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Moderator: **Sara M. Verbsky**

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Operator: Good day, and welcome to the Snap-on Incorporated Third Quarter 2021 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Sara Verbsky, Vice President, Investor Relations. Please go ahead.

Sara Verbsky: Thank you, Olivia, and good morning, everyone. Thank you 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 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 Web site, snapon.com, under the Investors section. These slides will be archived on our Web site along with a transcript of today's call. Any statements made during this call relative to management's expectations, estimates or beliefs or otherwise state management's or the company's outlook, plans or projections are forward-looking statements, and actual results may differ materially from those made in such statements.

Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings. Finally, this presentation includes non-GAAP measures of financial performance, which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding these measures is included in our earnings release issued today, which can be found on our Web site.

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

Nick Pinchuk: Thanks, Sara. Good morning, everybody. As usual, I'll start the call by covering the highlights of our third quarter and along the way of I'll give you my perspective on our results…they are encouraging…on our markets…they are positive and more than resilient…and I'll speak about our progress. It's been considerable, each period demonstrating increasing strength even when in the midst of seldom seen headwinds. And we'll also speak about what it all means for our future. It's incredibly promising. And then Aldo will move into a more detailed review of the financials.

Our reported sales in the quarter were $1,037.7 million. They were up 10.2%, including $9.6 million of favorable foreign currency and $19.5 million of acquisition-related sales. Our organic sales growth was up 7%, was 7%, gains in every group. It was our fifth straight quarter of above pre-pandemic performance and Snap-on value creation processes, safety, quality, customer connection, innovation and rapid continuous improvement, or RCI, as we call it, all combined to drive that progress.

And progress it was. Opco operating income of $201.3 million was up $15.6 million from last year. The OI margin was 19.4%, down 30 basis points, impacted negatively by acquisitions, but still very strong, at a strong level.

For Financial Services, operating income of $70.6 million increased 7.6% and the delinquencies were down, even below the 2019 pre-pandemic levels, a continued testimony to our unique business model and its ability to navigate the most threatening of environments.

First quarter EPS was $2.57, up $0.29 or 8.8% from last year. And as I said before, we believe Snap-on is stronger now than when we entered this great withering and our third quarter results testifies to just that. Compared with 2019, before we ever heard of the virus, our sales – our sales grew $135.9 million or 15.1%, which includes $21.0 million from acquisition-related sales, $13.6 million of favorable foreign currency and $101.3 million – and a $101.3 million or 11.1% organic gain. And that 2021 Opco operating margin of 19.4% was up 80 basis points from the pre-pandemic levels, even while absorbing the impact of new acquisitions and while meeting what we can call the considerable disruption of these days.

Now let's talk about the markets. Auto repair remains quite resilient. The technicians are prospering. They know they've weathered the depths of the COVID shock, learned to accommodate the virus environment and are well along to psychological recovery. Techs are resilient. They've been at their post for the last 18 months undaunted and they won't be shocked again, and they are optimistic about the future of their profession, about the outlook of individual transportation, and about the greater need for their skills as the vehicle parc changes with new technology. Vehicle repair is strong – is a strong and resilient market. You can hear it in the franchisee's voices and you can see it written clearly across our numbers every quarter.

Also in auto repair, there are our shop owners and managers, different from the tech. That's where our Repair Systems & Information Group, RS&I, plys its trade. Demand for new and used cars is high despite limited supply and dealership repair and maintenance and warranty is rebounding, and dealers are starting to invest again.

And we've been able to make – we've been able to take advantage with groundbreaking products like our award-winning Tru-Point Advanced Driver-Assistance Calibration System, our new diagnostic, our new diagnostic TRITON-D10 intelligent diagnostic unit and our acclaimed Mitchell1 ProDemand Repair Estimating Guide, all representing new technologies and data deployed to make work easier in the shop. Vehicle repair looks more promising than ever, and Snap-on is poised to capitalize.

Now let's talk about critical industries where Snap-on rolls out of the garage, solving tasks of consequence. This is where Commercial and Industrial or C&I operates. The virus had a much longer impact on these customers. They were slower to accommodate, but they are recovering. And in the quarter, our results showed that trend, gains in North America, Europe and in Asia, all over the globe. So overall, I describe our C&I markets as improving. And coupled with the strength of the auto repair sectors, our markets are beyond resilient, and we're ready and well positioned to make progress along those runways for growth.

At the same time – at the same time, it's clear that we have ongoing potential on our runways for improvement, the Snap-on Value Creation Processes. They've never been more important, helping to counter the turbulence of the day. Especially important was customer connection, understanding the work of professional technicians, and innovation, matching that insight with technology, driving new products. And just this quarter, Snap-on was prominently represented with nine Professional Tool & Equipment News, we call it PTEN People's Choice Awards where the actual users, the technicians make the selection.

We were also recognized with two PTEN Innovation Awards, and we were honored with two Motor Magazine Top Tool awards. An essential driver of Snap-on growth is innovative product that makes work easier and the awards, hard won. They're a testimony that great Snap-on products just keep coming, matching the growing complexity of the task, becoming more essential to technicians and driving our forward progress.

That's the environment, pretty positive. Now we'll move to the operating groups. In C&I, volume in the quarter rose 13.9% or $43.0 million versus 2020 on significant growth across all divisions, reflecting – it reflected a $32.9 million or 10.6% organic uplift and $7.5 million from our AutoCrib acquisition. And double-digit growth in our European hand tool businesses and a high single-digit rise in critical industries led the way. C&I operating income of $53.6 million was up $10.5 million or 24.4%, and the operating margin was 15.3%. That's an increase of 130 basis points versus last year. I'd say that's an intention getting rise against the wind.

Now compared to the pre-pandemic 2019 results, sales were up 4.8%, including a 0.9% organic gain. And that OI margin of 15.3% was up 90 basis points against the 70-point impact of acquisitions and unfavorable currency. Once again, SNA Europe delivered double-digit growth beyond pre – double-digit growth beyond pre-virus levels against a complex and varied marketing environment, propelled by the customization power of their Bahco Ergo Tool Management System. And our Industrial division rose in critical industries, recording nice gains in general industry, heavy-duty, education and U.S. aviation, a number of positive sectors overcoming weakness and continuing weakness in the military and natural resources. C&I is rising, and we're enthusiastic about the possibilities. We'll keep strengthening our position to capture those opportunities and enabling that intent is our expanding lineup of innovative new products.

