SNAP-ON INCORPORATED

Moderator: Aldo J. Pagliari
August 5, 2016
9:00 am CT

Operator: Good day and welcome to the Snap-on Incorporated 2016 Second Quarter Associate Financial Review conference call. Today's conference is being recorded. At this time I would to turn the conference over to Aldo Pagliari, Chief Financial Officer. Please go ahead.

Aldo Pagliari: This is Snap-on. I am Snap-on. Irwin is okay with that? Okay we're ready to go. Welcome to the Q2 associate review. We'll briefly touch on some of the highlights and developments that existed across corporation in the most recently completed three months. Again a very successful quarter, a very solid quarter. Over the next couple of charts we're going to focus on certain things ...one is expectations...one is actual reality and accomplishments.

So if you look at the top line, on the yellow highlighted items, you'll see that on an organic basis, meaning excluding currency, excluding acquisitions, we grew 2.9%. And that's up sequentially from the previous quarter. So I think it went from about 2.1% to 2.9%. And in a world where people were expecting companies in the S&P 500, excluding financial services because they have their own unique problems, people were expecting actually lower year over year earnings and fairly anemic growth. So if you look at this on an absolute basis, particularly in the industrial space, 2.9% is a very respectable number and more or less in line with what the outside world thought we would do. It was slightly below, not by much, it was below by about 50 basis points about $9 million worth of sales.

And in the quarter as you all know there's been a lot of volatility around the world on interest rates and foreign exchange rates, particularly in Britain, a lot of discussion around Brexit. We endured about $10 million of lower sales just because of the effect of foreign exchange. And that accounts for, you know, taking a slice away about 120 basis points off of our overall sales number. So sales, on an absolute basis, relative to our peers is pretty solid.

And if I jump down to the bottom line and look at earnings in the very bottom of the chart you'll see earnings are actually up 16.3%. Remember in a world where people are expecting the S&P 500 to be lower, now given there's oil companies in there, particularly experiencing very difficult times and others, but still 16.3% and year to date, on six months, it's not a fluke, up 15.9%. So again, in an absolute sense, very impressive, successful accomplishments if you look at Snap-on on a standalone basis.

If you look within the operating company it's up about 10%, a little bit over that. Financial Services grew by I think it was 16.9%. Again, very impressive performances and up 140 basis points if you look at operating come as a percent to sales which is the common benchmark we always talk to. Again, another quarter of many, of improvements in excess of 100 basis points. So you just want to remember that.

And on the bottom on the cash flow, in a better place than where we were before. Operating company is growing and generating cash. Inventories are up, not as much as they were before, so they're stable. The negatives around the Financial Services company really reflects a positive development, the expansion of the portfolio which grew, slightly offset by the profit that they generate which is good news. And unfortunately, though Steve Bartels' team avoids trying to pay any more taxes than we have to, we pay our fair share. And there was a very significant tax payment that occurred in the quarter.

Looking at the balance sheet, as I mentioned, working capital is stable. We're getting a good - what's not on this chart is return on net operating assets. Again, better year over year, better sequentially. We always have to be mindful because these are big numbers, but we are getting a return on the investments and we're willing to invest in our customers' needs. It's a matter of having the right inventory available and the right credit whether it be trade receivables or financial services in line for that growth.

Okay you'll hear more from the groups. I'm not going to dwell on it. You could see that again very consistent performance. C&I continuing to experience the headwinds that blow across the military and the inability of the government to release certain funds for certain projects, problems still in the oil patch and for ourselves very difficult comparisons. We had very successful international aviation orders last year and we still have not overcome that deficit particularly with respect to orders that originate out of the Middle East or Middle Eastern based customers.

Auto repair segment is pretty good, a good place to be. What you see is a slight moderation in the pace of growth in the Tools Group but still on an absolute basis in a market that's growing perhaps 3% to 3-1/2%, that has an underlying GDP growth of 2% around the world, if that, you see pretty good absolute performance. And of course the rise of RS&I coming up and you see what - growing more than people's expectations. And Tom Ward will talk a little bit about that, rising from the ashes like a phoenix.

Here's a little bit more interesting chart and this of course gets our attention. Many people in this room have a basis of ownership in Snap-on. And if even one doesn't, it's kind of fun because it's an external benchmark just like a score of a soccer game or a baseball game and things of that nature. And you could see it was a little bit easier to talk to this chart going back a quarter or two so let's just talk about it. I don't have a pointer here because there's people on the phone that don't have access if I were to show that so let's just talk - you'll have to bear with me for a second.

You can see that Snap-on has no longer maintained, since December, an outperformance versus the S&P 500 and its industrial peer group. So you could say that we've marked to market a little bit more regularly in the recent quarters. And why might that be? Now I don't know with certainty, which our counsel will remind me of that, so again this is just opinion. No one really knows but I've got an opinion. If you look back, here's how we stack against a three-year window of time. So I'm going to flashback to the other chart in a second. You could see in the context of a three-year run, you may or may not remember it seems so long ago, in 2014 the stock price of Snap-on advanced 26% and coincident in 2015 the stock price advanced another 26%. And you could see if you look at the industrial peers -- it's not because I'm shying away from the S&P 500 -- the biggest difference is there's a lot of financial services companies in the S&P 500 Index. The industrial ones of course take that out. But it's easier to read the bottom line, the baseline. You could see that Snap-on has, you know, at its zenith significantly outperformed that line. So okay on this chart you can clearly see we've given back 20 percentage points of advantage. But still in an absolute sense, Snap-on is up 60% and the industrials are up 1%. Just something to keep in mind.

And now when I flashback to the earnings release, what happened? Again, here is just my opinion. As we entered Q3 of 2015 you'll remember that the world was extremely volatile with the discussion around energy and oil. As a matter of fact, at the beginning of the year 2015 oil was at $98 a barrel for West Texas Intermediate crude. It got as low as in the $40s in the summer. Look at that volatility that you see on the far, I guess that would be the left side, of the chart and Snap-on going up and down just like everybody else. And then Snap-on comes out with its earnings release and salvation comes upon us. Well why is that?

