Company: **Snap-on Incorporated**

Conference Title: **2016 Fourth Quarter and Full Year Results Conference Call**

Moderator: **Leslie Kratcoski**

Date: **Thursday, 2 February 2017**

Conference Time: **9:00 CT**

Operator: Good day and welcome to the Snap-on Incorporated 2016 Fourth Quarter and Full Year Results conference call. Today's conference is being recorded and at this time, I would like to turn the conference over to Ms. Leslie Kratcoski. Please go ahead ma'am.

Leslie Kratcoski: We have on the call today Nick Pinchuk, Snap-on's Chief Executive Officer - and Aldo Pagliari, Snap-on's Chief Financial Officer. Nick will kick off our call this morning with his perspective on our performance. Aldo will then provide a more detailed review of our financial results. After Nick provides some closing thoughts, we'll take your questions.

As usual, we've provided slides to supplement our discussion. These slides can be accessed under the downloads tab in the Webcast viewer as well as on our website, snapon.com under investor information. These slides will be archived on our website 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 website. With that said, I'll now turn the call over to Nick Pinchuk. Nick.

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

The Snap-on fourth quarter - sales increases and broad profit gains, marking another period of encouraging performance. Again this quarter, we had opportunities and we had headwinds. We took advantage of those opportunities and we overcame the headwinds. Overall sales in the quarter were $889.8 million, 4.5% higher than last year. That total included acquisition related volume from Car-O-Liner and from Sturtevant Richmont and it also included the impact of $15.2 million of unfavorable foreign currency.

Our organic growth in the quarter was 3.6%, with gains registered across every group. EPS - it was $2.47, up 11.3% from the $2.22 registered in 2015. Our opco operating margin reached 19.8%, an increase of 70 basis points and those profits include $3.7 million of adverse foreign currency. Financial services earnings of 51.6% were also up, leading to a consolidated operating margin including both financial services and opco of 23.6%, an improvement of 90 basis points in the quarter.

In our markets, well the automotive repair segment continues to remain favorable - changing technologies, aging vehicles requiring new tools and more repairs. Our Tools Group, progress in all geographies - gains throughout the franchise network. And the Repair Systems and Information, our RS&I group, advancements across our businesses serving repair shops, owners and managers - all of them. Taken together, these businesses confirm the ongoing strength of the repair market and clearly demonstrate the opportunity available.

Now for Commercial & Industrial group, or C&I, the markets were mixed, but overall positive. There were, of course, headwinds in some still recovering industrial sectors and a few macro-economically challenged geographies, but in total, progress was recorded across that group. U.S. military sales were robust. Budget restraints loosened and we were on point to take advantage and we're ready to act in the future as further opportunities arise in that area.

C&I is also the most international of our businesses and in the period, our overall activity in the regions outside the U.S. increased, overcoming the economic turbulence that exists in Europe, the Middle East and in some parts of Asia. So across the corporation, I would characterize our environments as mixed, but positive, with ongoing strength in automotive repair and some improvement in the afflicted critical industries in the challenged geographies.

And we remain confident that our businesses are well positioned to capitalize on the opportunities that do exist along our runways for growth. Enhancing the van network, expanding our presence with repair shop owners and managers, extending in critical industries and building in emerging markets. And looking ahead, we also see clear runways for further improvement. The Snap-on Value Creation processes - safety, quality, customer connection, innovation and rapid continuous improvement (RCI) - continuing to drive significant advantages. Our fourth-quarter and our full year results clearly confirm that progress, and our new acquisitions, they provide more opportunity to apply those processes and create value.

Now for the full year, sales were $3.43 billion, an as reported increase of 2.3%. The organic volume gain was 2.9%, with the Tools Group up 5.6%, RS&I rising 4.7% and C&I slightly ahead of last year. Our EPS in 2016 was $9.20, an increase of 13.6%. And driving those earnings was an opco operating margin of 19.1%, up 140 basis points for the full year. When we include the income from financial services of $198.7 million, which rose $28.5 million, the consolidated operating margin for the corporation was 23%, up 170 basis points, results achieved by taking advantage of the opportunities on our runways for growth and by driving down our runways for improvement. Now let's move to the groups and their fourth quarter.

In C&I, sales increased 1.6% from 2015, impacted by $6.2 million of unfavorable currency and helped by $4.2 million in acquisition related volume. Organic sales were up 2.4%, the second straight quarter of increases for C&I, but with varied results across the group including gains by SNA Europe and by Industrial, and decreases in Power Tools and in places like India and Indonesia. C&I operating income was $43.9 million. That represents an operating margin of 15.3%, a rise of 40 basis points. That's our second quarter of fifteens.

Encouragingly, SNA Europe again posted increased organic sales, up high single digits, continuing its progress, now 13 quarters in a row of year-over-year growth. And the profit climb for SNA Europe was even steeper, now up 15 straight quarters - Snap-on Value Creation at work with innovative new products, improved new processes creating those extended trends in some - what I would call - fairly challenging geographies.

Also in C&I, our Industrial division moved forward. As I mentioned before, our strong - on strong U.S. military sales and also on an array of new products. New products like - innovations like our radiator cap removal for the railroad sector, a specialty designed offering used on locomotive engine radiator caps, replacing field-modified sockets, which were prone to early failure. This Snap-on solution incorporates deep machine grooves, which provides the ample engagement and the strength necessary to remove what you might imagine are those very stubborn railroad caps. The new adapter can be paired with a standard ratchet, eliminating the need for the previously used long T-handled tool and therefore, requiring less clearance to perform the task, making the job easier in those tight engine quarters. Another productivity solution borne from a long list of customer connection made every day - this one for the rail industry.