And the third quarter, did see some great new offerings. Like our 14.4-volt 3/8-inch drive Brushless Ratchet, the CTR861. It's already popular. And it's no wonder. It's a powerful combination of strength and speed, high torque, 60-foot pounds to bust loose very suborn bolts, and rapid operations, 275 RPM for getting those fasteners off in quick time. Made our – made in our Murphy, North Carolina plant, and it features a full frame brushless motor for longer run time and durability. It includes a safety switch that shuts, and it includes a safety switch that shuts down – shuts down the tool after 2 minutes of continuous use that's eliminating the chance of overheating. It also has a super bright 18 lumen, front-facing light that stays illuminated after the trigger is released, allowing easy and immediate inspection of the work. This ratchet also features a built-in break that stops the tool from throwing fasteners, which is – it seems like not much, but it's an important safety feature for technicians. And it also offers a great cushion grip that makes for more comfortable tool control even during extended use. The CTR861, power, speed, and comfort, in a very compact package. It's a mighty mite for accomplishing critical tasks and the professionals love it. Well, that's C&I, continuing upward, exceeding pre-pandemic volumes, strong profitability and positioned for more.

Now on to the Tools Group. Sales of $471.4 million, up $21.8 million, including $4.9 million of favorable currency and a $16.9 million or 3.7% organic gain. Growth in the U.S. – both in the U.S. and the international operations. And the operating margin was 20.8%, one of our highest ever and up 140 basis points from last year. Compared with the pre-virus 2019 level, the organic gain was $80.4 million or 20.6%. And the 20.8% operating margin was up 700 basis points compared with the pre-pandemic level, 700 basis points in the midst of operating turbulence.

Tools Group is responding to the challenges of the day, increasing its product advantage, fortifying its brands and further enabling its franchisees, giving them more selling capacity. It's all working. Five strong quarters of above pre-pandemic performance says it's so.

Now the third quarter is when we hold our – most of you know this, the third quarter is when we hold our annual Snap-on Franchisee Conference, our SFC. This year, we were back again in person at the Gaylord in Orlando, Florida. Over 9,000 attendees, a record. We had training seminars in sales growth and intelligent diagnostics. They were well attended and well received. And we had several football fields of product, so our franchisees could get up close and personal with our latest innovations. For the franchisees, the SFC is an opportunity for learning, for touching and ordering new products and for recharging their Snap-on batteries and believe me, they are charged. For the company, the SFC is an opportunity to gauge the franchisees' outlook on the business. One quantitative way is orders. Well, they were up, strong double digits over last year's virtual live from the Forge event, and from the 2019 SFC live in Washington, DC. And when I say up, I mean all of our product categories showed substantial gains over both of those events. And so that's the quantitative look at it. Qualitatively, I spoke with many of our franchisees and I can attest that they were beaming, showing a lot of confidence in our business and declaring considerable optimism on their future days and decades ahead with Snap-on. We do believe our franchisees are continuing to grow stronger each quarter, and we continue to invest in their future. And if you were with us in Orlando, you would have seen it unmistakably

And we are investing, building franchisees' ability to use the direct interface with technicians, enabling them to better communicate their unique capability and the unique capability and growing technology of Snap-on product lines. We have great confidence in the power of our products and there are real reasons for the confidence. You heard about the product awards. Well, beyond that, there's a continuous stream of terrific new offerings. During the SFC, the Tools Group unveiled its new KHP415 portable 40-inch Substation Power Cart. It's targeted at entry-level technicians, the ones working on a narrow scope of repairs. It's built in our Algona, Iowa factory, and the new cart enables young mechanics to invest in Snap-on storage at a value price, while at the same time getting some very attractive professional features, a lockable top compartment, four full drawers of storage, an adjustable power tool rack that holds up to 10 tools and a power strip with five outlets and two USB ports for battery and device charging. The new cart, it was well received. And it's quickly reaching what we call hit-product status. Over $1 million of sales, it's racing upward on a steep trajectory.

Beyond products, we spent time working to expand franchisee selling capacity, harnessing social media, improving product training and RCI’ing the van operations, and it's working. Selling capacity is up, and you can see it clearly in the five straight gangbuster quarters for our van network. The Tools Group is on a very positive trend, ascending and leaving pre-pandemic levels way behind.

Now on to RS&I. Sales were up 14.8% or $46.9 million, including a $31.7 million or 9.9% organic uplift. Growth was weighted toward undercar equipment, but our diagnostics and information businesses also chipped in with double-digit increases. Versus 2020, RS&I operating earnings were $83.3 million, representing a rise of $3.2 million.

Comparing with 2019, sales grew $41.7 million or 12.9%, including $24.2 million or a 7.4% organic gain, nice growth. The RS&I OI margin was down versus the last 2 years, attenuated by business mix, acquisitions and currency, but it was still a strong 22.9%.

We clearly see the potential of our runways with RS&I, expanding Snap-on's presence in the garage with coherent acquisitions and a growing line of powerful products. Third quarter annual growth was broad-based, but a strong double-digit rise in undercar equipment was an especially welcome turn. That's a nice turnaround, and it was led by innovative products like our 15K Four Post Alignment Lift. It's really taking a hold in the repair shops as they've resumed investing. This new 15K provides professional grade alignment lifting for a variety of vehicle sizes, with open front columns, best-in-class ultra-wide 26-inch runways and integrated 100-inch long-rear plates, it's suited to accommodate vehicles from compact passenger cars, compact passenger cars to big pickup trucks. And it's low easy-on approach angle makes it great, even for low-profile sports cars that are often a challenge for other lifts. Made in our Louisville, Kentucky plant on an assembly line, it’s made in Louisville on assembly line that I'm very familiar with. I participated in an RCI event for that process. Our new 15K has helped drive the recovery for undercar equipment, and it's driven the rise in RS&I volumes. We're quite positive about RS&I's possibilities with repair shop owners and managers as the vehicle industry evolves, it's got a great future.