On a trailing 12-month basis at that time, Snap-on as reported, forget the mumbo-jumbo of currency and explanation, was up 5.1% on the trailing 12-month basis. On an organic basis, which serious investors do pay attention to, were up 8.9%. We had just completed a string of four quarters in a row of double digit growth in the Tools Group and the Tools Group again in Q3 had double digit growth. It was about 11%. C&I started to show some cracks of being vulnerable to the effects of energy in the industrial space but still it was up 3.4%. And RS&I actually had a gang busters Q3. I think it was up about 8%. So overall people said wow, I think, my opinion, Snap-on could withstand headwinds in the industrial space because it has really great properties in the auto repair space which is a very consistent great performer.

If you move forward in time you could see that our stock hit its zenith, all time zenith, during December 29th -- nobody in this room could buy on that day but everybody else might have been out there - it hit $174.52 which makes any comparison when you go forward from there very difficult. It was the all-time high for Snap-on. And you'll see that blip up there on the screen. And therefore when you look at year to date prices that's where the market closed, more or less, just below that point and therefore it makes for a tough comparison.

Somehow we all went home after the January 1st parties and the world started to become more sensitive not just for oil and oil volatility, but also there was broad discussions around the auto sector. Are people financing cars for too long a period of time? Seven and eight your loans became prominent. Is this a place where consumers are getting into a dangerous spot? Will they be able to repay their loans? Oh Snap-on finance is in that sector? Is auto repair steady? Will the mechanic run out of work? When you look at the facts no reason to believe that whatsoever yet you could see as you enter the Q1 period people got nervous. No news from Snap-on, but then Snap-on has its earnings release, actually saw a little bit of diminishment with respect to the pace of growth, still great absolute numbers but the mighty Tools Group grew in excess of 8%, but still it wasn't double digit. Still though 8%. C&I retreated into negative territory. And so people winced I'm guessing a bit and said look I got into the stock perhaps 26% back-to-back years of accumulated growth, growing next to double digits, maybe immune to recession. Now they say even Snap-on are they vulnerable to particular recession? And that's my theory and I'm sticking to it.

So as we go forward the only thing I'll encourage people to think about is what are the items we can control? Snap-on is successful. If you look at the absolute performance of profitability on the sales that we're able to generate in very positive spaces, the auto repair sector and huge opportunities in the addressable markets that exist in the industrial space, nothing has changed in that regard. It's a question of timing.

Investors sometimes glam onto sales growth in a more specific way because they get comfort. Usually people associate growing sales with growing profitability. It's easy for people to do the logic on that. When it comes to Snap-on, even though we've put up a tremendous string of quarters with ever expanding profit margins, people worry that can you keep doing it? Have you peaked? 19.1%. We were here in 2005. We even might've scratched our heads and said, is that really possible, because it was beyond any type of goal we ever articulated.

So anyway that's my take on why you see certain volatilities taking place in the market. And once we get into a better place with respect to the industrial businesses, auto repair I think is going to take care of itself and you'll hear from that. And that's why I think that we're still a great company, in a great place serving markets that offer us fabulous opportunities. With that I'll turn it over to Tim. Snap-on Tim.

Tim Chambers: All right, thanks Aldo. Just a quick reminder I'm going to present the entire C&I group on behalf of my peers, Jesús Arregui who runs SNA Europe who's in route to a plane. He was just here for the Board meeting. He's heading back to Spain and James Ng for Asia Pacific division who is back in Shanghai.

So let's get started with safety. In the quarter we had nine incidents across the system. In the quarter, six of them were lost time. So when you look at our trends for incident rate and severity rate you can see they're kind of flattish. I guess the only good news in that is that we're not getting worse and retreating. But I think flat will also remind us that we have more work to do here in making progress in all of our facilities.

These are the consolidated results for the C&I group. You can see our $289 million is down about $5 million, or 1.7%. And our $49 million of income is down about 2-1/2% or $2-1/2 million, or 5%. Okay so just one thing here, you know, we are the lagging division in Snap-on. You saw it in the charts that Aldo showed. But one of the things that I'd like to remind us all is we're not alone in C&I space being difficult. So if you look at some of the other folks that we compete with in this space, say Stanley Black & Decker, although on a corporate basis they were able to generate growth, if you looked at their C&I segment it was down about 6%. And if you go to Granger who is one of the big warehouse distributors in this space, has very broad footprint in the commercial industrial space, they were down about 2% in the quarter. So we're in the company of a market that is having some challenges. If we look at some of our end customers they're struggling mightily. So if you go to railroads and think about CSX, they're down about 12%. If you go up the road to CNH or down to Peoria to Caterpillar, they're struggling mightily. You know, so many of the customers, you go to anywhere in the oil and gas industry and they're struggling. So many of our customers in this industry are having their challenges.

So then let's look at this on an individual business basis. So you can see the same $289 million of revenue and $49 million of income. And you can see the big challenge comes to us from our industrial business which is down about 10% revenue and 15% on income. You know, the other businesses are performing reasonably right? So if you look at SNA Europe they're up 1.8% in revenue and they're getting 5.6% operating income improvement. And we'll talk about some of the specifics of SNA Europe here, actually all the divisions, in a moment. Asia-Pacific was up 5% in revenue and just under 1% on income. This is really representative of the fact that we continue to invest in this business and a lot of their income is in generating future growth for Snap-on. And then if you look at Power Tools and Specialty Tools, up 4% in revenue and 13% in income. We got some tremendous leverage on the revenue growth that we got in these two businesses.

So let's talk about industrial for a moment. So industrial was down $11 million in the quarter or about 10%. Ten million of the impact came to us from international aviation and primarily in the Middle East, okay, so a frustrating part for the business right now since we have a broad portfolio of new projects in the Middle East. And due to the turbulence and some of the political climate right now we're having a very difficult time closing that business. So Gus Gonzales and his team are on it.