And for the aviation segment, our Industrial division launched the VERSATORQ 2 Torque Data Acquisition System. Designed to verify and record torque ratings in tight and even hazardous environments, places like aircraft fuel lines, the VERSATORQ 2 allows easy torque measurement deep inside airframes, where access is difficult. And it includes explosive proof electronics, making it safe even in combustible environments. This unique Snap-on offering enables a technician to record critical information, storing and recalling up to 3500 torque readings. And the product is UL compliant for safety and ATEX certified for use in potentially explosive atmospheres. And based on that, we believe we have a clear winner in the VERSATORQ.

Our Power Tools division recorded lower sales in the quarter, as I said. That said, it did launch some promising new product - product like our CTR714, a 14.4-volt quarter-inch drive cordless ratchet. It was launched in December, so it didn't drive the quarter, but it has a great future. This latest tool in the Snap-on cordless family includes a tapered head design for better accessibility, 35 foot pounds of torque output, perfect for applications with fasteners 10 millimeters or smaller that are delicate and difficult. A variable speed trigger for that all-important control with those small fasteners, a built-in LED light to illuminate any work area and new drive materials for increased strength, size, power and durability - terrific for small fasteners in tight spaces. Because of that, because of the size, power and durability and the applicability to tight spaces for small fasteners, we believe we have another best-in-class product with our cordless ratchet.

Well, that's C&I - now onto the Tools Group. A 3% rise in organic sales, operating earnings of $73.5 million, a margin rate of 17.6% up 10 basis points, a gain which includes a 70 basis points impact from negative currency - so overcoming that fairly significant negative currency hit.

Now the volume growth in the Tools Group was not what we've seen in recent periods. The full year average for the group is 5.6%. But importantly, based on what we see in the shops and what we hear from our franchisees, we don't believe there's been any significant change in the overall auto repair market. It's still robust and offers abundant opportunity. And we don't believe there's been any change in the positive trajectory of the Tools Group growing strength.

We often speak of Snap-on's runways for coherent growth - strategic avenues of sales opportunities. At the top of the list is enhancing the franchise channel. And we believe we're positioned to continue that positive trajectory. Throughout the year, and even in the recent quarter, the Tools Group demonstrated significant progress along that runway - financials trending positively, the franchisee health metrics consistently gaining. Both clearly representing a strengthening vehicle repair sector and an improved proposition for our franchisees.

Beyond the numbers, there's a great deal of optimism throughout the network. You can see it if you talk to these people. The franchisees attending our 2017 kick-off - the kick-off events held early last month all over the country, displayed a great deal of enthusiasm about the vehicle repair sector in general and about their individual businesses in particular. I participated in the kick-off, and I believe the level of excitement and confidence surrounding the van channel is stronger than ever.

And that optimism was acknowledged by multiple publications listing Snap-on as a franchise of choice. Again this year, Snap-on was ranked among the top 50 in Entrepreneur's magazine list of Top 500 franchises, finishing number one in the professional tools and equipment category. And the Franchise Business Review, which collects franchisee satisfaction feedback, listed Snap-on as a Top 50 franchise, marking the 10th consecutive year we received that award. Finally, and my favorite, the Military Times included Snap-on on its Best for Vets annual ranking, coming in at number five, and representing the only mobile tool franchise on the list.

Now this type of recognition would not have been achieved without a continuous stream of innovative new product, many developed from insights from our customers guided by Snap-on customer connection and invested with Snap-on technical insight and innovation. And in 2016, for the seventh straight year, the Tools Group increased its number of hit products, those million dollar sellers developed from direct observations gained in the field.

Take for instance, the ATECH 300 electronic torque wrench. Launched in the fourth quarter, this latest torque offering solves an important customer problem. Many light vehicles today, pickups and SUVs, now use fasteners requiring between 250 and 300-foot pounds of torque and the specifications for accurate measurement of those higher torques are increasing in number. The Snap-on ATECH 300 is the first light vehicle half-inch electronic torque wrench to rate at 300-foot pounds. It's lighter, more accurate and it eliminates the need to add heavy-duty tools just to accommodate the new pickup and SUV torque requirements. Designed and manufactured in our City of Industry facility in California, the ATECH 300 incorporates the same great features as our other ATECH models - a reduced profile for better accessibility, a longer handle for easily applying the extra torque, power interruption technology to prevent power resets and protect the data, and a large LCD screen for greater visibility.

Franchisee feedback - well we launched it late in the year and it's selling out. We said this growing opportunity - we said - I think in many forums, including this one, that there's growing opportunity in vehicle precision, in torque measurement. As vehicles become more automatic, there's more need for more precision. Even in the fourth quarter, we saw confirmation in that trend line. Our torque line grew nicely. It's one of the reasons why we acquired the torque skills of Sturtevant Richmont and we expect good things going forward in that growing product line.

