless products, products like the new 14.4 volt, CTR762 3/8 inch Ratchet. We call it the Brute. As the name would imply, it was designed specifically for automotive jobs that require substantial muscle, tasks like exhaust manifold removal, brake caliper replacement and general suspension work. The CTR762 ratchet combines pneumatic-like power, 70 pound feet of torque output with the convenience of a cordless platform and the ratchet mechanism, the head and the neck are strong, robust enough to handle even more force, 158 pound feet of manual torque. It is a Brute and the technicians recognize it. The new ratchet also has a variable speed trigger for improved control and it can reach 175 RPM free speed. That means quick fastener removal. It was launched in October and it's been well received and it's easily one of our hit million dollar products.

Also in C&I, our torque product line is making great strides, like we said it would, driven in part by a widening array of new offerings for customers in critical industries, like our new, powerful, 18 volt cordless, EvoTorque line, designed for railroads and wind turbines and natural resources and other critical industries where remote repair and maintenance is the norm. EvoTorque covers a torque range of 150 pound feet to 4,000 pound feet and it comes in six basic models, three single speed and three auto two speed.

And significantly, it's the result of the synergies made possible by Norbar's recent addition to the Snap-on family. The Evo's innovative design, what makes its power, is the combination of a powerful and robust Norbar gearbox and a Norbar beam transducer with an ergonomic handle -- with an ergonomic handle and an 18-volt battery platform from our Snap-on power tools division. The result is a torque wrench that's compact, portable and accurate, plus or minus 3%, while similar tools are much less precise, generally within plus or minus 5%. Industry feedback has been quite positive, and the sales are pretty brisk.

Now let's turn to the industrial division, focused on critical industries outside the vehicle garage. Gains now accomplished for 13 straight quarters despite a weakening in Europe. And the ongoing positive trend has been driven by customer connection, extending our understanding of critical work, and that progress can be measured in a number of new tool solutions we offer each year. Well, last year, we added almost 5,700 new products. It's a critical -- it's our -- it's critical to our industry -- critical industry lineup. That's quite a few products, 5,700. It's a design and logistics challenge to be sure but it's a large advantage with critical industry customers. We're rolling the Snap-on brand out of the garage with increasing strength. Critical industries is a great opportunity, and we're addressing the possibilities with new products aimed at solving the tasks of consequence that inhabit that critical arena.

Now on to the Tools Group. Organic sales are up 1.3%, with continued growth in the U.S. operation, up low single digits, a positive that was again, this quarter, offset by a decline in the international operations, principally in the UK. Operating income in the quarter was \$54.3 million and compares to \$57 million in 2018. The OI margin was 13.2%, an 80 basis point decrease, including 40 basis points of unfavorable currency, the turbulence in the UK, and the investments we're making in training and field support to expand franchisee selling capacity to match the demands of our more sophisticated products and to capture the opportunity in the changing repair environment.

In the quarter and throughout the year, the Tools Group did confirm the underlying market-leading position of our van network. We believe the franchisees are growing stronger. That's clear in the franchisee health metrics we monitor each period. They continue to trend favorably, and that positivity was acknowledged by multiple publications all listing Snap-on as a franchisee – a franchise of choice. This quarter, Snap-on was once again ranked among the top franchise organizations, both in the U.S and abroad. We were again recognized by the Franchise Business Review, which, in its latest ranking for franchisee satisfaction, listed Snap-on as a top 50 franchise, marking the 13th consecutive year we've received that award. We were also ranked number two among all franchises in Entrepreneur Magazine's 2019 list of Top Franchises for Veterans. And abroad, Snap-on was ranked number one in Elite Franchise Magazine's top UK franchises, rising three spots from last year and finishing above many well-known international brands in the publication's largest-ever competition. So despite the difficulties in the UK economy, our franchise remains very positively regarded. To me, that's good news for the future.

Now this type of recognition reflects the fundamental strength of our franchisees and of our van business in general and would not have been possible, it would not have been achieved without a continuous stream of innovative new products developed through our strong customer connection, leading to multiple new innovations as a result of our insight and experience in a changing vehicle repair environment.

One of the latest additions to our lineup, an example of this, is our Milwaukee-manufactured GM<sup>®</sup> Head Bolt Socket developed from connections with a loyal Snap-on technician. The 0.5-inch drive, 13 millimeter socket enables efficient head bolt removal and installation on General Motors' light truck gen-5 V8 engines. The socket's special drive design summons the torque necessary to break free even heavily corroded head bolts, and the 4-inch socket height allows technicians to clear the rocker arms in the GM engine design, making repairs easy, even in the difficult GM V8 engine compartment and believe -- another great example of customer connection.