So that's the highlights of our quarter. Continued and strong progress. Our fifth straight period of exceeding pre-pandemic levels. C&I on track with strong sales and increasing profitability. RS&I, undercar coming back. The Tools Group, strong, pumped and moving vertically. The credit company solid in the storm and profitable. The overall corporation, organic sales rising 7%, OpCo operating margin 19.4%, and EPS of $3.57, a considerable rise. And most important, more testimony that Snap-on has emerged from the turbulence much stronger than we entered. It was an encouraging quarter. Now I'll turn the call over to Aldo. Aldo?

Aldo Pagliari: Thanks Nick, our consolidated operating results are summarized on slide 6. The third quarter of 2021 exhibited another period of solid financial performance. The results also compared favorably with the third quarter of 2019, which being a pre-COVID-19 time period, in some cases may serve to be the more meaningful baseline.

Net sales of $1,037.7 million in the quarter increased 10.2% from 2020 levels, reflecting a 7% organic sales gain, $19.5 million of acquisition-related sales and $9.6 million of favorable foreign currency translation. Additionally, net sales in the period increased 15.1% from $901.8 million in the third quarter of 2019, including an 11.1% organic gain, $21.0 million of acquisition-related sales and $13.6 million of favorable foreign currency translation.

Consolidated gross margin of 50.2% improved 30 basis points from 49.9% last year. The gross margin contributions from the higher sales volumes, 60 basis points of favorable foreign currency effects, and benefits from the company's RCI initiatives more than offset higher material and other costs.

Operating expenses as a percentage of net sales of 30.8% increased 60 basis points from 30.2% last year, primarily due to 60 basis points of unfavorable acquisition effects. Benefits from the higher sales volumes were offset by increased brand building, travel and other costs, including the restoration of our annual in-person Snap-on Franchisee Conference.

Operating earnings before financial services of $201.3 million compared to $185.7 million in 2020 and $167.7 million in 2019, reflecting an 8.4% and a 20% improvement, respectively. As a percentage of net sales, operating margin before financial services of 19.4% compared to 19.7% last year and 18.6% in 2019.

Financial services revenue of $87.3 million in the third quarter of 2021 compared to $85.8 million last year, while operating earnings of $70.6 million increased $5.0 million from 2020 levels, reflecting the higher revenue as well as lower provisions for credit losses.

Consolidated operating earnings of $271.9 million increased 8.2% from $251.3 million last year and 18.9% from $228.7 million in 2019. As a percentage of revenues, the operating earnings margin of 24.2% compared to 24.5% in 2020 and 23.2% in 2019.

Our third quarter effective income tax rate of 23.7% compared to 23.4% last year.

Net earnings of $196.2 million or $3.57 per diluted share increased $16.5 million or $0.29 per share from last year's levels, representing an 8.8% increase in diluted earnings per share. As compared to the third quarter of 2019, net earnings increased to $31.6 million or $0.61 per share, representing a 20.6% increase in diluted earnings per share. Now let's turn to our segment results.

Starting with the C&I Group on slide 11. Sales of $351.4 million increased 13.9% from $308.4 million last year, reflecting a 10.6% organic sales gain, $7.5 million of acquisition-related sales and $2.6 million of favorable foreign currency translation. The organic gain reflects higher activity in all of the segment's operations and includes high single-digit increases in sales to customers in critical industries. Within the critical industries, year-over-year sales gains were achieved in general industry, heavy-duty, and technical education, but were partially offset by declines in sales to the military and international aviation, both of which had particularly robust sales in the prior year period.

As a further comparison, net sales in the period increased 4.8% from 2019 levels, reflecting a $3.0 million organic sales gain, $7.5 million of acquisition-related sales and $5.6 million of favorable foreign currency translation. As compared to 2019, sales in our European-based hand tools business were up mid-teens. With respect to critical industry sales activity in that period, our lower sales to the military, international aerospace and natural resources segments offset gains in our sales to technical education, heavy-duty and general industry customers.

Gross margin of 38.2% improved 90 basis points from 37.3% in the third quarter of 2020. Contributions from the higher sales volumes and benefits from RCI initiatives were partially offset by higher material and other costs.

Operating expenses as a percentage of sales of 22.9% improved 40 basis points as compared to last year, primarily due to the improved volumes, which were partially offset by higher travel and other costs.

Operating earnings for the C&I segment of $53.6 million compared to $43.1 million last year. The operating margin of 15.3% compared to 14% a year ago.

Turning now to slide 8. Sales in the Snap-on Tools Group of $471.4 million increased 4.8% from $449.8 million in 2020, reflecting a 3.7% organic sales gain and $4.9 million of favorable foreign currency translation. The organic sales increase reflects a mid-single-digit gain in our U.S. business and a low single-digit gain in our international operations. Net sales in the period increased 22.4% from $385.2 million in the third quarter of 2019, reflecting a 20.6% organic sales gain and $5.8 million of favorable foreign currency translation.

Gross margin of 45.8% in the quarter improved 30 basis points from last year, primarily due to the higher sales volumes and 130 basis points from favorable foreign currency effects, which offset higher material and other costs. Operating expenses as a percentage of sales of 25% improved from 26.1% last year, primarily reflecting the higher sales.

Operating earnings for the Snap-on Tools Group of $98.2 million compared to $87.1 million last year. The operating margin of 20.8% compared to 19.4% a year ago, an improvement of 140 basis points.

Turning to the RS&I Group shown on slide 9. Sales of $364.4 million compared to $317.5 million a year ago, reflecting a 9.9% organic sales gain, $12 million of acquisition-related sales and $3.2 million of favorable foreign currency translation. The organic increase reflects double-digit increases in sales of undercar equipment and in sales of diagnostic and repair information products to independent shop owners and managers, while activity focused on OEM dealerships was essentially flat.

As compared to 2019 levels, net sales increased $41.7 million from $322.7 million, reflecting a 7.4% organic sales gain, $13.5 million of acquisition-related sales and $4.0 million of favorable foreign currency translation.

Gross margin of 46.8% declined from 47.3% last year, primarily due to the impact of higher sales in lower gross margin businesses, increased material and other costs and 10 basis points of unfavorable foreign currency effects. These declines were partially offset by savings from RCI initiatives and 60 basis points of benefits from acquisitions. As a reminder, undercar equipment, which had healthy sales increases in the quarter, typically has a gross margin rate that is below the RS&I segment's average.