Now let's move to RS&I - volume in the fourth quarter was $319.8 million, with an organic rise of 8.9%. Significant gains in diagnostics and repair information products to independent repair shop owners and managers, a mid-single-digit increase to OEM dealerships, and a low single-digit rise of undercar equipment. Operating earnings of $82.5 million increased $10.4 million to 25.8% of sales, up 10 basis points, overcoming the impact of the newly acquired operations. RS&I expanded across the repair shop owner and manager sector - across the full sector but particularly with independents. Our diagnostics and repair information business has recorded double-digit volume growth with those important customers. Our Mitchell1 operations offers independent shops leading facility management software, innovative marketing services and the most comprehensive repair information anywhere. Using the Snap-on value creation principles of customer connection and innovation, our Mitchell1 team utilizes thousands of customer contacts every year, adding repair information for new vehicles, improving the speed to solution of its ProDemand product and expanding the literally hundreds of millions of actual repair events in its unique SureTrack big database. And in the fourth quarter, the RS&I results clearly showed the effect of the Mitchell1 progress.

Now for our Diagnostics division, another encouraging quarter led by ongoing success of recent product launches. We mentioned a couple of these in the third quarter, the MODIS Edge handheld scanner - very sophisticated handheld scanner, and our thermal imager, a whole new category of vehicle diagnostics. Well both continue to exceed expectations and both drove the Diagnostic division to strong double-digit gains.

RS&I also advanced its workstation product line in the quarter, introducing the new EPIC Diagnostic workstation. The EPIC workstation combines two of Snap-on’s top-of-the-line products, matching our sophisticated VERUS handheld with our EPIC tool storage box into one custom platform. This enhanced workstation is targeted for shops desiring capability. This combo will address the most challenging repairs. Convenience - everything a technician needs is right at hand. And confidence - the visible presence of the workstation tells the customer that this shop is serious and sophisticated and able to tackle the most difficult of repairs. Workstation sales are up nearly 40% year-over-year and the new EPIC combo is part of that success.

The RS&I group also includes progress with OEM dealerships. Over the years, Snap-on Business Solutions, SBS, has developed an extraordinary level of insight and capability in developing and running electronic parts catalogues for dealerships. And their skills paid off in the quarter, as SBS captured the contract to provide a state-of-the-art EPC for another major vehicle OEM - another win and more growth for Snap-on in the OEM space.

Finally, in the period the RS&I equipment division registered a low single-digit organic increase with mixed results across our North American and international undercar operations. That said, we keep driving to expand our position with repair shops with new products to sell and with strategic and coherent acquisitions. And in the fourth quarter, RS&I made an important addition to the equipment division with the acquisition of Car-O-Liner. The Car-O-Liner business brings greater capabilities in collision repair and strengthens our overall position in the heavy-duty segment. Given the trends in the collision space, the higher emphasis on shop efficiency and the power of matching Car-O-Liner with our other RS&I divisions, we believe this acquisition will create even more opportunities to expand with repair shop owners and managers going forward. We're excited.

Well, that's our fourth quarter. Opco - organic sales growing 3.6%. EPS $2.47 in the quarter, up 13.6%. Progress along each of our runways for coherent growth. Acquisitions that will give us more to sell and make those runways even wider. And clear advancements down our runways for improvement - safety, quality, customer connection, innovation and rapid continuous improvement - driving a 19.8% operating margin, 70 basis points higher than last year. It was an encouraging year - encouraging quarter. Now, let's turn the call over to Aldo.

Aldo Pagliari: Thanks Nick. Our fourth quarter consolidated operating results are summarized on Slide 6. Net sales of $889.8 million in the quarter increased $38.1 million, or 4.5% from 2015 levels, reflecting a $30 million or 3.6% organic sales gain, $23.3 million of acquisition related sales, and $15.2 million of unfavorable foreign currency translation. Due to the strengthening of the U.S. dollar, foreign currency movements adversely impacted our Q4 sales comparisons by 190 basis points. The organic sales gain reflects continued progress in serving the vehicle repair sector, as well as sales improvements in our Commercial and Industrial segment.

Consolidated gross margin of 49.9% improved 150 basis points year-over-year primarily due to sales leverage and savings from RCI initiatives. Operating expenses of $267.8 million yielded an operating expense margin of 30.1% in the quarter, an increase of 80 basis points, primarily due to higher acquisition-related and other expenses including operating expenses for Car-O-Liner and Sturtevant Richmont, which were both acquired in the fourth quarter, as well as a 30 basis point benefit in the fourth quarter of 2015, primarily from a gain on sale of a former manufacturing facility. As a result of these factors, operating earnings before financial services of $176.1 million, including $3.7 million of unfavorable foreign currency effects, increased 8.5% and, as a percentage of sales, improved 70 basis points to 19.8%.

Financial services revenue of $74.2 million in the quarter increased 17.6% from 2015 levels and operating earnings of $51.6 million, including $0.6 million of unfavorable foreign currency effects, increased 14.7%. Consolidated operating earnings of $227.7 million, including $4.3 million of unfavorable foreign currency effects, increased 9.8% and the operating margin of 23.6% improved 90 basis points from 22.7% a year ago. Our fourth quarter effective income tax rate of $30.8% compared to 31.1% last year. For the full year, our 2016 effective income tax rate of 31% compared to 31.7% last year.

Finally, fourth quarter net earnings of $146.3 million or $2.47 per diluted share, increased $14.9 million or $0.25 per share from 2015 levels, representing an 11.3% increase in diluted earnings per share. For the full year 2016, earnings per diluted share of $9.20 increased 13.6% as compared to $8.10 in 2015. Now, let’s turn to our segment results.