And believe me, just as another subject, and believe me, we're working hard to strengthen our tool storage lineup. The effort is – and the effort is bearing fruit. Tool storage is up in the quarter and up in the year. We recently add the KRSC430A professional grade shop cart to our lineup of mobile tool solutions. It's a new 40-inch cart that makes it easy to move even very heavy tools from bay-to-bay and it offers a sliding split top – split lid, which allows quick access to frequently used tools, manufactured in our Algona, Iowa plant, right in the heartland.

The heavy-duty cart body is entirely welded with a double-wall design for lasting strength. It also features interchangeable doors, customization to fit any job. The initial launch went quite well, and it's clear the new cart will be another one of our hit products. Well, that's the Tools Group, expanding its success in the U.S., balancing the international operations, continuing to develop innovative new product, building underlying strength.

Now for RS&I. Volume in the fourth quarter was \$335 million. That's down organically 1.5%, with gains in sales of undercar equipment and diagnostics and repair information products being more than offset by decreases in the businesses focused on vehicle OEMs and dealerships. It was another turbulent period for that lumpy project-driven OEM sector.

RS&I operating earnings in the quarter were \$87.2 million, down \$200,000 from last year, including \$200,000 of unfavorable foreign currency. OI margin for the group was a strong 26%, up 30 basis points from last year's level and with basically driven by growth in information products, growth in information products paving the way to that 26%.

Along those lines, in terms of innovation products, our Mitchell 1 division which provides software to independent shops, continues to succeed, pursuing customer connection and innovation, bringing great new products to improve shop efficiency. We just launched – or Mitchell 1 just launched, our new online appointment scheduling capability, in addition to our already extensive repair shop management software. Vehicle owners can now request an appointment with just a

few clicks on the shop's website, automatically alerting garage schedulers of their request. It's a great efficiency tool as part of our Mitchell 1 shop management for independent garages. And it's another example about how Snap-on value creation is authoring the continuing upward trend at Mitchell 1. Speaking of Mitchell 1, we just opened a new facility for that information business, an enhanced operating and design environment. We're investing in Mitchell 1 and we expect more success.

RS&I also launched in the quarter our new PRO-LINK Edge heavy-duty – it's a heavy-duty diagnostic handheld, a bigger screen, easier to use interface, faster vehicle connection time, updated software and increased vehicle coverage. Snap-on is already the leader in heavy-duty diagnostics. The PRO-LINK Edge will expand that advantage. It was just introduced at the end of the year and so far it's looking good. We keep driving to expand RS&I's position with repair shop owners and managers, offering more new products to sell, developed by value creations processes or added by our strategic and coherent acquisitions, and we're confident that's a winning formula. Well that's our fourth quarter.

Arena's – areas of both challenge and advancement. We believe, we leave the year stronger than when we entered. And in the end, an EPS for the quarter of \$3.08 up from the as adjusted \$3.03 from last year, and for the full year, as adjusted EPS at \$12.26, rising from the as adjusted \$11.81. Overall progress, hard won against turbulence.

Now I turn the call over to Aldo. Aldo?

Aldo Pagliari: Thanks, Nick. Our consolidated operating results are summarized on slide 6. Net sales of \$955.2 million in the quarter were up 0.3%, reflecting a six tenths of 1% organic sales gain, \$3.5 million of acquisition-related sales and \$6.3 million of unfavorable foreign currency translation.

The organic sales gain this quarter reflected low single-digit growth in both the Snap-on Tools and Commercial & Industrial segments, partially offset by a low single digit decline in the Repair Systems & Information Group. Similar to the trends we experienced in Q3 of 2019, overall, on a year-over-year basis, sales to customers in the United States increased, while sales in Europe continued to exhibit weakness.

Consolidated gross margin of 47.2% compared to 48% last year. The 80 basis point decrease primarily reflects increased sales in lower gross margin businesses, 10 basis points of unfavorable foreign currency effects, partially offset by savings from RCI initiatives. The operating expense margin of 29.3% increased 40 basis points from 28.9% last year. Q4 of 2018 included a \$4.3 million or 40 basis point benefit associated with the legal settlement that Nick mentioned earlier.

Operating earnings before financial services of \$171.4 million, including \$2.5 million of unfavorable foreign currency effects, compared to \$182.1 million in 2018, or \$177.8 million as adjusted for the legal settlement. As a percentage of net sales, operating margin before financial services of 17.9% of sales, compared to 19.1% last year or 18.7% as adjusted.

Financial services revenue of \$83.9 million and operating earnings of \$62.2 million increased 1.5% and 10.9% respectively from 2018, primarily reflecting year-over-year growth in our financial services portfolio and improved portfolio performance resulting in lower provisions for credit losses.

Consolidated operating earnings of \$233.6 million, including \$2.6 million of unfavorable foreign currency effects, compared to \$238.2 million last year, or \$233.9 million as adjusted. As a percentage of revenues, the operating earnings of 22.5% compares to 23% last year, versus last year's fourth quarter as adjusted operating earnings margin of 22.6%, which reflected a 40 basis point benefit from the legal settlement. This year's operating margin was lower by 10 basis points. Our fourth quarter effective income tax rate of 22.3% compared to 22% last year.