Operating expenses as a percentage of sales of 23.9% increased 180 basis points from 22.1% last year, primarily due to 170 basis points of unfavorable acquisition effects.

Operating earnings for the RS&I Group of $83.3 million compared to $80.1 million last year. The operating margin of 22.9% compared to 25.2% a year ago.

Now turning to slide 10. Revenue from Financial Services of $87.3 million compared to $85.8 million last year. Financial Services operating earnings of $70.6 million compared to $65.6 million in 2020. Financial Services expenses of $16.7 million decreased $3.5 million from 2020 levels, primarily due to lower provisions for credit losses, resulting from favorable loan portfolio trends, which support lower forward-looking estimated reserve requirements.

As a percentage of the average portfolio, Financial Services expenses were 0.8% and 0.9% in the third quarters of 2021 and 2020, respectively. In the third quarters of both 2021 and 2020, the average yield on finance receivables was 17.8%. The respective average yield on contract receivables were 8.5% and 8.4%, respectively. Total loan originations of $269.3 million in the third quarter increased $16.5 million or 6.5% from 2020 levels, reflecting a 5.7% increase in originations of finance receivables and a 9.5% increase in originations of contract receivables.

Moving to slide 11. Our quarter end balance sheet includes approximately $2.2 billion of gross financing receivables, including $1.9 billion from our U.S. operation. Our worldwide gross financial services portfolio increased $7.5 million in the third quarter. The 60-day plus delinquency rate of 1.4% for U.S. extended credit compared to 1.5% in the third quarter of 2020 and 1.7% in the third quarter of 2019. On a sequential basis, the rate is up 20 basis points, reflecting the typical seasonal increase of 20 to 30 basis points we experience between the second and third quarters. As it relates to extended credit or finance receivables, trailing 12-month net losses of $42.7 million represented 2.48% of outstandings at quarter end, down 22 basis points as compared to the same period last year.

Now turning to slide 12. Cash provided by operating activities of $186.4 million in the quarter reflects 92.5% of net earnings. While this represents a decrease of $37.6 million from 2020 levels, this cash conversion rate compares favorably with 77.5% of net earnings in both the third quarters of 2019 and 2018. The decrease from the third quarter of 2020, primarily reflects the higher net earnings being more than offset by net changes in operating assets and liabilities, including a $61.9 million increase in working capital. This change in working capital is largely driven by the more typical seasonal inventory build in the third quarter of 2021 as compared to the reduction of inventory experienced in the period last year. Inventory additions also reflect some increases in buffer stocks and higher levels of in-transit inventories associated with the supply chain dynamics being seen in the macro environment.

Net cash used by investing activities of $29.7 million included net additions of finance receivables of $7.6 million and $16.2 million of capital expenditures. Net cash used by financing activities of $385.8 million included $250 million in senior note repayments, cash dividends of $66.3 million and the repurchase of 300,000 shares of common stock for $66.5 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional $197.1 million of common stock under existing authorizations.

Turning to slide 13. Trade and other accounts receivable increased $12.5 million from 2020 year-end. Days sales outstanding of 56 days compared to 64 days at 2020 year-end. Inventories increased $43.1 million from 2020 year-end. On a trailing 12-month basis, inventory turns of 2.7 compared to 2.4 at year-end 2020. Our quarter end cash position of $735.5 million compared to $923.4 million at year-end 2020. Our net debt to capital ratio of 10.3% compared to 12.1% at year-end 2020. In addition to cash and expected cash flow from operations, we have more than $800 million in available credit facilities. As of quarter end, there were no amounts outstanding under the credit facility, and there were no commercial paper borrowings outstanding.

That concludes my remarks on our third quarter performance. I'll now briefly review a few outlook items for the balance of 2021. We now forecast that capital expenditures will approximate $90 million. In addition, we currently anticipate, absent any changes to U.S. tax legislation, that our full year 2021 effective income tax rate will be in the range of 23% to 24%.

I'll now turn the call back to Nick for his closing thoughts. Nick?

Nick Pinchuk: Thanks, Aldo. The Snap-on third quarter can be summarized in one word, momentum. Our markets are showing extraordinary possibilities, almost across the board, with auto repair the most advanced, going beyond resilience. We saw the COVID-19 playing out with our customers in 3 phases – shock, interruption in the face of virus uncertainty, accommodation, a gradual learning to pursue essential work while staying safe, and psychological recovery, a confidence in the future and return to normal buying. But now, we're seeing a fourth phase, exhilaration, a certainty that we're – that we're moving sharply to higher levels, ignited by the conviction that we have met and managed the virus and they won’t – and that we won't get shocked again. It's a bright outlook. And Snap-on, with continuing investment in product and brand and people is well positioned to surf that trend.

Of course, the COVID is still lingering, and its side effects, inflation and supply disruption are on the loose, but Snap-on is strongly arrayed to engage those challenges. A direct selling model and strong brand position enables agile pricing. Our vertical integration and shorter supply chains make us less vulnerable to sourcing viscosities. Our broad product line, more than 80,000 SKUs supports flex – flexible marketing to guide around shortages, and our RCI culture drives cost offsets. We found opportunities on our runway for growth and improvement even amidst these challenging times, and you can see it in the numbers, encouraging. C&I sales up from – both from last year and 2019. OI margin 15.3%, strong, and rising 130 basis points and 90 basis points versus 2020 and 2019, respectively. RS&I, up organically 9.9% versus last year and 7.4% beyond the pre-pandemic levels. OI margins of 22.9%. And the Tools Group, organic volume rising 3.7% versus last year's record level and up 20.6% versus the days before the virus. OI margin, it was 20.8%, up 140 basis points from last year and up 700 basis points from 2019. It all led to our corporation being organically up 7% compared with last year and a strong 11.1% versus pre-pandemic numbers. Overall OI margin was 19.4%, solid in the face of turbulence. And our credit company, navigating the uncertainly without disruption, profits up, delinquencies down. And EPS, $3.57, rising emphatically versus all comparisons.

We have emerged from the virus stronger than when we entered, and the numbers confirm it. We've now recorded five, five straight quarters of above pre-pandemic performances, and we believe that with our markets reaching beyond resilience to exhilaration, with the capabilities of our model to overcome the challenges of the environment, and with a considerable advantage nurtured by our continuing investment in product, brand and in people, we'll continue to rise, maintaining our upward trajectory through the end of this year and well beyond.