Starting with the commercial and industrial, or C&I group on Slide 7, sales of $286.3 million in the fourth quarter increased $4.5 million or 1.6%, reflecting a $6.5 million or 2.4% organic sales gain, $4.2 million of acquisition related sales and $6.2 million of unfavorable currency translation. The $6.5 million organic sales increase primarily includes a high single-digit gain in the segment’s

European-based hand tools business and a low single-digit increase to customers in critical industries, largely as a result of higher sales to the military.

During the quarter, our European-based hand tools business benefited from broad based sales growth with particular strength in countries including Sweden, Spain, and France. These organic sales gains were partially offset by a mid-single-digit decline in the segment's power tool operations and lower sales in certain emerging markets.

Gross profit in the C&I group of $115.4 million compared to $107.6 million last year. The gross margin of 40.3% improved 210 basis points, primarily due to benefits from higher sales and savings from RCI initiatives and 100 basis points of favorable foreign currency effects.

Operating expenses of $71.5 million in the quarter compared to $67.5 million last year. The operating expense margin of 25% increased 170 basis points, primarily as a result of higher costs, including operating expenses for new acquisitions, 10 basis points of unfavorable foreign currency effects, and a 70 basis point benefit in the fourth quarter of 2015 from a gain on sale of a former manufacturing facility. As a result of these factors, operating earnings for the C&I segment of $43.9 million, including $1.8 million of favorable foreign currency effects, increased $2 million from 2015 levels and the operating margin of 15.3% improved 40 basis points.

Turning now to Slide 8, fourth quarter sales in the Snap-on Tools group of $417.5 million increased $6.3 million or 1.5%, reflecting a $12.2 million or 3% organic sales gain and $5.9 million of unfavorable foreign currency translations. The $12.2 million organic sales increase includes a low single-digit gain in the company's U.S. franchise operations and a mid-single-digit gain in the company's international franchise operations. Gross profit of $175.5 million compared to $173.7 million last year. Gross margin of 42% declined 20 basis points, as 60 basis points of unfavorable foreign currency FX were partially offset by benefits from higher sales.

Operating expenses of $102 million in the quarter were essentially flat compared to last year. The operating expense margin of 24.4% improved 30 basis points primarily due to sales volume leverage. As a result of these factors, operating earnings for the Snap-on Tools group of $73.5 million, including $3.8 million of unfavorable foreign currency effects increased $1.6 million and the operating margin of 17.6% improved 10 basis points.

Turning to the Repair Systems & Information or RS&I group shown on Slide 9, fourth quarter sales of $319.8 million increased $39.2 million or 14%, reflecting a $24.6 million or 8.9% organic sales gain, $19.1 million of acquisition related sales and $4.5 million of unfavorable foreign currency translations. The 8.9% organic sales increase primarily reflects a double-digit gain in sales of diagnostic and repair information products to independent repair shop owners and managers, a mid-single-digit increase in sales to OEM dealerships and a low single-digit gain in sales of undercar equipment. Gross profit of $153 million compared to $131 million last year, and the gross margin of 47.8% improved 110 basis points, primarily due to benefits from higher sales and savings from RCI initiatives.

Operating expenses of $70.5 million in the quarter compared to $58.9 million last year. The operating expense margin of 22% increased 100 basis points, primarily due to a 90 basis point impact from the Car-O-Liner acquisition. Fourth quarter operating earnings for the RS&I group of $82.5 million, including $1.7 million of unfavorable foreign currency effects, increased $10.4 million from prior year levels and the operating margin of 25.8% improved 10 basis points.

Now, turning to Slide 10, operating earnings from financial services of $51.6 million on revenue of $74.2 million, compared to operating earnings of $45 million on revenue of $63.1 million last year. As a percentage of the average portfolio, financial service expenses of 1.3% in the quarter compared with 1.2% last year. The average yield on finance receivables of 18.2% in the quarter compared to 17.8% last year. And the average yield on contract receivables of 9.3% compared to 9.5% last year. Originations of $260.3 million in the quarter increased 3.3% from prior year levels.

Moving to Slide 11, our year-end balance sheet includes approximately $1.8 billion of gross financing receivables, including $1.6 billion from our U.S. operations. Approximately 81% of our U.S. financing portfolio relates to extended credit loans to technicians. In 2016, our worldwide financial services portfolio grew $224 million or 14.1%. As for finance portfolio losses and delinquency trends, these continue to be in line with our expectations, including a seasonal rise in delinquencies. In this fourth quarter, we experienced a slightly higher seasonal increase in delinquencies, and the allowance was increased accordingly. Overall, profitability in the Financial Services segment rose by 14.7% in the quarter reflecting both continued growth of the overall portfolio and higher average yields on finance receivables.

Now, turning to Slide 12, cash provided by operations of $151.7 million in the quarter increased $7.3 million from comparable 2015 levels as higher net earnings were partially offset by net changes in operating assets and liabilities, including $20 million of discretionary U.S. pension contributions. Net cash used by investing activities of $229.3 million included $160.4 million for the combined acquisitions of Car-O-Liner and Sturtevant Richmont, $53.6 million to fund a net increase in finance receivables, and $17.7 million of capital expenditures. For the full year, capital expenditures totalled $74.3 million.