Finally, net earnings of \$170.6 million or \$3.08 per share, including a 4 cent unfavorable impact associated with foreign currency, compared to \$175 million or \$3.09 per share a year ago. In 2018, excluding a 6 cent per share benefit from the legal settlement, adjusted earnings were \$3.03. For the full year 2019, fully diluted earnings per share of \$12.41 increased 4.5% over \$11.87 per share as reported last year.

Now let's turn to our segment results. Starting with the C&I group on slide 7. Sales of \$352.9 million in the quarter, increased 2.7%, reflecting a 3.5% organic sales gain and \$0.9 million of acquisition-related sales, partially offset by \$3.5 million of unfavorable foreign currency translation. The organic growth included a double-digit gain in our power tools business, a mid-single-digit increase in our Asia Pacific operations, and a low-single-digit gain in sales to customers in critical industries, particularly sales to the U.S. military. These increases were partially offset by a low single-digit decline in our European-based hand tools business.

Gross margin of 35.5% decreased 300 basis points year-over-year, primarily due to increased sales and lower gross margin businesses, including sales to the military. Sales in the fourth quarter to the military were up significantly both year-over-year and sequentially. The operating expense margin of 22.7% improved 100 basis points from 23.7% last year, primarily due to higher volumes in lower expense businesses. Operating earnings for the C&I segment of \$45 million, decreased \$5.8 million from last year and the operating margin of 12.8% compared to 14.8% in 2018.

Turning now to slide 8. Sales in the Snap-on Tools Group of \$411.7 million increased 1.1%, reflecting a 1.3% organic sales gain, partially offset by \$1 million of unfavorable foreign currency translation. The organic sales increase includes a low-single-digit gain in our U.S. franchise operations, partially offset by a low-single-digit decline internationally. Gross margin of 40.2%, including 40 basis points of unfavorable foreign currency effects remained unchanged from last year.

The operating expense margin of 27% increased from 26.2% last year, primarily due to higher field support investments. Operating earnings for the Snap-on Tools Group of \$54.3 million, including \$1.7 million of unfavorable foreign currency effects, decreased \$2.7 million from last year, while the operating margin of 13.2% including 40 basis points of unfavorable foreign currency effects compared to 14% in 2018.

Turning to the RS&I Group shown on slide 9. Sales of \$335 million decreased 1.4%, reflecting a 1.5% organic sales decline and \$2.3 million of unfavorable foreign currency translation, partially offset by \$2.6 million of acquisition-related sales. The organic sales decrease includes a high single-digit decline in sales to OEM dealerships through our equipment solutions business, partially offset by low-single-digit gains in both sales of undercar equipment and sales of diagnostics and repair information products to independent repair shop owners and managers.

Gross margin of 47.7% increased 20 basis points from 47.5% last year, while the operating expense margin of 21.7% improved 10 basis points from 21.8% in 2018. Operating earnings for the RS&I group of \$87.2 million, compared to \$87.4 million a year ago, and the operating margin of 26% increased at 30 basis points from 25.7% last year.

Now turning to slide 10. Operating earnings from financial services of \$62.2 million increased 10.9% versus the fourth quarter of 2018. Revenue of \$83.9 million was up 1.5% from a year ago. Financial services expenses of \$21.7 million decreased \$4.9 million from last year's levels, primarily due to decreases in the provision for credit losses, reflecting improved portfolio performance as well as lower variable compensation and other costs. As a percentage of the average portfolio, financial services expenses were 1% and 1.3% in the fourth quarters of 2019 and 2018 respectively.

The average yield on finance receivables in the fourth quarter of 2019 was 17.5% compared to 17.7% last year, principally reflective of the credit quality of customers originating loans over the

past several months. The respective average yield on contract receivables was 9.2% in both periods.

Total loan originations of \$262.4 million, decreased \$4.7 million or 1.8%, primarily due to a 3.7% decrease in originations of finance receivables, partially offset by higher originations of contract receivables, principally franchise finance.

Moving to slide 11 – year-over-year – our year-end balance sheet includes approximately \$2.1 billion of gross financing receivables, including \$1.86 billion from our U.S. operation. Our worldwide gross financial services portfolio grew \$24.3 million in the fourth quarter.

The 60-day plus delinquency rate of 1.8% for U.S. extended credit remains stable and reflects the seasonal increase we typically experience in the fourth quarter. As it relates to extended credit or finance receivables, the largest portion of the portfolio, trailing 12-month net losses of \$49.4 million represented 2.91% of outstandings at year end, down 6 basis points sequentially, supporting continued stabilization in the portfolio's credit metric performance.

Now turning to slide 12. Cash provided by operating activities of \$196.7 million in the quarter, decreased \$19.2 million from comparable 2018 levels, primarily due to increases in working investment and cash paid for taxes. Net cash used by investing activities of \$41.4 million included net additions to finance receivables of \$24.6 million and capital expenditures of \$21.6 million.