Now before I turn the call over to the operator, I want to speak directly to our franchisees and associates. I always know you're listening. This is a period of great momentum for Snap-on. You are the fuel that has ignited and fanned that drive forward and upward. For your success in creating this encouraging performance, you have my congratulations. For the capabilities you bring to bear in achieving our progress every day, you have my admiration. And for your commitment to our present and your confidence in our future, 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 at this time, please signal 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 press star 1 to ask a question. We will pause for just a moment to allow the opportunity to signal. Our first question comes from Christopher Glynn with Oppenheimer.

Christopher Glynn: So Snap-on Tools looked really good sequentially, is usually down about 5% seasonally. I think it was down about half that, suggests little incremental commercial execution taking place. Wondering if you think I'm looking at that a little too closely or how you might characterize that?

Nick Pinchuk: Well, I think, look, I think they're certainly on an upward trajectory. So that would include better sequential performance. I think that's quite true. We're pretty – as I've used many times in my comments, we were encouraged by this performance and they seem to be rising. If you look at pre-pandemic levels, which is the appropriate comparison, up big, and their operating margins are strong. And this is a turbulent time, and they're managing over it.

And doing well.

Christopher Glynn: Okay. And curious, you talked about vertical integration, shorter supply chain, that's clearly characteristic. But probably not necessarily for every product you have. So I'm wondering if you did kind of have kind of a general kind of quantification of any revenue gaps in the quarter that created some backlog build given the widespread dynamics.

Nick Pinchuk: Yes. Nothing I can put my finger on. Look, I mean, the thing is, the place you would expect to see that might be in the critical industries where we have a huge range of products, we put together these big kits and you have to ship them complete. So you might have a kit with 1,000 items in it and you have to ship it complete, yet that business was up pretty well in the quarter.

C&I was up nicely in the quarter, and that led, critical industries led the way. So I don't think I can put my finger on any of that. Of course, we had some of that. But we overcame it. Part of it is, like I said, agile marketing, allowing yourself, okay, I got something else to sell. So I think generally, it's not like we weren't without impact, but we kind of overcame it. It's sort of like – remember – you probably don't remember this – Saturday Night Live, Rosanne Rosannadana – “It's always something.” And this is just the something of the day and it's our job as managers to get through it.

Christopher Glynn: Saturday Night Live school of management. And so also, just to comment on the balance sheet. The stock is down 5% or 6% this morning. You've got SOT compounding nicely off of 16% prior year organic. Any kind of fresh thoughts on using the balance sheet to address what looks maybe like a little disconnect between performance and reaction?

Nick Pinchuk: Well, I don't know the electrodes that are implanted in my body giving me the stock price at every moment. I haven't looked at yet. No, actually, we didn't see that it was down necessarily. But look, I don't know, we take advantage of situations. So I don't know. We say that we're trying to be agile in terms of share buyback. So I'll just leave it at that.

Operator: Next, we have Scott Stember with CL King.

Scott Stember: Could you break out within the Tools Group – I don't know if you gave this before – hand tools versus some of the bigger ticket items, how those perform?

Nick Pinchuk: I'm trying to get off the quarter-by-quarter train of looking at product lines because I don't know whether they mean that much, but I will tell you that hand tools were down this quarter actually versus what we're, I would say, incandescent levels of Q3. And the bigger ticket items were up, in aggregate, double digits. So I think that kind of sets kind of… sort of a reversal of what's been happening lately. And that – I think that drag actually, even though the margin was 28.8% – 20.8%, that's kind of a drag on margins because the highest margin business is hand tools for us in the Tools Group. So that's kind of an interesting observation, I think, in that regard. But it seemed like, at least for our franchisees that tool storage and diagnostics were getting a little more prominent this time. Of course, year over, versus the pre-pandemic levels, they were all up nicely. It has to be to contribute to the 20.6%.

Scott Stember: Right. So but at least on a year-over-year basis, we're talking like last year's hand tools were just through the roof?

Nick Pinchuk: Yes. Hand tools were down. But – okay, it's like I said, it's always something. They go up and down like that. You can't read too much into a quarter, but that's what happened. But we kind of think that, boy, it was encouraging to us to see tool storage to come back double digits and diagnostics to be nice as well.

Scott Stember: All right. And the SFC, anything that stood out? It sounds like everything was up year-over-year or even versus 2 years ago, more importantly. But is there any product or any one area or line that really stood out?

Nick Pinchuk: I don't know. No, I wouldn't say – I don't – I don't think so. It seemed to all be good. I couldn't parse between it all. Of course, there are variances in that. I think tool storage was very popular at the SFC actually. But I want to point out, Scott, these are always – they’re orders. And so you never know. SFC – a great SFC doesn't guarantee a great finish to the year or first quarter next year. A bad SFC doesn't doom you to a bad one because you have a lot of other things that goes on between August and the end of the year in terms of selling and ordering and so on.
But it's better than a poke in the eye with a sharp stick when everything, everything, is up double digits.

And if you were there, you would have been impressed. I mean the franchisees are pumped. I really mean it. They were – I've never seen them more enthusiastic. That's why we get the idea of exhilaration. I think, we're going beyond resilience when you're looking at the auto repair market in this situation.

Scott Stember: Got it. And then last question on the EV side. I know you guys have worked with OEMs and have gained some, I guess, business-related to tool kits that are specific in diagnostics to EVs. Is some of that embedded in some of the RS&I increases that you talked about for this quarter?

Nick Pinchuk: Yes. It's – it's actually – yes, we have a couple of projects in this quarter. I think they're extending – we have one project that's extended for a couple of quarters, but it's added a couple – I think another vehicle this quarter where we have from one big manufacturer, we don't like to name them, but they have four or five EV models that are coming out, and we're providing a package to dealerships in metered out proportion across the country. So there's some of that there.

And then, of course, you've got Dealer FX that is still coming to fruition, but was up nicely quarter-over-quarter, still a little bit of a drag in terms of margins but it's up year-over-year. So that was pretty nice. We're seeing ourselves kind of get on that EV train, get in the early warnings. All these things are early warning. I mean when you're with the – when you're getting projects with the OEM, that's an early warning on what the vehicle is going to need by the time they get into the business. And as Dealer FX grows, we have a sort of like a neural network of early warning to see what happens in the garage, so we're kind of positive about that. But it’s early days. There aren't that many on the road yet.