Beyond international aviation the other big impact came to us from military. Military was down about $4 million or 19% in the quarter. And, you know, you add the military and the international aviation and it made it really difficult to achieve in the quarter. If you set those two segments aside for a moment the balance of industrial actually generated $3 million of growth which would represent about 4% okay? So - and that growth came to us from many places. General industry was up, this is just general manufacturing, general MRO. Education was up and power generation and other places like that actually benefited us in the quarter.

We did get out some new products in the quarter. One of the most interesting ones to think about is 5S Silhouette. So if you come from a manufacturing background you would recognize this as an important breakthrough. And if 5S doesn't quite square with you here at Snap-on, we actually call it 6S. We added safety as the sixth S. But most of the industry calls at 5S. And the idea came to us from Italy or Davide Gorla who is one of our product managers working with Alenia. Alenia is the big factory building the F-35 fighter jets in Europe. And Alenia was struggling. There was a new plant. They were changing tools often. And if you think about shadow boards in a factory, they're kind of hard coded and once you change them you've got to kind of throw away and get a new one. So they came up with the idea of create decals. Okay and you put a decal on there. If you want to change it you could peel it off and create a new shadow board. So that has just been introduced, inspired by Alenia, but open now to all of our customers. In the quarter as well we launched a new low profile hydraulic torque product. And this will give us better access in big torqueing applications, so think about power generation and oil and gas operations.

So then let's talk about Europe. I mentioned Europe was up about 1.8%. This was their 11th consecutive quarter of revenue growth. And it was the 16th consecutive quarter of operating income growth. So they put a nice string together now as a business in showing year over year improvement. And it really came in an environment that has a lot of uneasiness to it or unevenness to it. So if you think about some of the traditional markets, they're getting growth in Finland up about 27%, Germany is up 12%, Spain is up 11%. And then even in some of the emerging markets where you think about places like Russia is up 58%. They really like our cutting tools there. Or you go to Turkey up 17% or Argentina up 10%. But there were a lot of markets that were down as well. So big markets like France and Italy and regions like the Middle East were negatives for them. And through all of that when you aggregate it up they were able to get to some growth, so good progress by SNA Europe.

One of the cool things that happened in the quarter for them is there is a big music festival in Southern Sweden. And at this music festival Bahco had a promotion going on at the festival. And in the promotional booth you could actually get a tattoo, a Bahco permanent tattoo, on your body at this event. And through the event we actually tattooed 84 emphatic Bahco customers. Now the amazing thing is there were 500 still waiting in line. So if you can imagine this, right, we've all probably been to a rock concert, you think that happened at the beginning of a concert or towards the end? So kind of a neat experience.

Also for SNA Europe they had good growth with Bahco ERGO Tool Management System. This is becoming a big part of their business. It was up over 50% in the quarter. But probably more interestingly they're going to use BETMS as their cornerstone to celebrate their 130th anniversary, you know? So here in Kenosha we're leading up to our 100th anniversary of Snap-on, Bahco is selling their 130th anniversary. And you can see the treatment on the box is incorporated in there. Their 130 years of existence and also in some of the promotional material that they're pushing out to the marketplace.

Now interestingly that box is built in our tool storage plant in Kunshan. So let's talk about Asia-Pacific. Okay so Asia-Pacific had a lot of unevenness as well. If you go to the markets that were growing rapidly, India and Thailand were up over 20% really driven by equipment business and then if you go to the region of Indochina, up 47% really driven by cutting tools and hand tools. Moving to Japan, the franchise business is pretty healthy there. They were enjoying the benefits of their kickoff and got 4% revenue growth. And that was to offset some weakness in their industrial channels particularly with Toyota manufacturing. And if you go on to some of the areas that are challenged, Oceana is challenged for them. So we think about Malaysia, Philippines. They're having credit issues. The resellers are having credit issues and they're destocking virtually a reflection of the economy in those parts of the world. A piece of good news is our Blue-Point business is growing nicely. It was up 18% in the region. And this is really driven by the fact we've expanded the product line and our distribution network is growing and getting stronger.

And then lastly I'll mention their new Dragon aligner. The Dragon aligner is our latest technology. This is the core technology developed down in Conway, Arkansas and then implemented in a localized manner for the Asian market. They launched that late in Q1, generated 180 units of growth for them in the second quarter. And they have a lot of momentum for the second half of the year around Dragon, which brings us to Power and Specialty Tools. I mentioned they were up 4% revenue and really got a good leverage in terms of their operating income. A lot of that business was the benefit of our partnership with Snap-on Tools. So in the quarter they had their Dads and Grads promotion. This generated about $3.3 million of revenue for us really leveraging on the cordless side of the power tool family and our ATECH Digital Torque wrenches.

Also in the quarter we got more momentum with our chartreuse Hi-Vis product line. This is something that we launched in Q1 but we've had some momentum picking up on this product line in Q2 as well as the international subsidiaries picked up the product and did a nice job with it.

You know, another area of growth for us in the quarter was around ATI. ATI is not something we talk about a lot but it is a whole line of aviation tools. It's a set of tools to repair the skins of airplanes of the main frames of the airplanes. And we saw a nice bump in that business. It's a business that we're investing in right now. And a lot of the benefit came from Asia. So if you think about Japan had a big quarter, India had a big quarter and even mainland China had a big quarter around ATI tools.

One of the areas we're seeing a lot of momentum is with a company called Comac. They're in China. And Comac is building a competing airlines family to Airbus and Boeing. So that's something that you'll hear about over the next years as they commercialize that product.

And then for these two businesses RCI is important. It's something that we practice every day in these businesses. They actually had Shingijutsu events in April, both Murphy and City of Industry. And RCI benefited us by about $340,000 in the quarter.

So I'll just close and say, as a segment we've been challenged and a lot of that challenge has come from the Industrial business. But I'd like to say, you know, our expectation of Industrial from here on is that we're going to get back to growth okay? So some of the headwinds, talked about the international aviation, a lot of that we're getting past. Oil and gas has been a drag for the business over the last year. We're getting past some of that. And then military has been a big impact over the last year. And the hurdle to get back to growth has been lowered. So the expectation now is we've got to get Industrial movement again. We've got to get back to growth. We're past all of our big mountains and it's our time to perform. And I think it's evident as

Industrial gets back to performance that C&I will get back to performance. And with that I'm going to turn it over to Tom Kassouf.