Net cash used by financing activities of \$139.2 million, included cash dividends of \$59 million and the repurchase of 435,000 shares of common stock for \$71.2 million under our existing share repurchase programs. Full year 2019 share repurchases totaled 1,495,000 shares for \$238.4 million. As of year-end, we had remaining availability to repurchase up to an additional \$359.6 million of common stock under existing authorizations.

Turning to slide 13. Trade and other accounts receivables increased \$2 million from 2018 year-end. Days sales outstanding of 67 days were unchanged from 2018 year-end. Inventories increased \$86.6 million from 2018 year-end, primarily to support the introduction of new products, higher levels of demand across critical industries, including demand for U.S. manufactured hand tools, as well as to improve service levels to our customers. On a trailing 12-month basis, inventory turns of 2.6 compared to 2.9 at year-end 2018.

Our year-end cash position of \$184.5 million increased \$43.6 million from 2018 year-end levels. Our net debt to capital ratio decreased to 22.1% from 24.2% at year-end 2018. In addition to cash and expected cash flow from operations, we have more than \$800 million in available credit facilities. As of year-end, we had \$193.6 million of commercial paper borrowings outstanding.

That concludes my remarks on our fourth quarter performance. I'll briefly look at a few outlook items for 2020. We anticipate that capital expenditures will be in the range of \$90 million to \$100 million. We currently anticipate that our full year 2020 effective income tax rate will be in a range of 23% to 24%. I'll now turn the call back to Nick for his closing thoughts. Nick?

Nick Pinchuk: Thanks, Aldo. Snap-on fourth quarter. Near-term uncertainties, unfavorable foreign exchange, a downdraft in Europe, in particular, Brexit difficulties in the UK, but progress against those headwinds, significant progress. Overall advancement, hard won against the headwinds.

Opco organic sales up 0.6%, OI margin of 17.9%, down 80 basis points from a 2018 as adjusted result, impacted by the mix of critical industry sales being more weighted to the lower margin military sector, by unfavorable currency, and by spending to enhance the franchise network. Overall advances, continuing strength in RS&I and the repair information business, 26% margin. Favorable trends in the Industrial business, gains in the U.S. van channel, and there were significant strides in strengthening our product line across the organization, more customization, more sophistication, to match the opportunities of the changing repair environment. And the finance company recording

gains in OI, which combined with Opco to reach an OI margin of 22.5% in the quarter compared with an as adjusted 22.6% of last year. EPS for the quarter at \$3.08, above the as adjusted \$3.03 recorded last year.

Overall, we believe firmly that our business is strong, and we're confident that going forward, we have the opportunity, the position, the product and the team to confront the headwinds and continue on our positive trajectory through 2020 and beyond.

Now before I turn the call over to the operator, I'll speak directly to our associates and franchisees. I know many of you are listening. To the entire Snap-on team, we recognize the results of the quarter and of the year are authored by your individual and collective efforts. For your dedication to our progress and for your commitment to our corporation, you have my thanks.

Now I'll turn the call over to the operator. Operator?

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 it is star 1 to ask a question. And we will take our first question from Curtis Nagle with Merrill Lynch.

Curtis Nagle: Good morning. Thanks very much for taking the questions. So I guess, first, Nick, a question for you. How would you describe, I guess, the operating environment of tools this year versus last in terms of things like relative competition, underlying fundamentals, product rollout for you guys? Would you expect organic growth to be higher, kind of stay the same? And that optimism that you'd mentioned in the call, would you say that's perhaps higher than, say, a year ago?

Nick Pinchuk: I would say so. I think, look, I believe I said it right at the beginning. I believe we leave 2019 stronger than we entered. Our product line is stronger than ever. We are seeing progress in the –



not as fast as maybe we would like in the U.S. van channel but it is moving upwards. This was a stronger quarter than in the past on a year-over-year basis. And so we feel pretty positive about that. I think when we talk to our franchisees, we understand, and the technicians, we understand our underlying strength.

The simple point is, can we arm our franchisees with enough efficiency to wield the complex products, the sophisticated products to sell in the environment they are, as opposed to being capacity bound or time bound? I've talked about the time-bound nature of the van business for a long time. That's why we're investing in it, and we're starting to see the results. Against that though, we see turbulence in the UK. The UK was actually a little worse this quarter. On the other hand, Brexit did get signed, and so therefore, without any inside information about the time line, that should make it better going forward.

So I feel okay about that.

Curtis Nagle: Great, fair answer. And then a quick follow-up, I guess, for Aldo. How should we think about the balance of product and customer mix in 2020 in C&I in terms of how this could impact the gross margin? Perhaps we see continued pressure because military seems to be doing well, maybe that's a one-off. Could that reserve – reverse in terms of that mix impact to gross margin?