Turning to Slide 13, trade and other accounts receivable increased $36.3 million from 2015 year-end levels, reflecting higher sales, $21.5 million of receivables related to acquisitions, and an increase in days sales outstanding from 60 days at 2015 year-end, to 63 days at 2016 year-end, partially offset by $13.8 million of foreign currency translation. Excluding acquisitions, day sales outstanding was 61 days.

Inventories increased $32.7 million from 2015 year-end levels, primarily to support continued higher customer demand and new product introductions, and $21.5 million of inventories related to acquisitions, partially offset by $17.8 million of foreign currency translation. On a trailing 12-month basis, inventory turns of 3.3 compared with 3.5 turns at 2015 year-end. Excluding acquisitions, inventory turns were 3.4.

Our year-end cash position of $77.6 million decreased $15.2 million from 2015 year-end levels. The net decrease reflects the funding of $915 million of new finance receivables, acquisitions of $160.4 million, dividend payments of $147.5 million, the repurchase of 758,000 shares for $120.4 million and $74.3 million for capital expenditures.

These cash decreases were largely offset by $671.7 million of cash collections from finance receivables, $567.3 million of cash from operations and $134.2 million of proceeds from a net increase in notes payable and other short-term borrowings. Our net debt to capital ratio of 26.3% compared with 24.6% at 2015 year-end.

In addition to our $77.6 million of cash, expected cash flow from operations, we have more than $700 million in available credit facilities and our current short-term credit ratings allow us to access the commercial paper markets. As of 2016 year-end, we had $130 million of commercial paper borrowings outstanding. Since year-end, on January 17, we repaid $150 million of 5.5% senior notes at maturity with available cash and commercial paper.

That concludes my remarks on our fourth quarter performance. I'll now briefly review a few outlook items for 2017. We anticipate that capital expenditures in 2017 will be in the range of $80 million to $90 million. We also expect that our full year 2017 effective income tax rate will be comparable to our 2016 full year rate of 31%. This assumes no major changes in existing U.S. Federal Tax Regulations.

Should there be definitive legislation on corporate tax reform, we will assess the effects of such at that time. With that, I'll now turn the call back to Nick for his closing thoughts. Nick.

Nick Pinchuk: Thanks Aldo. Well you heard about our year and our fourth quarter. I believe they represent continuing confirmation of the opportunities along our runways for growth and testimony to the possibilities inherent in Snap-on value creation and our runways for improvement.

C&I growing again in a very turbulent environment, finding the opportunities where they exist in critical industries, continuing the upward trend in Europe in difficult and uncertain economies, reaching an OI margin of 15.3% - one of its highest - up 40 basis points.

The Tools Group growing. Not equal to recent periods, but still displaying the hallmarks of continuing achievement, a robust vehicle repair sector, positive franchisee health, strong product introduction and a continuing enthusiasm across the franchisees and the customers. And through it all, profit growth - OI margin of 17.6% despite - up 10 basis points - despite a 70 basis point headwind from unfavorable currency.

And RS&I, 8.9% organic growth confirming the strength of vehicle repair, progress with independent shops and with dealerships - exciting new products spearheading those advancements, and OI margins reaching 25.8% - up despite the impact of Car-O-Liner and its lower profit levels. And the acquisitions - Car-O-Liner and Sturtevant Richmont - adding more product fuel for growth and providing more opportunity for improvement.

It all came together to bring our opco operating margin to 19.8%, up 70 basis points and when you add financial services, the overall operating margin was 23.6%, up 90 basis points. It was an encouraging quarter and an encouraging year. And we believe we have the market and the position and the team to continue the trend of extended positive performance through 2017 and beyond.

Now before I turn the call over to the operator, I'll speak directly to our franchisees and associates - I know again many of you are listening. The progress accomplished is a direct reflection of the capability and perseverance you contribute to our effort. For your achievements in the quarter and the year, you have my congratulations. And for your continuing commitment to our team, you have my thanks. Now I'll turn the call over to the operator. Operator?

Operator: At this time, if you'd like to ask a question, please press the * and 1 on your touchtone phone. You may withdraw your question at any time by pressing the # key. Once again to ask a question, please press the * and 1 on your touchtone phone. We'll take our first question from Brett Jordan from Jefferies. Please go ahead. Your line is open.

David Kelley: Good morning guys, it's David Kelley on for Brett this morning. Just a couple quick questions and first on RS&I, strong organic growth in the quarter, I just wanted to drill down on the double-digit diagnostics growth you pointed out. Was there something specific to the quarter that drove the robust performance there? Is it - you know given some of the favorable -

Nick Pinchuk: Yeah, there was. Look the thing is, as we said, we launched two dynamite new products. And actually the thermal imager for us is a whole new category of diagnosing a vehicle - not data driven, but physically driven by looking at a vehicle. Like for example, if you're looking for a bad cylinder, it's tough to tell from the electronic diagnostics, but you can tell if you focus the thermal imager on it and see which one is hot.

That changed everything. That created a lot of volume in that situation, a lot of attention for diagnostics. And then the MODIS Edge was another extension of our already pretty robust line, but a pretty good tool. So those two really drove the business into that 8.9%. Then you have -

the Mitchell1 had its usual strong performance in terms of selling to shops and then we had some come back with dealerships, which can be lumpy. The lumpy side can be dealerships. But mostly, the story is new products.

David Kelley: Great. No that's - appreciate the color. And I guess given the favorable secular tailwinds that should benefit that sector, how do we think about maybe longer term organic growth opportunity in RS&I looking out over the next two to three years?