Tom Kassouf: Thanks Tim. Okay, as Aldo already said external sales up 5.8%, so for the quarter we're up $22.8 million. Remember we're striving to rise our external sales by $100 million a year. And we were challenged on gross margin by currency because in our international subs, which are doing quite well, they have to translate our manufacturing costs in U.S. dollars into loonies in Canada, and into Australian dollars, and then pound sterling and even in, you know, for our small continental business into euros. And that exchange hasn't been going in our favor. So we've eaten that. But the good news is that our operating expense for the quarter was exceptionally well managed. We had some good comparisons year over year, but in terms of the absolute OE as a percent of sales, 22-1/2%, that's a record low. For those that have been around for long before I was associated with Snap-on Tools, that number I believe was in the mid-30s at one point a little more than a decade ago. So a lot of progress continued to be made and we leverage as our sales increase. And our profit, our OI, was up just shy of 10% which is not a bad number given the fact that we had these currency headwinds. And in terms of cash flow well we're up 42%. So that's our contribution to enabling our future state not just in Tools but throughout the company.

So all in all a very good quarter. In terms of generating OI from our incremental sales, we had exceptional drop through. The conversion was very good. And given the headwinds of currency, you know, we're pretty pleased with this. And of course as always it doesn't happen without contributions from Diagnostics, and Power Tools, and Snap-on Credit and all of the businesses that give us what we need to sell that our customers want to buy and also the support that we need to grow our sales. And at the half we're up 7% in external sales. Again our profit just a little over 10% up. And cash flow that we've generated a little over $200 million. And we're projecting that should reach $450 million by the end of the year, so encouraging results.

And then on the safety front we have a long ways to go but we are making slow steady progress. And the idea is, you know, we have new associates that come to work for us every month every week. And we've got to be sure that we can inculcate this culture of safety into people that may have worked elsewhere where it wasn't so important. But we are encouraged by this, steady progress. Good progress on the lost time accident front but we know that we always have more to do.

And then, you know, we want to pass on the idea that we are working hard to become known as the franchisor of choice. And we say that we take our success from the success of our franchisees, that's our focus. So we have a couple examples of our franchisees being acknowledged for their success externally. Mark Stuchel whom many of you know was recently in a joint effort by CNBC and Franchising, you know, Business Review actually was chosen as one of the top 50 franchisees in America. They did it by state. Mark's from Iowa. And so he was chosen as the best franchisee in the state of Iowa. And again Mark is well known. He is a great representative franchisee. Always has that great attitude that more can be done tomorrow. He helps us run a better business by giving us his input. He's been with us 15 years, $5.3 million from his five franchises. This is a picture of Mark on Times Square jumbotron. He's been very excited by this recognition but he stays humble.

And then Richard Swayne in the UK was chosen as the Young Entrepreneur of the Year. He's been with us three years. He had sales last year as we translate it into U.S. dollars $865,000. These folks represent a class that we hope is growing very quickly. The number of $1 million franchisees, we had two in 2009. We're on track in the U.S. alone, you know, to have 228 this year. Last year, all 100 of the top 100 U.S. franchisees exceeded $1 million in sales, a great result. Their success will define our success.

And then in terms of public relations, Jay Leno after he's retired from the Tonight Show, NBC is sponsoring an online show, Jay Leno's Garage. Those of you in the know know that he calls it the big dog garage probably -- Tom Ward is an expert -- actually one of the best car collections in the world. Jay himself works on these cars. He has been a dedicated advocate for Snap-on Tools for decades. So we wanted to cement that relationship a little more deeply. And who better to represent Snap-on tools on the show than Les Perry. Les went out. He spent at least an entire day with Jay. They had a lot of fun. Les walked on the set. They're taping, the tape is rolling, he say's hi Joe. Jay Leno say's, well my brother's name is Joe but you can call me Joe if you want. And you might, you know, might notice on here that I looked at this slide and I said, you know, Les has got different clothes on every time. Well they actually taped four shows in that one day. And so he had wardrobe changes. And I said well how come Jay Leno was in the same clothes? They said he had like 150 sets of exactly the same shirt and exactly the same pants all laid out. That's all he wears. But again, building the Snap-on brand.

And I want to talk briefly about Trifecta because as we ended second quarter, you know, Trifecta is our contest that we have. It's a fun contest to build on that relationship between franchisees and their customers. We say that we'll be successful when the best ten minutes of every franchisees week is the time they spend with their Snap-on - of every technician's week is the time they spent with their Snap-on franchisee. That's our goal. Trifecta is a fun way to help build that relationship. Our intent is to build up RA payments because if the RA weekly payments the technicians give to their franchisees don't grow, our sales growth can't be sustained. And the result is that this year Trifecta increased our RA collections and the book of business by about 7%. And that raises the U.S. average to $116,000. This is money the franchisees have on the street in receivables. It doesn't seem like much until you recognize that we've got thousands of franchisees. And so if you look at just the U.S., our franchisees as of the end of second quarter had $400 million of their own money on the street at zero interest building our business, so a great result.

And I want to talk about innovation briefly. So we just had the Board at the Milwaukee plant. I thought it went okay. I want to say that Mike Gentile and the Milwaukee team did a great job of doing exactly what we intend to do is to have all of our plants be amongst the bestselling tools for Snap-on and for our brand. And I thought that the showcase in Milwaukee was excellent. And one of the things that drew a lot of interest was our mini plating line. This is a way for us to exercise RCI and actually have something that really hasn't been done to our knowledge very frequently, if at all, is to have a plating line and remember we have three platings that go on. We put on a nickel plate, then a bright nickel and then our iconic chrome plate. And you get a lot of chemicals and you've got to rinse them off. And we do this now in a plating line or we can do this in a plating line that's on the same wheels that we have on our roll cab. It's integrated right in the line so we can have a flowline. We can move it around when the mood strikes us. And it is a unique technology to Snap-on. And the interesting thing is it does a better quality job. That we end up with three times the salt spray corrosion resistance and a better precision on the tip because we put precisely the right amount of plating that we need. And from an environmental standpoint this is a more sustainable process. We use 80% less water. We use 70% less, you know, electricity. And it is something that we're excited to do because chrome is not exactly the most - we do it very safely, we treat our own water but it is not inherently the most environmentally, you know, friendly activity.