Operator: Next, we will go to Luke Junk with Baird.

Luke Junk: Two questions this morning. First, Nick, you touched on the benefits of vertical integration in your comments to wrap up the prepared piece. Certainly, a lot of investor attention right now being paid to the supply chain issues and the environment generally speaking, so just hoping you could expand on any steps that you've taken going into the fourth quarter and next year. Of course, we can see overall gross margin up 30 basis points year-on-year this quarter. You mentioned RCI-related benefits. I'm sure there's some other factors going into that. Would it be safe to say that you feel like you're on the front foot in terms of addressing the current supply chain environment?

Nick Pinchuk: Well, who knows? I mean, every day, there's something new, but I think we're – what I was trying to say Luke is we do take steps and our model enables those steps to be particularly efficacious. The vertical integration means that we don't buy that much. Most of the stuff is in our house. If you think about a hand tool, raw steel comes in the back of the factory and basically we add very little when it comes out. So you're worried about steel. We buy the steel in the U.S., short of supply chain. We buy some of our chips in the U.S. and closer places – that's not bad – circuit boards, those kinds of things, so we have those things. As well as, one of the advantages we have, Luke, and we do this, we're very aggressive in spot buying. So we go out and spot buy because we don't buy large quantities of any one thing. If you're an auto manufacturer, I used to be in Ford. You're buying something for the new Mustang or for the Ford Focus or whatever it is, you're buying a lot of stuff and it's hard to – once that supply chain gets disrupted because the Shanghai port closes because of a couple of cases, you kind of have trouble to move and get any alternative. Well, if you're only buying a little bit, you go out and you find them in the interstices of the system, and we have our guys actively doing that. That's why we're not seeing so much in terms of shortage. It may be still a little cost increase, but then we're agile pricing. So we don't have such a big problem in that regard. I'm not saying we're not actively working because, boy, our people are putting a lot of energy into it, but if you look at the numbers, pretty well managed.

Luke Junk: And then maybe this might be a question for Aldo. Curious, what insights you draw looking at your current credit metrics in terms of end mechanic customer health and buying capacity from here. I guess, specifically, I'm looking at the fact that the finance bad debt expense was down quite a bit the last couple of quarters now. And while originations are up, the Tools Group top line is certainly growing quite a bit faster than originations, especially if I look on, say, a 2-year stack basis. So just any thoughts there as well as if there's any qualitative feedback from franchisees that would be interesting as well.

Aldo Pagliari: So my view, Luke, would be that I think technicians themselves are in a better financial position than where they were maybe a year or 2 years even back ago. I think that's a broad statement that applies to many industries, I think you hear that out of the big banks. I mean customers are better servicing their debt than they were before. I think they have more discretionary power and spending. And so far, they've been applying it to their indebtedness. And I think we see the same trends. It's our job to capture that incremental savings that they might be seeing if they're not borrowing as much as before in capturing business with tool sales, and I think you see that. So, the Snap-on Tool sales being up more than originations, I think, as I applaud the Tools Group by being able to entice customers to buy more stuff because they have more money.

From what you read from the Bureau Labor statistics, technician wages is doing pretty darn good. So they seem to be strong. They seem to have more flexibility in what they choose to buy, and they seem to like to buy our products. So again, they're in a better position, I think, than they were a year or so ago. And of course, every quarter brings potential new changes. But right now, it's been running very favorable. And as a result of that, our going forward provision rates are lower than they might have been a year or 2 years ago. It's going back pre-pandemic, simply because of the debt servicing trends.

Operator: Next, we move to Gary Prestopino with Barrington Research.

Gary Prestopino: Got a series of questions here. First of all, Nick, as you talk to your franchisees, and you say they're like really pumped, I mean – what – can you cite like two or three reasons why they are so optimistic about the repair industry for the next year or so that's reflected in their order rates?

Nick Pinchuk: Well, I think it's a couple of things. I think one is that they're seeing their customers, the technicians and the garages, feeling the benefits of people sort of pivoting back toward individual transportation. So people are driving more. You look at the miles driven, they're up. You can see that, and that makes them feel good. I think this was something that you could logically figure out, but they're seeing the fruits of it now. You can see that boy, their wages are rising. There's a lot of stories out around what they're at. But they're clearly rising. The BLS data shows them rising both for year-over-year and the rolling 12 months. And you can see it in the garages. And that's a reflection, yes, of the dearth maybe, but there's always been a dearth of mechanics. It's a reflection, I think of. It's not so easy to get people in there because what they're doing now is a particularly advanced skill. And this is starting to dawn, I don't know, dawn on is the wrong word, but starting to be reinforced in their mind about that.

And then I think they're feeling, what I would say is a general optimism that comes out of having felt like they've engaged and managed the COVID. Garages have been working for the whole time. So while the news, when you hear the news and everybody is appropriately worrying about Delta and all these things, people are – it's not that they're not keeping themselves safe, but they're saying, "Hey, we can deal with this. We're not getting shocked again. Whatever happens, we're not going to be interrupted. We're going to keep going. Our upward trajectory is happening. In a crazy way, I suppose some of this is sort of – you can see the sort of prosperity that came out of the 20s after the flu the last time. I can feel that in the garages. I feel it in a lot of different places. But you certainly feel it in the garage and you feel it with the franchisees, and that's translating back to them.

And then finally, I think our franchisees in particular are recognizing that our products are more effective than ever. They have great faith in those products. And they're feeling…I was with the national franchisees, so national – NFAC, National Franchisee Advisory Council, 12 guys from all over the country, and they're feeling the – the things they're doing in terms of social media, in terms of RCI’ing the van, in terms of the better training are given more selling time. So you'll get on a van like I was just on a van in California, southern Cal, and this guy says, "Yeah, I now find out if I follow the program, I can reach more technicians. He is talking about reaching more technicians than he could before. Those are the things that are making the difference.

Gary Prestopino: Okay. That's very encouraging. And then in terms of you saw a strong double-digit growth in orders out of the Snap-on Franchisee Conference, what was the growth in orders – well, the 2020 conference and even particularly in the 2019 conference. Do you – off the top of your head, do you remember how you came out of those conferences?