Aldo Pagliari: Well, the military, Curt, I'd say, in the quarter was probably the highest sales of one particular job in the military that we've talked about before. You can call it the GMTK, the general mechanics tool kit, so actually, it was up at a double digit in year-over-year comparison as well as sequentially as I mentioned. It will be a significant contributor in Q1, however, not probably to the same level as it was in Q4. And on top of it, what was lacking in Q4 were some of our international sales in the critical industries. They tend to be pretty good margin contributors so if they come back to what I call more normal levels, you'll get a little bit more cover and get a more traditional gross margin mix. So we welcome the sales to the military, don't get me wrong. And they'll move forward over

time, but they should have less of a mix effect as you get a little bit more normalized impact in the overall critical industries.

Curtis Nagle: Okay. Fair answer. Thanks very much.

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

Christopher Glynn: Thank you, good morning. I had a question about the Snap-on Tools margin and the seasonality. You used to see that always ramp 3Q into 4Q, and last year's assumed anomaly at the time but that repeated this year into the seasonal volume ramp. So wondering what's changed there. Is this a new dynamic with kind of sequential gross margin pressure, 3Q to 4Q for SOT?

Nick Pinchuk: Actually, it may be a new dynamic for us. It wasn't just last year. I think there have been two years of this kind of move downwards. Some of that may be driven by, we have robust Christmas promotions, and they – sometimes they tend to be a little bit lower margin. I think the thing that you might ask, okay, it's 40%, the gross margin was 40%, 40.2%, was flat with last year, and last year, we had significant discounting associated with the Diagnostics business. You might be asking – well, you might ask, why isn't that up? And I think the story is this. Last year, we had that discounting. We had some effect of currency but not as much, and we had some small effect – some effect of the UK. This year, we got 40 basis points of currency and 20 basis points of the UK effect, and so you put those in and you end up having 60 negative. And so we had margin improvement actually year-over-year in the quarter. It's just that higher currency impacts in the quarter associated with the Tools Group transaction effect and the UK still being a problem for us. So they overcame that and flattened the gross margin.

Christopher Glynn: Okay. But taking this year in isolation, what caused the decline sequentially?

Nick Pinchuk: Well, I think we've seen generally a decline sequentially. And what has happened in the decline, what drives the decline, we're seeing more and more of this is our factories tend to be seeing it like, for example, when you roll into the fourth quarter, especially if – as the hand tool business has risen and become a higher portion of our product, the factories, which is the most integrated product in the United States, you see things like over Thanksgiving and over Christmas, you see the effects, those expanded hand tool factories, the effects of those weighing a little bit more than the third quarter in terms of the days off they have.

So you have worse absorption in this quarter. Fundamentally, your sales are going up, but your absorption is going down because of the days worked. That's, I think, what we've seen. If you go back two quarters, when we didn't have this discounting and this legacy sales in the fourth quarter that was really the effect. And I think we're going to see that going forward in this kind of calendarization.

Christopher Glynn: Okay. And just wondering if – looking at the inventory increase and the lower turns, wondering if there was any reserving in the quarter for excess or obsolete inventory or if possibly that's something that might be an outcropping of the higher inventory levels at some point?

Aldo Pagliari: I don't think anything more than normal, Chris. This is Aldo. The nature of our inventory is such that when you get the lower market cost or market criteria, we feel pretty good about where our levels of salability are at. I think the biggest increase in inventory actually is new product introduction. And the take-up pace was not as rigorous as we would like for that, and we're confident looking to the future. But as you know, we keep targeting a higher level of sales growth. And when we don't achieve it, the product is there and available but it's in inventory rather than in the sales line.

Christopher Glynn: Okay. And then last one for me. The CFO was down a bit year-over-year from very high levels last year with a fair amount of inventory pressure. Just wondering if that's a good setup for pretty strong CFO growth in 2020 that we could expect.

Aldo Pagliari: Well, certainly, I see there's no reason that inventory has to grow to the same degree it did in 2019. We try to take a measured look at that. Some unique characteristics in 2019 were that we have more sophisticated kits among our critical industries customers. As I said, we had a heavy dose of new product introductions. We'll have elements of that in 2020, but as you're suggesting, there's no reason that the increase in inventory has to be to the same magnitude as what we saw in 2019.

Christopher Glynn: Great. Thanks, Aldo.

Operator: We will take our next question from David Leiker with Baird. And David, your line is open. Please check your mute button. Hearing no response from David, we will move to Bret Jordan with Jefferies.

Bret Jordan: Hey, good morning, guys. Could you talk a little bit about diagnostics in the U.S. van channel? I know you guys were doing some educational work at the franchise event back in August. And maybe an update as to how we're doing with ZEUS and Apollo.