And I want to talk about some of the - one of the things that a couple examples we talk about customer connection. I want to talk about a couple of examples. And they are representative of the 60 plus customer connection products we'll introduce this year. This is where some, you know, exciting from my point of view. Imagine you're a technician. You're dedicated to Snap-on Tools whether you have a tattoo or not, you know, regardless you're dedicated. It's the best thing you own. And you have an idea on how to do your job a little bit easier. You jot it down on a napkin, a piece of paper. You weld up a prototype. You give it to your Snap-on franchisee. He takes it back to us. Dan Eggert's engineers actually beat the heck out of the idea, but if it's good enough to survive we translate it into a product. It's like a Nobel Prize in - if you're a technician that your idea actually becomes a product.

And what's embedded in that aside from the excitement with the technician is the fact that this is how we have chosen to conduct our business, to embrace the idea of complexity, to offer so many tools that no one else is even close. And that has a cost by the way. We have the cost of evaluating the idea. The cost of translating it, you know, into tooling. But the biggest cost is the fact that it's an opportunity cost because big runs are less expensive per unit to make. So we embrace this idea of complexity. And it costs us money. And it's part of why we charge such a premium for our products, but our customers are happy to pay it because Snap-on is their solution. And not only will they buy these products but they will buy the standard products. And I want to talk briefly about this. We just like this name. So we've all decided that the Universal Wingnut Socket, another idea that came from directly from a technician in BC, is just a great name, Universal Wingnut Socket. And all it does, it is a socket with slots so that it can accommodate both ears of the wingnut and prevent breaking off one that's frozen in the field. This came from Prince George, BC. Trust me you can use the word frozen in more than one way to talk about the difficult to remove wing nuts.

And I want to talk briefly about not the Milwaukee plant, which got a chance to be showcased yesterday and the day before, but in fact the great transformation that's ongoing in Algona. You know, we've added the Rock 'N Roll Cabs. They sell, you know, a lot of product. But what they do that is new for us is they enable a technician's desire to be fully realized. So all the colors we have, all the trim, all the drawer combinations, building tool, you know, storage systems we can fuel all of that with the configurator, no holds barred. And so what we've seen is not only a 60% increase in the volume that Algona has to produce, but we've seen -- this still boggles my mind, it's incredible, I have to look at it again, is a really true, yes -- 39 fold increase in custom orders. And that changes entirely the character of running that business in Algona. And the team's done a great job to respond to that. And when you see this number that's next to it three time - 3.6 times the number of accessories, what that really means is we've built our business around roll cabs, they're familiar to everybody in our business, but you can bolt things on to the roll cabs – lockers, and risers, and top chests. And increasingly the Rock 'N Roll cabs are fueling, you know, people ordering those products. And we weren't really prepared for that when it first began to happen. But, you know, here's kind of the tale of the tape for just the lockers. They were particularly difficult to build. We had the design. We got infrequent orders. But the increase in demand for these, of great utility to a technician – they can store their lunch, they can store parts in there, they can store bulky items – but it becomes their personal space and there's been great demand for that. There's been a 400% increase in demand. And Algona has been able to realize this by changing how they conduct their business. So we've added automated welding to improve the quality of the welds but also made the process faster. We've added robotic painting which gives a better, you know, quality paint job but enables us to reach deep into a space like a locker. And it's a great success story.

And I want to draw everybody's attention to some work that's being done here in the GO. We are revitalizing the engineering labs, the basement, the lower levels as we euphemistically call it. And that Phase 1 was completed as scheduled by the end of July. I have no pictures here because I urge everybody if you have a chance to walk down the steps, take a look at what's being done, a much more inviting and I think a more pleasant space. Helps our recruiting and hopefully it's a nice place to work. And the next two phases are coming close behind it where we'll be redoing the lab portion that holds our load cell machine our MTS machines that, you know, that severely test the capability of our products before we put them in customers' hands. And that'll be done by Thanksgiving. And then the final phase is now scheduled to be done by the end of February, but we're pushing it to have it done a little bit sooner if possible will house, you know, expanded power tool labs. And I'm sure at some point in the future, you know, Chris will talk about that in detail.

So that's kind of where we are. It was a good, you know, it was a good quarter. It always could have been better. We're already challenged okay by, you know, Q3 and that's what we're focused on. And in the meantime a lot of the work in the engine rooms of our business have been attended to and improved. So with that I'm going to turn it over to Tom Ward.

Tom Ward: Thanks Tom. Okay I'm going to give the brief update for the Repair Systems and Information Group second quarter performance which was pretty good overall. Probably the worst slide in this presentation is the first one that I'll share with you which is safety, which of course means that we failed at one of our key criteria. And you can see on this chart it was the month of April. And the month of April was really driven around one of our biggest challenges. The good news about this chart is that our plants are safer than ever. Our distribution centers are safer than ever. We continue to be challenged with associates that are traveling into workshops, field service people, salespeople, involved in motor vehicle accidents, slipping and falling in parking lots. So it was not a good quarter for safety. We'll stay vigilant. We'll stay on it. We'll learn our lessons and we'll move forward. So again I'll start with the worst slide of the presentation.

This is a slide that Aldo loves to exclude acquisitions. We just wave them away. I say, not so fast buddy. I also want to recognize that he says RS&I is rising from the ashes. That means that we've grown sales $400 million in the last five years. That's the ashes that we're rising from, but overall a pretty good quarter, 7.7% growth overall including acquisitions. The acquisition that we're comparing against here is the Ecotechnics business, the Italian air-conditioning manufacturer company that we acquired roughly this time last year. And we're beginning to see some sales incrementally as Snap-on Tools will speak about in a minute. Hundred basis point improvement in terms of operating margins and overall a 10% increase in profitability rising from the ashes.