Nick Pinchuk: I don't know, but it wasn't double digits. I mean, and it wasn't as you know. It was probably – if I remember last year it was kind of a little bit less across, sort of across the board. In '19, it was probably different, you know, ups and downs. So some guys, some products – I'm talking about guys because I'm thinking about the product managers – some areas were up double digits and others were down. This thing was across the board double digits. It was boffo. This was a gangbuster.

Gary Prestopino: Yes. Great. And then just lastly, on the diagnostic side...

Nick Pinchuk: Gary, before you go away from that, I want to emphasize, like I said for this is orders, not sales, it's directionally indicative not – but better than a poke in the eye with a sharp stick, it tells you, you come away feeling good about this. We feel good about this, better than we have of any SFC that have been around here.

Gary Prestopino: Okay. That's fine. And then just lastly, on the diagnostic side. As older cars come into the parc that have ADAS, is that directly affecting your end demand for some of your diagnostic products?

Nick Pinchuk: Yes. Well, it's actually, broadly spoken, I think at first, it certainly – it's affecting the – first, it's affecting the demand for Mitchell, which is up nicely because Mitchell has got a very complete ADAS suite in it that's industry leading. And then it's also helping to drive the equipment business because the equipment, you remember I talked about the equipment business going up – (dog barking) this conference call’s going to the dogs – And so the – the TruFit ADAS system, which I talked about is something that's helping drive that undercar equipment growth. And that's where you set up a system that helps – that physically calibrates the system in the garage. And it's also driving some of the diagnostics. But the diagnostics with their intelligent features are probably yet to feel the impetus from that. You'll see it coming in future quarters.

Operator: We will now move to Liz Suzuki with Bank of America.

Liz Suzuki: Could you talk about what you're seeing in cost inflation and how much of the organic growth in the Tools segment is impacted by price increases as you pass through those cost increases?

Nick Pinchuk: We're not going to go into that necessarily. I would say there's some price increase in there. I wouldn't say it's the major portion of the organic growth because price rolls through the system. We're seeing some cost increases, but the Tools Group has been able to manage that somewhat. To the extent you do get pricing offsetting cost increases, it tends to – it tends to knock down your margins because, of course, you get $1 of sales and $1 of cost that tends to do it. But it wasn't a major effect in this quarter.

Liz Suzuki: Got you. And then Nick and Aldo, I think you both touched on this a little bit in the prepared remarks and in the Q&A just about supply chain disruptions. I mean, from a competitive standpoint, does this create an opportunity for Snap-on to meet the needs of your customers with some of your competitors that may do more importing, may be more constrained on inventory?

Nick Pinchuk: Sure. Well, I don't know. I can't speak for my competitors about being constrained. Actually, in reality, to tell you the truth Liz, we – Snap-on is kind of interesting. It kind of works on itself. Our technicians either decide to buy Snap-on or they decide to buy another group of products. They hard – to choose from another group of products. They hardly ever say, "Oh, I'm going to buy another product, and then say, "Oh, I'll settle for the Snap-on if the other one isn't available. So I'm not sure how much that helps.

It certainly puts us in a better position to grow and probably capture new customers who might not be serviced by these people. There's some of that, I think. But I don't really like to talk about the competition because we really compete against ourselves pretty much. The better we get, the more franchisee capability we have, the more they're able to sell, the better our product is, the more it grows regardless of what the competition does.

Operator: Next, we go to David MacGregor with Longbow Research.

David MacGregor: I wanted to just start off by building on the last question. And I guess, it would appear now so you're offsetting a lot of the cost inflation with volume growth and RCI. And I'm just wondering what your expectations are for pricing going forward and your ability to price some of that cost inflation going forward rather than relying on volume growth and RCI.

Nick Pinchuk: Well, look, I think, first of all, I think I tried to make the case, and I think it's quite true that we have a lot of insulation against that. We believe that we can price as we need to because you have – we have a direct model in a lot of cases where we're direct to the end customer versus some other people who are going through several layers. And then secondly, the brand position allows us always to be the price leader. So we pretty much price relative to our prior products, when we're doing normal pricing, David, when we're bringing out a new product, we look at where we're happy really where the competition is. So generally, I think to the extent we see costs are rising, we can price against that. I don't have much worry about that. You know, that’s probably not in every nook and cranny of our business, but I think it's true in most of our business, particularly given that – given our brand position.

David MacGregor: Got it. Next question, really, is there a way to sort of help us understand just what sales growth was off the truck, what the sell-through growth was in the quarter?

Nick Pinchuk: Yes, I can tell you exactly. It was about the same as the sales growth to the truck.

David MacGregor: Okay.

Nick Pinchuk: I can't give you much insight on what was sold off the truck so much with such precision, but it was pretty much the same.

David MacGregor: Was pretty close. So how would you characterize truck level inventories right now, Nick? And maybe any way to distinguish between hand tools versus bigger ticket items, it would be helpful.

Nick Pinchuk: I would say everybody I talked to seems to be looking for tool storage. Now of course, that's a windshield survey. You're kind of familiar with those. But the thing is that you seem to see – I think there's a need – people want a little more tool storage. I think inventories, if anything, are probably down some versus historical levels. Because, yes, this quarter, we had equal, but in past quarters, sales off the truck kind of exceeded the – our sales to the truck. So I think we've had – if you look back over the last 3, 4, 5 quarters, 6 quarters, you've seen that sales off the truck exceeded. So I think inventories are kind of down. Now I don't know what that means. I'm not sure that there's going to be a restocking or not. I kind of get the feel that maybe they may restock certain product. Tool storage was nice this quarter. I think off, to the van. We had a nice – in fact, big ticket was nice double digits this quarter. So it's kind of a little bit of a reversal of what's been happening previously. You haven't seen it yet fully in the originations, I guess.

But look, I think there's a couple of things, I think, one, it takes a while to work through that. And then secondly, I think people are kind of paid down their credit so they've got, their kind of in a situation where they're able to buy some things that they're able to finance themselves.