Nick Pinchuk: Well, we always say that, you know - what we say is look - it's 4% to 6%, that's what we're targeting in most environments. We expect RS&I to be in the middle of that and the RS&I numbers in the last three years are 4.9%, 4.9% and 4.7%. So but this particular one with these new products we feel pretty positive.

David Kelley: Okay, great. Thanks. And then one more from me and I'll pass it along. Just on the Tools growth, I was wondering if maybe you'd be able to give us a feel for cadence in the quarter. I mean I was wondering if there was any pick-up late in December or any uptick you've even seen in January year-to-date that's contributing to that confidence in a rebound in 2017 here?

Nick Pinchuk: Now, look, okay, the Tools Group was not equal to its normal trend. But 3% isn't a poke in the eye with a stick in a 1.9% economy. So we still feel okay about that, but you could have reasonably expected more. But everything we look at - the enthusiasm of the market, the strength of our products, our franchisees how they react - we feel pretty positive about that. So, what I'm saying is that you look at those numbers and you may say below trend, but in everything you look at from a physical point of view, or from a conversational point of view, or seeing a product pipeline point of view, you feel confident.

David Kelley: Okay, great. Again, appreciate the color. Thank you.

Operator: Thank you and we'll take our next question from David Leiker from Baird. Please go ahead, your line is open.

David Leiker: Hi, good morning.

Nick Pinchuk: Good morning.

David Leiker: I - just as a follow-up on that last question on the Tools side - is there anything, obviously that number's a lot weaker than what we've been seeing here for actually quite a while. Is there anything from a timing perspective or regional perspective or anything if you dig down inside there that could give us a little bit more color?

Nick Pinchuk: No, I don't think so. The timing is not really - we have up weeks and down weeks. It's hard to make any interpretation in that David. You know, I think simply stated, I hate to use an analogy like this, but sometimes your clean-up hitter hits a single and a double and doesn't hit a home run and you still win the game. And that's the way we see this quarter. I wouldn't use the word weaker at 3%. I hate to use that word because I think it's a reasonable growth. But yet, it is below trend and we are unsatisfied with that number.

David Leiker: I know you don't talk about numbers on a go forward basis, but can you give us any sense of what the - our proper expectations should get zeroed in on as we look at 2017 for that business?

Nick Pinchuk: Well we always say our growth is going to be the 4% to 6% range and that's the kind of thing we think of. And Tools Group grew at 5.6% in the last quarter - I mean the last year - sorry last year - and so I do don't think we see anything to interrupt our trajectory. Let's put it that way.

David Leiker: Okay. And then the second item here is on the Credit company. When you dig down into the Credit stats, some of them at the margin are getting a little bit weaker I guess. The losses are up. The delinquencies are - there's some seasonality there. The originations growth, which I'm sure is tied into the Tools number, but can you talk a little bit about what you're doing there. Your allowances you'd said you took up a little bit, but it looks like the losses are a little bit. Is this something that's just an adjustment or do you think this is the start of a trend?

Nick Pinchuk: Well, I'll speak to the originations. Look, I mean originations is the Tools Group's way - I mean, if they - it follows the Tools Group and fundamentally in the quarter what you see is high growth in the Diagnostics area. The diagnostics products were the hottest and particularly the thermal imager, which tends to be at the bottom end of the diagnostics range. We would still classify it as big ticket but the origination, the credit penetration in that area of diagnostics tends to be lower. So you fundamentally look at the characteristics of the diagnostics sales and we shake our heads and say, "Yeah, lower administration makes a lot of sense based on what we've sold in the Tools Group." And so that's kind of our view and that view - it's perfectly explainable in those kinds of situations and seeing as what happens with the Tools Group. It's liable to change next quarter because of the characteristics of what sells and what new products come out. In terms of the reserves, I'll let Aldo talk about that.

Aldo Pagliari: Well, David, if you look at the cash flow statement, you'll see that our provision if you look year-over-year is up about $4.4 million. Just to give you a little color on that, if you still look at what I would call the normal sized growth in the portfolio that would account for about a third of the provision, so you have yes - two-thirds of extra growth in the provision relates to the delinquency and characteristics of the trends. So at the end of the quarter, we think the reserves adjusted accordingly and reflects that. And as we move forward, we are not alarmed by any of the statistics. These are within the range of deviation that we've seen over recent times. So, we're comfortable.

David Leiker: Okay, there's some - I got a few e-mails this morning and there's some who are saying that that's a sign that the end market - that your customer is weakening and that the credit company is the canary in the coal mine.

Nick Pinchuk: Well, we don't see the end market weakening actually. That was the whole point of half my script here. I don't think we see that. To the extent that, anything we see – I was just on a van the other day - two days ago - and it didn't seem that way. I was in the garages and those guys seemed pretty robust in their view of the world, talking about how they had to turn away business, in fact. Now, this is a windshield survey, but in terms of the, kick-offs were three weeks ago, and we all go out all over the country, and everybody came back saying our guys are more pumped than ever before. So I don't - we don't see that anyway. We don't see the end market weakening at all.

David Leiker: Okay. And then just one quick housekeeping question - Aldo on the acquisitions, it looks the revenue contribution there was more than just what you would think given the calendar and the timing of the acquisitions. Is there some seasonality in there that skewed the contribution?