If we take a look a little deeper all of the divisions grew which of course is the encouraging part. As Aldo said the automotive sector is a good place to be. Automotive and truck repair, good place to be and we're taking advantage of it. The business that focuses on the independent workshops, the independent workshops are up 6%, the OEM dealership market up 5% in the quarter, and the equipment numbers are pretty spectacular partly because of the year over year comparison with

Ecotechnics that we'll talk about in a minute. So overall good growth around the world in all of the product categories and that's exactly the kind of performance that we're driving for.

On the OEM space a couple of pretty big wins. This is customer connection at a big customer level. The Equipment Solutions team won the Chrysler support business and essential tools and diagnostics from all arch rival competitor Bosch a few years ago. And this is an example of what happens as you get closer to the customers. They've got new platforms rolling out. We've got a $14 million order that'll be shipped this year to support this new Pacifica hybrid vehicle rolling out around the world. That's good news. Continuing to develop the business with our existing customers in Toyota and Honda as we extend the life of their essential diagnostic products and the support program, so good progress across the board in the OEM business.

In the businesses that focus on the independent repair shops, Mitchell and Diagnostics, we've been spending a lot of times trying to grow big accounts. And to take our knowledge about automotive repair and begin to customize that for heavy duty repair shops. And you can see some success here, 40 new subscriptions to the truck information products for Schneider here in North America. So a great job by the Mitchell team growing in the heavy duty market especially with large fleets.

And then we have the diagnostic business. We know that the biggest part of the diagnostic business historically has been the Snap-on Tools channel. It's an incredible channel. We work hard to try to give them products that customers want to buy and support them well. But we also have a world that needs diagnostic products where we don't have the good fortune of having the Snap-on Tools channel to support us. And so we've been working hard to grow in those markets. And you can see in Europe we're using the Sun brand and in Brazil and we're seeing good growth so that's good to see.

And then the equipment business that supports both, we had great success, maybe the most successful alignment system introduction that we've been able to see. The new V 3300 is the fastest wheel aligner. It's designed for shops that do a lot of alignments, and dealerships, and tire shops and it's been very well received. It also integrates Mitchell information in a way that's never been done before. So we're seeing good news there.

The other good news about the equipment business is the real significant growth in year over year comparison driven by acquisitions that we've made in the last few years. Pro-Cut, the brake lathe company based in New Hampshire, 28% increase driven by innovative new products. Challenger, the lift business that we're in the process of moving into a new lift plant as we speak and all the disruption that goes with that, 9% growth. And the Ecotechnics product line, a brand new bottom-up development for the Snap-on tools channel in North America that'll be introduced in the upcoming SFC. So good progress across the board.

And so how do we get here? How do we get the 7.7% growth? How do we get the 100 basis point in profit improvement, operating margin? It's pretty straightforward, we follow the Snap-on Value Creation. Safety, we know we have more to do. Quality, we're end of line testing every alignment system in a new product introduction before it goes out the door so that we get the buzz on the street of the new product in a positive way. Customer connection, big customers leading to big opportunities for us. Innovative new products like the new X9 and of course, Rapid Continuous Improvement that continues to improve our profitability even if we can't grow sales as quickly as we like, so good quarter overall. Congratulations to the RS&I associates around the world who performed and allowing me to take the victory lap on their behalf. And with that I'll turn it over to Nick.

Nick Pinchuk: Okay we - is it on? All right. Now we had the Board meeting yesterday and it went really well. But one of the things about the board meeting is it is all consuming as Tom Kassouf can say. And so I didn't have a lot of time to think about what I was going to say here and I really didn't know when I walked into the room what I should say and then Aldo inspired me. A rare occurrence I might add but - so I'm going to talk about the zenith. I'm going to talk about the conventions. I'm going to talk about the power of strength and the corrosion and misdirection of weakness. And I'm going to talk about one great quarter.

It's a great quarter. You know, you all despite what the market says and I'm going to explain that in a minute and sort of the people's version of what Aldo said but it was a great quarter for us, 2.9% organic growth. Okay that's lower than we've had but it's against GDPs, it's almost triple the GDP of the United States in that period, and God knows what the multiple is of the GDP in Europe and other places in the world. Extraordinary and if you compare it to the absolute growth of other companies that have reported in this period, it's pretty strong. And then you think about the OI margin, 19.1%, up 140 basis points against a large dollop of currency. And if you add the Credit company it's 22.9%, up 180 basis points. These are great numbers. Congratulations and thanks.

Now Tim I have to, after hearing you talk, I just have to say that I felt bad. So I promise that next year at Rock Sweden you will be able to get through the line. You know, I know you were waiting for a long time and you'll be able to actually get your tattoo. But the SNA Europe people have told me one thing is they have a strict rule, that this may disqualify you, they won't give tattoos to anyplace that won't be visible when you're wearing a Speedo. So according to you, you may not be able to get the tattoo even if we put you in the front.

Look Aldo was up here and he was talking about the zenith, you know, the height. Actually to me zenith means something different. I went to Vietnam as most of you know. I came back. I worked as an engineer and finally after working for months and months I could afford a color TV. And you know what it was? A Zenith right? Zenith doesn't mean the height to me, well in a way very figuratively it means the height, it means a TV. And if you watch the TV recently you saw the conventions. And I don't think I ever saw anything more whackamo then these conventions. I mean these guys, you know, whoever is talking at a convention -- and this is not an political statement -- but you've got one side saying everything is great but we've got these weaknesses we have to fix and you've got the other saying everything is bad and we're going to go on to victory. And they're both talking about how bad the other side is right? And for the first time in my life they may both be right. I'm not sure.