Nick Pinchuk: Okay. I can give you versions of that. The – we had strong – we've had – we continue to train the people and we're working with our field force, our diagnostic sales developers and the TechKnow vans and so on, the field stores to try to, just as you say, try to expand the capabilities associated with that. We had a – it was up double digits and it was up very strongly in the third quarter. Diagnostics was down in the fourth quarter, selling to the franchisees, but the movement from the franchisees to the end user kind of followed more traditional paths. So I would figure that the – if you step back and you look at it and you say, okay, up in the third quarter, kind of down in

the fourth quarter, it's kind of a continuing the same level as before. So therefore, we would say we have more work to do in trying to get our franchisees to understand how to sell this product. It's kind of moved forward.

And ZEUS had a good quarter, by the way, so that was an encouraging data point for us. So with the ZEUS good quarter, we feel that there is some progress because that's the most difficult thing to sell. So now we're going to have to make sure we work on Apollo and TRITON to get those stronger. And so I suppose one of the lessons we get out of this is we may have cracked some of the case for ZEUS but we need to do a little bit more on of Apollo and TRITON.

Bret Jordan: Okay, great. And then on the UK, you talked about it being turbulent but may be getting better with Brexit. Is there any change in the van count over there, given the challenges that those distributors are seeing?

Nick Pinchuk: Yes, there has been a change, but not – it's very small actually. It moves up and down. I think in the middle of the downturn, it was down a little bit but would bounce right back up. So I would say not more than ordinary motion really. It hasn't really changed that much. I mean, the UK has been a headache for us really, and it punches above its weight in terms of – on the margins of our performance. But we're working hard to try to get it under control. We're working with the products. We're trying to train the franchisees so they can make the most of things. Generally, it's short payback items they're selling. It's the big payback items that tend to come down in uncertainty. With Brexit being signed, I don't know. But I think as people understand what's going to happen in post-Brexit, the certainty returns and the automotive repair market snaps back in the UK. I pretty much believe that's the way it's going to play out. We're just happy that they signed Brexit on January 31.

Bret Jordan: Yes. And Aldo, one question, I guess, around the credit book. Are the loan terms, as the credit quality is going up and obviously reflected in lower rates, are you seeing shorter loan terms as well?

Aldo Pagliari: No. With the – generally speaking, with the higher price point of products, generally speaking across the board, the franchisees elect up to five-year terms. And I don't see that – that actually has trended slightly upward. The migration has been more to a little bit north of four years is the average in the overall portfolio. So I haven't seen really much of a change in that.

Bret Jordan: Okay, great. Thank you.

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

David Leiker: Good morning, can you hear me?

Nick Pinchuk: Good morning, we can hear you, yes.

David Leiker: Let's just chalk that one up to user error. Two things. If we look at the Snap-on Tools field support spending, I think we're probably on two full years of that right now. Is that fair?

Nick Pinchuk: No, I don't think so. I think we started it maybe in the fourth quarter of last year. I don't think it's two full years actually. That's my memory about it, yes. And we've kind of ramped it up here. So...

David Leiker: So how do you – can you talk a little bit about how you determine, calculate if that's working and driving incremental returns of kind of return on investment or some kind of metrics of how do you gauge the success and the executing and delivering on that?

Nick Pinchuk: Well, there's – I think there are twin axes on this, David. I think one is the overall – we're focused on the U.S. really, of course. And this – I think we made that clear. There's a separate effort going on to remediate in the UK. I think our number one effort is what happens with sales in

the U.S. van channel and it's been moving upwards. So this quarter was better than the last in terms of a year-over-year basis. So we can feel it moving upwards, maybe not as fast as everybody would like and maybe not as fast as we would like, but that's an indication that we're moving the boulder upwards. We're expanding the capacity to sell. And that's one issue. Then there are the local issues, just like question recently, if we're focused on diagnostics, what happens with the individual diagnostic platforms? Because after all, this training gets done platform by platform by platform by platform, and types of customer by types of customer and types of customers. So we kind of segment it that way, platforms by customer.

And so the success in those nodules or how we evaluate it. And it's not just training. It's also things like we're adding a new set of vans, we call the Total Shop Solutions. We've been expanding and we were at nine last quarter and 15 this quarter, not associated with diagnostics, but this is associated with other more, longer payback sales like hand-spin tire balancers and diagnostic workstations, which include a tool storage box and so on.

So we evaluate how those things are occurring in each of the territories. So I think I've said for a long time that one of the boundaries of the tools – the van business is the time and so what we're doing is trying to make the time more effective. Best thing is the sales. You figure that happens. If the sales goes up, that's the best thing to do. But we also have a sub-analysis. So that's how we do it. And we think it's working. I sure like to see it work faster, but we believe it's a way forward because we – go ahead, sorry.

David Leiker: Well, as I say, so if you look at that in terms of the absolute spend versus the driving through of revenues, is there a point – where is the breakpoint where you get revenues growing faster than the spend in that? And is there a point in time that, that spend actually can come back down at all? So how do you see that playing out?