David MacGregor: Great. I guess just to pick up on your comment about credit. It seems like there's been – and you've talked about this yourself, there's been more rotation towards revolving account credit as opposed to extended credit over the last year or so. And just thinking about how that's playing out now, your franchisees, obviously, they're a little more liquid. And so maybe in a better position to be able to provide that revolving account credit.

I'm just wondering how – if you could update us in terms of what credit penetration rates look like for big ticket right now. Once upon a time, I think you told us big ticket was up – was about 90% credit, diagnostics was 50% to 60% credit. What would those credit penetrations look like in kind of this new world?

Nick Pinchuk: I don't really have that number, but it's somewhat lower now. Part of it is because I think just what you say, the customer is a little more flush, the franchisees are a little more liquid. But also, make no mistake about this, optimism floats in this. I mean, the franchisees get a little bit more optimistic, and they say, "Hey, if I can put $1 in RA. I'm going to get it back. It's a great investment for me. Why would I put in the bank or something. So there's some of that floating through the franchise system. I – what I – what we view is, I think, for sure, is that the customers themselves have unused credit or untapped credit capacity. So that will come up.

We haven't really seen – there was a rotation at the beginning of the virus period toward RA. But this quarter, I'd say it's kind of stayed solid. RA and EC have been the same as last quarter and maybe the quarter before that was the same way. So it’s kind of found that equilibrium right now. We'll see how it plays out going forward. Whatever it is, it has, it didn't impact our big ticket sales this time.

David MacGregor: Yes. Congratulations there. And on the contract, $9.5 million versus the finance receivables, $5.7 million in terms of originations growth. Contract has been out in front of finance receivables for a while now. Do you expect that to continue? Or do you see that at some point or nearby kind of getting back to a more equal level or maybe finance receivables getting to a faster level of growth than contract?

Aldo Pagliari: Well contract receivables tend to run up a little bit with the Snap-on Franchisee Conference because you get some short-term loan financing arrangements there. But no, there's nothing structurally there that would say that the EC will not get back to higher levels. And actually EC was pretty decent and the U.S. was above the average in this case. So they had strong performance and it was nice originations, David, in both tool storage and diagnostics in the quarter.

David MacGregor: Yes. Last question for me is just social media sales. And I guess you kind of alluded to this in your comments, Nick, about online sales. But you don't have to look very far online to see franchisees selling tools through Facebook and other platforms. Can you just talk about how you foresee that growing? And does that accelerate? Does that help you in terms of your sales going forward?

Nick Pinchuk: David, I wasn't – in my comments, I wasn't talking about selling. I was talking about using social media to inform customers about products and promotions and other things, which frees up face-to-face time for actual selling. I don't really see social media sales as growing that much. I mean it's not much of a factor right now. Now it might, but I think generally, by and large, the overwhelming use of electronic media via the franchisees are just that to try to orchestrate – okay, I want you to know about this, so when I come in, I'm going to tell you why you need it, that kind of thing.

Operator: We have time for 1 additional question. Our final question comes from Brett Jordan with Jefferies.

Ethan Huntley: This is actually Ethan Huntley on for Brett. Yes, could you just provide any color on the sales cadence throughout the quarter?

Nick Pinchuk: Say that again. I didn't quite hear it. Could you say it again, please? Sales cadence?

Ethan Huntley: Yes, correct. Yes, just on sales cadence.

Nick Pinchuk: Yes. Look, it was pretty much the same as past quarters. I think generally, a little bit interrupted – if you want to go back to – I'll give you this. If you go back 2 years beyond the COVID era, the third quarter was particularly aberrated by the franchisee conference. So you get kind of a weak early couple of months, certainly early 1 month in the quarter. July was like a wasteland. And so then things would come roaring back when you got the SFC. People would be keeping their powder dry pretty much. The last 2 years, we've been able to get out of that by a number of artifices. And so it's a much more standard where you have, of course, a quarter is 4, 4,5, and so you get kind of that kind of distribution, maybe with a little higher number in the last quarter, but it's nothing particularly special, I think. This quarter, of course, is above. So each quarter is kind of going upwards versus its prior numbers. And so you feel like the upward trajectory, you can see it if you look very, very closely at the month-to-month numbers in a quarter as you're going to – as we're going through the months and the quarters and the years upwards. But not much difference in distribution except for that sort of general monotonic trend.

Ethan Huntley: Understood. That's helpful. And then another one here on the corporate expense. It was pretty high, $34 million, up about $10 million year-over-year and $5 million sequentially. I know you mentioned sort of performance-based comp and some brand building costs, but anything outside of those 2 buckets?

Nick Pinchuk: Yes. Well, the SFC was live this year. So you think – look, think of it this way. Okay, we had brand building, we had stock – we had stock-expense base comp. And this was our celebration of our 100th anniversary. So the SFC and the celebrations we had there were bigger than – bigger and better than any prior year. So you have some of that into your situation because the franchisees are invested in the company. I think I said they're positive about the days and decades ahead with Snap-on. And so that merits a little bit of celebration when you reach a Centennial milestone. So there's some of that in there.

Ethan Huntley: Sure. And then just one last one, if you don't mind. Given the strong business performance and cash flow, and I know you sort of mentioned opportunistically repurchasing shares, but where do share repurchases stand in terms of capital allocation given where the stock trading?

Nick Pinchuk: We have a 4-piece capital allocation. We tend to be working capital investors. You know what I mean, this is a working capital-intense company. So when we grow, we tend to – the COVID kind of changed – not changed, but obscured that dynamic somewhat. But generally, as you grow, we have working capital, then we look at acquisitions, we believe we have runways for growth, particularly in repair shop owners and managers in the garages and maybe in C&I in some places. And we've done some of that. Dealer FX is an example. We have a dividend that we've paid, a dividend every quarter since 1939 and we've never reduced it. So we take a look at our dividend with the intent of perpetuity and whether we should increase it or not, and we look at that carefully. And then we are agile about share purchases. So you have kind of a 4-way look at that, and they're all – they're all a draw on what we might do with cash depending on the situation.

Operator: That concludes today's question-and-answer session. Ms. Verbsky, at this time, I will turn the conference back to you for any closing remarks.

Sara Verbsky: Thank you all for joining us today. A replay of this call will be available shortly on snapon.com. As always, we appreciate your interest in Snap-on. Good day.

Operator: Thank you all for your attention. This concludes today's conference call. All participants may now disconnect.