Well I went through that to give you a juxtaposition about how we look at the world. How do we look at the world? You see we never talk about the other guy. They don't matter. We talk about us, because we're strong enough to overwhelm them. And I'm not trying to make a political point at all, I'm just trying to point out that I think that's the best position to be in. We have confidence in ourselves, so much confidence, that we don't talk about the other guy, we just talk about improving on ourselves. You know, and actually when you think about it we're not peeling the onion to find our weaknesses and fix them. We recognize that we have strengths that will overwhelm those weaknesses. Those - and that's how we succeed, very different than what you're seeing on the modern day Zenith's of the world. And I think it's a winning formula.

But one of the things that happens in the stock price I believe, and I'm not trying to put the conventions and the stock price together, but what you saw in the stock price – and it's hard to predict stock prices, if I had to make money based on my prediction of stock prices I'd be broke today – but it's all around people worrying about things that may be possibly weak. They're worried that the auto repair market is going to go down. So our parts people who are announcing that it's very difficult for them and they're worried about used car pricing which went down in a blip and they think the auto repair market is going to go down. But we know that the auto repair market has gone up for us and has been robust for us. And we see it in the numbers in the Tools Group and RS&I and we've seen it for a long, long time. And we understand that they keep changing, cars keep changing and this gives us a great target rich environment. So what they worry about as a weakness for us, we know it's our strength. It's true, it's true.

And then they worry about they worry about the Credit company. A lot of people worry about the Credit company. I mean the people are talking about credit all over this nation. And they're saying gee, you know, if we're going to go in a recession, we may slip into a recession – this is also not a political point – they're thinking it's about time for a recession and things are going to go down. And I think they worry about this whoever is president. And they're saying if it's in a recession, you know, you've got Snap-on with all those sub, sub, subprime loans, they're going to hemorrhage all over those babies. But we know that in the worst recession of at least my lifetime and as I look around the room I – sad to report that I may be the oldest person here, I hope not, but maybe – and the worst recession of my lifetime in a place in which the word default seemed almost okay, we hardly moved our bad debt. Our credit company has been stress tested. And it's strengthened because we can reach out to those mechanics who other people don't understand, don't see, can't differentiate and loan to the ones that are really reliable. That's why we have such a great credit company. So if they worry about our credit company, they worry about it as a weakness, it's really a strength for us.

And then they worry about they worry about Industrial. A lot of people worry about Industrial. They worry about C&I. That - they're not going to actually catch on. They're not going to be able to roll out of the garage, extend to other critical industries. And yes C&I was down 1.7% in the quarter and I think it's OI margins were 17.1%, down 50 and Industrial was down 10% which is a whopping number and it's OI of 21.9% was down 140 basis points. And those aren't good numbers. They are all ugly numbers. But we saw good news inside it. The general industry, which has bedeviled us for a long time, was up over 9%. U.S. aviation was up nicely, power generation was up. So we see our model working. We see the environment interrupting it. And we're not strong enough there yet to offset it, but we have no doubt that it's going to be a strength. They think it's a weakness we think it's a strength. Maybe they think it's a weakness because they're looking at the conventions. Maybe, maybe that milieu occupies everybody and it gets everybody worried.

I don't know but it doesn't matter where the stock price goes. I don't think - I can't believe I said that, but the thing is really it doesn't matter. What matters is how well we do, what we make of our strengths and how we fortify them. You know, we had a great quarter. Like I said, you know, C&I the numbers ugly, ugly. But you know we had points of light. We had people who contributed. Ed Grueter who is a national sales manager working with the distribution. You know, McMaster-Carr his business would make - McMaster-Carr was up 46%. His business with MSC was up 53%, his business with Grainger who is spitting up blood all over its business was up 26%. Terrific performance. We have John Wolski who is an area sales manager who sells band saws. His portaband business was up 26%. You've got Patty Zuniga who works in specials out in California who helped - who worked really hard to get four new customers on the system so we could take them away from Armstrong. You've got Nathan Purcell, a power tools engineer who went down to Murphy and worked on the frame cell and approved its efficiency by 41% allowing us to do better with the MG725.

We've got Europe. SNA Europe actually had a gangbusters quarter. They were up five I think it was, in Europe, they were up 5.6%. I don't know if you've seen the GDP's in Europe lately but I assure you they do not have words - they do not have numbers like 5% in them. Kevin Parkes who is in the UK and we all heard about the uncertainty associated with Brexit and so it was. And it was really particularly bad at the end of the period. At the end of the quarter, two weeks before the end of the quarter, he had a huge order, 100 pallets of handsaws to Toolbank. Maxim Salnikov, I love saying that. I wish I could say it with the right accent, you know, it would be like Sean Connery or somebody like that in Hunt for Red October. But he's the sales manager for Russia. And I don't know if you have followed the economy in Russia, but I assure you the oil prices are going down and the sanctions are not helping them and yet his business is up 40% year over year, year to date. Not so bad I'd say. Ruben Uribe, you probably never heard of this guy. He's a sales manager in Chile. SNA Europe has a business in Chile. Chile is getting killed by mining. Well last year his business was up 26%. It's up 13% again this year. Murat Adak, I practiced that name quite often this morning. He's the - our sales manager in Turkey. 22% up last year. Turkey sound like a great place to be selling? He's up 22% this year.

Svetlana Lobanok, are any of any these names easy to pronounce? I don't know, you know, Svetlana Lobanok, the plant - you all met her. She was at the RCI event in out in Illinois. And she accepted the Grand Champion Trophy I think. She's the plant manager of Minsk. Minsk is above plan despite the fact that because the export orders are - their volumes are down quite a bit. Javier Martinez, the plant manager of Vittoria, our Spanish plant, who worked hard on RCI. And they've expanded their sales and expanded their volumes. And he's freed up 20% of the space in that plant. We never thought we'd see it in Spain. So C&I down but a lot of points of light and a lot of strengths for us. We believe it's actually a strength for us.