Nick Pinchuk: Well, look, I see it playing out. When we start to get up around our target, we start to experiment about cutting back. I think the way the world works for us, and it's always worked this way, is we spend to capture sales growth. And then as we establish ourselves in that sales growth level and that sales growth level is defined by capacity, the capacity of the franchisees to sell, once we hit that, we try to improve and become more efficient in supporting that behind that wave of capture.

So once we get to like x percent growth, we say, "Okay, we're there. That's our level." We kind of try to figure out how to do it more efficient. So we'd like to be in the territory where we feel comfortable that that's an acceptable growth that's commensurate with the market, with the opportunities. Once we do that, we bring it back.

David Leiker: So with that running at low single digits in the U.S., you're getting close to that growth metric then?

Nick Pinchuk: Yes, but not as close as I'd like. Yes, close, closer. Yes, yes, yes. Yes, that's true. Yes, it's hard but that's our method, David. We capture territory and then we make it more efficient.

David Leiker: And then just one item for you, Aldo. You didn't mention it and we've had some conversations on this, but is there any update on the bad debt provision, the change in accounting there? Any framework you can give us to have a sense of what that's going to mean when you adopt it in Q1?

Aldo Pagliari: Well, I'll say this, the official and final reporting of that will be in our K, which is not so far away. I mean, we plan on releasing our K at the – before the end of next week, actually. So I'll leave that out there as a statement. But I'll say this, the workaround, it's been fairly intense and well done. And I'm pleased with the energy we put into it so far.



And you're talking about CECL. For others on the call, it's a reference to the adoption of CECL, which becomes effective for the corporation in January of 2020. So in essence, the true reporting of it occurs at the end of the quarter, actually. But I'll say this, is that right now, David, I'm expecting that our overall adjustment will be something less than \$10 million, will be in that order of magnitude. But the final number will be solidified within about a week.

David Leiker: Okay. Great. Thank you much.

Operator: We'll take our next question from Scott Stember with CL King.

Scott Stember: Good morning, guys.

Nick Pinchuk: Good morning.

Scott Stember: Could you guys give a little bit more color on some of the other areas within Tools as far as growth, like power tools and hand tools?

Nick Pinchuk: Sure, sure. This quarter, hand tools was down some, power tools up double digits. So like I said, power tools had a terrific quarter. And principally, tool storage up, diagnostics down some. So by the way, I encourage people not to get too overheated about these quarterly numbers because they move up and down, depending on what happened last quarter and what – when the new products hit. For example, power tools is strong this quarter because we have a great new product and everybody has been waiting for it. And so it rolls out. And so that's one of the reasons why it's strong now. Because remember, our view of the world is the franchisees are capacity limited. We're building up. That's why the franchise business in the U.S. is growing again. But it's kind of a – you get a new product, it tends to squeeze out some of the other products. But that's the rollout. Hand tools down this quarter after up for the year, but power tools up fairly robustly. Tool storage up again, diagnostics down. It's sort of the story this quarter. It was a different story last quarter.

Scott Stember: Got it. And moving over to RS&I, I know that we've had a few really good quarters of sales comps. Part of it was the OEM business was coming back, but we see a return of choppiness there. How did you do in RS&I for the full year, again, on an organic basis? And given your commentary about some of the reluctance of some of the dealerships because of the weaker car sales, do you expect to get back to positive comps in 2020?

Nick Pinchuk: I think we're not sure what happens with the OEM dealership business. That's the thing that we say, well, that's a lumpy business. And having worked for Ford myself, I can tell you that they – this is a business that changes cash flow every month for five years. They change their attitudes every month. So we're not sure. If I look out and looking at the IHS forecast, they're forecasting down 1% to 2% next year. I would think we'd kind of see the same kind of stuff out for a little while.

Now RS&I was up low single digits for the year. I think interestingly though, 26% for RS&I, I think, is the highest-ever gross OI margin, so they had an okay quarter from that perspective. It's just their sales were down because of that OEM business. But the information business to the independent repair shops was up again, which was what drove that 26% because it's high-margin business, and Mitchell 1 is a – has been a consistent grower for us.

So if you look at the RS&I businesses, I'll step back and talk about them, Mitchell 1 seems to grow consistently. We just invested in a new building. We didn't do so without thought. And therefore, we think that's got a great future. Diagnostics tends to go up and down but we're training the franchisees to be more comfortable with the new groundbreaking product of intelligent diagnostics. We expect that to go forward.

The OEM businesses, which is about a third of the businesses, it's hard to predict, it can be lumpy. And significantly, lost in the sway here is the equipment business showed a positive this quarter for RS&I, and it hasn't been positive for a while. So we view that as a fairly – even in a turbulent quarter,

we view that as one sign of good news. So going forward, I think – we think the OEM business, uncertain. Maybe it will be the same as this quarter for a while. But the rest of the businesses have good opportunity.

Scott Stember: All right. And just last question. Your view of the business longer term, are you maintaining your expectation that the company, longer term, could be a mid-single-digit grower on an organic sales basis?