Aldo Pagliari: There is a bit. If you look at the collision business itself, the fourth quarter tends to be one of their better quarters. We owned Car-O-Liner, practically speaking, for a full two months. Sturtevant Richmont to a lesser extent was really only about a little over about a five- to six-week ownership period. But, yes, the collision business does skew a bit to the fourth quarter.

David Leiker: Okay, great. Thank you very much.

Operator: And we'll take our next question from David MacGregor at Longbow Research, please go ahead, your line is open.

David MacGregor: Yes, good morning everyone. Just a question on the Tool segment, can you just talk a little bit about the growth you saw in big ticket versus smaller ticket business?

Nick Pinchuk: Big ticket was up, but it was - when we say big ticket, you can classify it in three pieces or three general pieces, David. You got the tool storage boxes, right. They're the biggest of the big ticket. And almost all of them get financed. And then you've got the diagnostics that goes through a range. And then you have some other drips and drabs like we'll sell (…inaudible…) a big-ticket item. Big ticket was - grew faster through the Tools Group, but the lion's share of that growth was in the diagnostic product - the MODIS Edges, which are expensive and they are - maybe list price is about $6000 bucks, $599 something like that. And then you've got the thermal imager, which was at the bottom of the range - you know the list price is somewhere I think around $1,300-$1,400. So the thing is that you got a lower end at that level.

So, your big ticket was greater than the Tools Group, but more anchored in the lower end of big ticket than in maybe the quarters we've been used to lately. Tool storage was slightly off this quarter. So the tool storage representation was not as strong in this. So thus, the lower, the smaller original originations than your used to because thermal imagers, the penetrations - the need for financing is a lot lower than for tool storage boxes.

David MacGregor: When you're talking about stronger diagnostics, I realize in response to an earlier question, you said timing wasn't an issue here, but I know you ran a storage promotion in the late third quarter. Is it possible you just pulled forward some storage out of 4Q into 3Q and that's accounting for the slower growth?

Nick Pinchuk: You know, maybe. There's a lot of things - I think, I don't know. I mean fundamentally you - these kinds of things are fairly judgmental in that situation. That's certainly a possibility, although we don't think, we would try not to pull ahead those kinds of things, but certainly launches of new product really affect this kind of thing. And remember that you're talking a difference between 3% growth and 6% growth - in the Tools Group you're talking about one set of sockets once a week for every franchisee. So you know, it's a difficult thing - when you're talking about those differences, it's a difficult thing to pin down exactly the results. I would say if you're talking about tool storage, the biggest effect was hot diagnostics taking a lot of attention.

David MacGregor: Second question, just to - your net income margin continues to grow. You're now up to a pretty impressive 16%. I guess just given the operating leverage in the business, is there upside to this number in 2017 when materials costs are going to be re-inflating and maybe big-ticket growth in Tools may be slowing?

Nick Pinchuk: Yeah, there is. I think we say that we keep driving up the margin, there's a lot of reasons for this. I mean fundamentally, our - we see a lot of opportunities even today for improvement in Snap-on in every division. That's number one. Number two is yes, material prices are rising, but we don't buy that much and you've never heard me explain on this call a variance associated with material costs and we've made a bunch of - we made a couple of acquisitions now that gives us more grist for the Snap-on value creation mill.

David MacGregor: Okay.

Nick Pinchuk: So, I see lots of opportunity there still. So I don't think - by no means have we hit the top anywhere.

David MacGregor: Last question for me - just on the balance sheet, you ended another year with roughly one times net debt to EBITDA. You're doing on bolt-on transactions. They've obviously been, successful in augmenting growth, but just given the strength of your free cash flow, is there capacity here to continue bolt-ons and grow the dividend while also accelerating your share repurchase activity?

Aldo Pagliari: Yeah, I would say David - it's Aldo. Our principal focus for free cash flow is to look for investment opportunities, whether that be organic or by way of acquisition. That is what we look to, and again our strategy along share repurchase is still more or less to offset dilution. And again, we continue to make contributions into our pension plan. So as we go forward and things change, we'll re-examine those on a quarterly basis, but that's kind of the pecking order right now.

David MacGregor: Thanks a lot.

Operator: Thank you and we'll take our next question from Gary Prestopino from Barrington Research Associates. Please go ahead, your line is open.

Gary Prestopino: Good morning everyone. A lot of the questions relating to the Tools Group have been answered, but Nick, I mean, with the Rock and Roll Express vans, which I understand are the ones that are selling these big ticket storage items, have you been increasing that on an absolute basis? Or year-over-year is it pretty steady in terms of the units that are out there?

Nick Pinchuk: Bingo. It was flat, but we increased the TechKnow vans which sells diagnostics. We moved those up 10% in the quarter - 20% year-over-year, so that's a relevant question. I didn't add that before, but that's one of the things that helped drive the diagnostics business. It all came together - new product and more power in the marketing - in the field marketing of all this.

Now as I've said in the past, I'm not so sure that has an effect - the fact that we didn't increase Rock and Roll vans doesn't necessarily have an effect, because we think we get better every quarter at using them. But the fact is, we haven't increased them for some time.

Gary Prestopino: Okay, so that helps. And then the other thing you mentioned in your commentary that it was a record number of hit products this year, which I assume the hit product is one that generates over $1 million of sales -

Nick Pinchuk: Exactly.