The mighty Tools Group. What was it up 6.7% in the quarter and 25.1% OI margin, up 70 basis points? And I believe that was against 80 basis points of bad news in currency. Ryan Bingman, Business Manager from I believe the Great Lakes region. He's 11.6% above sales, above his targets this year and more importantly in this time in which EC is so important he's getting a focus on RA. And his RA and his FPT went up to $8005 - RA collections $8526, a big number. Rich VonNordeck from the Mid-Atlantic region, a Business Manager, his business is up 12.6% over his plan. And his RA sales are up 19%. Also a big number for him, you know, a tremendous number. Those two guys, seven years with the corporation, seven years for the corporation for Ryan and 23 years - 23 years for Rich.

Now I want to talk about Jeanne Householder, Production Manager from Algona. She helped on an RCI on the final assembly, reducing its efficiency by - improving its efficiency by 9% and saving - reducing overtime in that factory by 36%. She's been with us a while 42 years, 42 years. And I think I probably would want to talk about somebody I met yesterday, or the day before yesterday, Roxanne Stowell, here, a product manager who worked hard to get the air-conditioning product out of Ecotechnics into the Tools Group business. She's been with us 32 years, nice to have people and experience. It's also nice to have new people. Luke Miller an intern in Milwaukee plant, an engineering intern who worked on the rearrangement of a pliers cell, the plier production area up there and improved the capacity by 28%. Brian Woller a Product Manager here who continually helps us bring customer connected products to the marketplace and Bob Vogt, Operations Manager out in Crystal Lake, who helped us through RCI, improved customer service while the volume has only gone up. Tools Group had a great quarter and it's on the efforts of a number of different individuals.

And then I can't forget the Credit company. The Credit company has got so many people. Like I said, I kind of view it as death and taxes, the numbers just keep going up but I like to talk about Blake McClanahan now, Business Development Manager. And business development is all about driving originations. And I can only say originations were up double digits again in the quarter. Tools Group pretty good.

RS&I, so you look at the Tools Group, the Credit the – C&I yes tough numbers. Some people think it's a weakness. We think it's a strength but people look at the Tools Group boy there's no sign that auto repair is going down. There's also no sign in RS&I who's also into auto repair. I think up 7.7% in the quarter depending on which numbers you use. I'm using your number. You're welcome, Tom Ward. You're welcome. And I believe the profitability in those numbers were 27.7%, up 100 basis points. Nice number. And good people around that group. I'd like to talk about a couple of them. Jordan Krebs, an alignment engineer who figures out how to replace a board on the aligner and tremendously - on our new aligners, tremendously drives better uptime associated with that.

Ron Turner, a DSD who at the end of the quarter when we really needed it, again, nine different VERUS Edges rolling through his business. And Todd Mercer from out in Poway, who is a manager in editorial, who somebody calls in and says, you know, I need torque specs in the system. Normally we outsource this stuff, but it would take too long. So he gets 80% of those torque specs, and I believe there were 256,000 of them when he started to measure them out and he gets them in 16 hours and he gets them all in in 56 hours and he saves $35,000 in fees along the way.

Robert Clark and Laurent Riem from Redding. Redding gets a deal that we are now the technology, the supplier of technology programs for Infiniti in Europe, €160, a three year program, really helpful to us. And Duane Young and Andrew Melton who work on the balancer, and apparently in the balancer leaks are the number one problem in the field. They figure out a way to deal with that. And they reduce our failure rates in the - our first out of the box failure rates by 27%.

Daniele Gradellini who has been with us 19 years, the operations manager of Correggio. Correggio is an Italian plant, and you know, Italian plants are kind of set in their ways sometimes. I mean European plants are kind of set in their ways sometimes. And he's improved their safety dramatically and at the same time he's absorbed a whole new product line, testing.

And then my personal favorite Mr. Ming Du, a Senior Product Specialist from Mitchell 1. I used to - we used to work near a town in Connecticut, some of us used to work near a town in Connecticut called Simsbury, Connecticut. And M&M Auto from Simsbury, Connecticut, Wendy Walsh from Simsbury, writes a letter and says I want to talk about the top ten ways Ming Du is a great person because he's helped them so much. He's humble, he's flexible, he's patient he's capable. He's the gold standard and we know he's there for us.

Strength collectively and strength individually. We win because we use these strengths constantly and just make them better and better and better. Let the other guys worry about weakness. We worry about strength.

Now I have one last thing to share with you. You know, like I said, great quarter, great quarter. I think you all should feel pretty good about it. Of course I'm going to ask you at the end to do it again and do it again and do it again. And I'm counting on you to do all of that. It is a great quarter. We don't talk about our competitors because they don't matter to us. What matters to us is our strengths not our weaknesses. And our strengths are rooted in a commercial and industrial division group, the way we can roll out of the garage we believe and we're confident and we see it every month even in those ugly - every quarter even in those ugly numbers are the opportunities. It's in the auto repair market and our extreme - and our extraordinary capability to take advantage of it both in the Tools Group and RS&I and the people inside it. And it is rooted in the people in line in places like Rock Sweden who after all endorse what you do by wanting your name on their body.

So I'm at the Board meeting. And Ruth Ann Gillis who's a Board member says to me, reminds me that she was on a plane recently. And the person she was sitting next to, a guy, finds out she's a Snap-on Board of Director, a director, a new director right? And they start talking. And he says, boy Snap-on is a great product. And she says oh yes it's a really great product. I think it's a fine brand name. This guy says, it's more than fine, it's the greatest brand name. Ruth Ann Gillis goes really? And he says yes, Snap-on, tattooed here all the way down his arm, true story.

So this is a great company. And it's based on the strengths both collective and individual. And despite what the market says by looking at certain things like the credit company, or the repair market, or our chances in the industrial business, those aren't weaknesses those are strengths. And you showed them to be so in the numbers, in the numbers and the actual results in the last quarter.

And for all of that you have my congratulations. It's my privilege to be here standing in front of you talking about this. So I'll just end by saying thank you all. Thank you, thank you. I just want to - I have to ask for questions. Anybody got any questions? I have one question from the floor sorry there's a question that was mailed in today on email. That question was, on what date this year will the Chicago Bears have lost 12 games? October 30. All right thank you all.

Operator: That concludes today's conference. Thank you for your participation. You may now disconnect.

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