Nick Pinchuk: Yes, yes. I think the market is there. I think we got the product and stake. I think we're capacity-bound. I've said it – if you listen to us, for years, we've said that one of the boundaries associated with the van channel, space and time, we're up against a time boundary. It's clear. You can see it, the way the world works. And so we have to break through that like we did in previous years. We had to come up with ways to make those franchisees use their time better, and we can do that, we think.

And then in the C&I business, if you've...13 straight quarters for industrial and with 5,700 new products, now that gets more and more complex and it drives inventory, but the dogs are buying the dog food there. The only thing is, in this particular quarter, one of the big businesses was low margin. That's not going to happen forever.

Scott Stember: Got it. Thanks a lot.

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

David MacGregor: Good morning, everyone. A couple of questions. First of all, just given the amount of time we've spent talking about the field support, can we at least put a number on what the impact was to margins, Aldo?

Aldo Pagliari: Well, I don't call out the field support specifically. Obviously, it's an investment that we make along with other internal metrics that we have, David. But you could see the drag that it creates in the OE section of the financial – of the Snap-on Tools Group. But we're not going to dimension it exactly.

David MacGregor: So you can't give us some order of magnitude or any quant on that?

Aldo Pagliari: No, I don't think so.

David MacGregor: Okay. I guess, what percentage of your franchisees are up year-over-year in the fourth quarter?

Aldo Pagliari: Our what?

David MacGregor: What percentage of your franchisees would have seen growth in the fourth quarter?

Nick Pinchuk: I don't think we know that necessarily directly.

Aldo Pagliari: Yes. The U.S. is up low single digit, as we've said, and you'll get a mix within that portfolio. Some, of course, will be higher, some will be lower than that. But we're not going to parse among the number of franchisees that are up versus the number that are down.

Nick Pinchuk: Generally, we parse them by quintiles. And if you see the business up, it generally tends to be uniform across that. So what you find is, is that roughly 60% of the – 60% to 65%, maybe two-thirds of the franchisees will be sort of in the same direction as the overall business. That's usually what happens in any one quarter. And those numbers swap in and out. It doesn't change that much from quarter-to-quarter, really.

David MacGregor: Okay. And then it seems like we've got to a point in our world where people are buying online, and I'm sure that technicians are no exception to that rule. You're selling tools on your website. Can you just talk about it? And maybe this is a way to sort of tie in with the whole notion of the time boundary you referenced in answering the last caller's question. But what's the opportunity to develop online sales here? Maybe find a way to pass the credit back to the appropriate franchisee that that customers registered to. But talk a little bit about the opportunity to grow online as...

Nick Pinchuk: I think our customers don't – we offer them online. But generally, our customers value the presence, the face-to-face presence of the franchisees. That is – I think that is the point. The idea of providing up close and personal counseling and guidance on how the explanation of the tool, which are getting more, I guess, more complicated, more sophisticated and the guidance on how to use it, then the idea of providing credit up close and personal, and then the idea of having a replacement right there is what our franchisees and our customers seem to like. They could go online but they don't necessarily avail themselves of that.

Now if we thought we were getting pushed by that, we would be looking at it a little bit more, but hand tools are up and you would think that would be the number one product line that would be bought online since it's less complicated than people tend to know hand tools. But the hand tools are up for the year. In fact, they've been more robust over the past couple of years. So that's our kind of view of it.

We try to use the online capabilities to enhance. It's one of the things we try to do to enhance the efficiency of the franchisees in terms of their collections, in terms of the way they communicate with their customers on specials and those kinds of things. Those are the opportunities we see. We see the connection either through social media or traditional online, either Twitter, either Facebook or Twitter or in fact, texting or just email, not that many people use e-mail anymore. And for our

franchisees to communicate and make our customers aware of things, that's part of our view of online and enabling the franchisees to be more efficient.

David MacGregor: So how would online growth look for you right now?

Nick Pinchuk: Well, I think it's not.

David MacGregor: Off a small base, obviously. But I'm just trying to get a sense of what...

Nick Pinchuk: It's probably up some but not very significant. It's not very significant because online for us, our customers are looking at the idea, the support they get from the franchisees. So what we try to do is keep that franchisee support in place because it's part of our advantage, and secondly, try to use whatever the electronic media is to enable the franchisees more, just as I said.

David MacGregor: Okay. Well, maybe I could follow up offline with you, it's an interesting topic. Thank you.

Nick Pinchuk: Sure.

Operator: And at this time, I would like to turn the conference back to Sara Verbsky for any additional or closing remarks.

Sara Verbsky: Thank you all for joining us today. A replay of this call will be available shortly on [snaon.com](http://snaon.com). As always, we appreciate your interest in Snap-On. Good day.

Operator: Ladies and gentlemen, this concludes today's call and we thank you for your participation. You may now disconnect.