Gary Prestopino: Could you give us an idea of the magnitude of that growth on a percentage basis or just the absolute number of hit products?

Nick Pinchuk: Okay, I'll just say, I don't like to talk about the absolute number because I don't want to get pinned to the cross of reporting on hit products every year. But I'll just tell you this - versus 10 years ago, it's more than - we've reached more than six times -

Gary Prestopino: Okay.

Nick Pinchuk: - and we keep growing on a regular basis.

Gary Prestopino: Okay, all right. Thank you.

Operator: Thank you and we'll take our next question from Scott Stember from CL King. Please go ahead, your line is open.

Scott Stember: Good morning, and thanks for taking my question.

Nick Pinchuk: Sure.

Scott Stember: Could you maybe talk about currency. I know that heading into the back part of the year before Brexit, we were hoping that we'd get some balancing out or some flattening of currency, but with the sterling falling off the way that it did, it certainly started to hurt. But we've seen the pound actually rebound somewhat. Can you maybe just give us an idea of what your reset expectations are for 2017 for when we could start to see a bottom with impact from currency?

Nick Pinchuk: Well, just to put ourselves - to ground ourselves - in the fourth quarter we took about a $15 million hit in revenue from currency and about $0.5 or $4 million on the bottom line in currency. And for the full year, we had about $50 million - just north of $50 million - $51.5 million and $0.26 or $23 million in currency.

Looking forward, this is the darndest thing - at the end of the year, we would have said, same stuff. It would have been the same numbers, right. When we looked at it we figured we're going to see more or less the same currency effect that we had last year, you kind of roll that out - maybe a little different in calendarization - but since the year-end, things have changed and we think the currency number is kind of half. For ballpark numbers, you can kind of look at a half type currency look - maybe a little bit more than that early, but we kind of - right now, if rates stay right where they are today, we think it ends up being about half.

And the interesting thing about this is we talked about delinquencies and provisions in the credit company, the effect of currency - the $23 million - is humungous compare to our noise around that. And of course, currencies can always change, so tomorrow I may wake up and this may all be different. But if you took them today, we'd expect some relief and that relief would be big. It would be nice.

Scott Stember: Got it. And going with RS&I you broke out some of the categories, I missed the growth for the independent shop owners. Could you give that number again?

Nick Pinchuk: Well we're saying double-digit growth for the independent shop owners - the repair diagnostics and software for the independent repair shop openers. Mitchell1 sells the software in terms of SureTrack with the hundreds of millions of records of repair - and then diagnostics is the hardware and software based sale - things like a thermal imager or a handheld diagnostic that will decode everything that a car wants to say. So that's - if you take that together, it's like double digits.

Scott Stember: Right and just last question, you talked about the undercar equipment business being - I think you said low single digits. Could you just maybe flesh that out - whether weather related products, whether wheel, tire aligners, wheel aligners -

Nick Pinchuk: No, I don't know. I hear all that, but I'm not sure I believe it. The thing is that every time I go in a garage, sometimes the guys will tell me, "You know the weather has shafted us," and other people will say, "The weather is - the snow will make it bad for us because people can't get in." Other people will say, "The snow makes it good because they have a lot more procedures." So I'm not so sure how to play with that. What I will tell you about is the Europeans tend to follow this, and the European business was much more - was sluggish compared to the North American business in this particular area. And Eastern Europe hasn't been too good to us in the equipment business either.

Scott Stember: Got it. That's all I have. Thanks again.

Nick Pinchuk: Okay.

Operator: And we'll take our next question from Liam Burke from Wunderlich. Please go ahead, your line is open.

Liam Burke: Thank you, good morning Nick.

Nick Pinchuk: Good morning Liam.

Liam Burke: Nick on C&I, you've invested a fair amount in emerging markets, are you seeing any meaningful move there to help absorb some of that up-front investment?

Nick Pinchuk: No, I wish I could say that I was. But the problem is I - you get some - it seems like when we take one step forward, we take a step backwards in another place. For example, we were up in China this year - India - difficult. I'm sure you're probably familiar with the demonetization in India and people ran out of cash and a lot of our small distributors do a cash business, so our business went, kind of weakened, in the third quarter. So we're seeing that kind of balance. The turbulence has bedevilled us lately in terms of Indonesia being down and Thailand being up. So we see progress from a physical point of view - I feel better about the business - but we haven't been able to monetize it yet. I'm confident we will, but it hasn't been a meaningful contributor to us.

Liam Burke: In terms of RCI -

Nick Pinchuk: It will be though. It will be.

Liam Burke: Oh, I'm sorry.

Nick Pinchuk: I was saying, I'm confident it will be, but it hasn't been yet because we're managing over all those differences.

Liam Burke: Okay, got it. And on RCI, you talk about the - obviously the internal processes. You've moved that out to the van channel - Rock and Roll van - and some of the examples. Do you have any RCI programs pushed out to the van channel beyond the company owned vans?

Nick Pinchuk: Well, yeah. I mean the thing is that a couple of things. Of course, increasingly the van - the franchisees are deciding on their own to add assistants. Now we have about 20% of them up with assistants. I think there's 695 or something - up about 20% year-over-year, and that gives them more - in effect - adds time to each van. And what we've done is we've put programs in place to support them. New computer systems, tablets that allow them to have two people wandering around a garage or separated off the van and can still have a cash register in their hand. And so, that's been a kind of positive event. That's one thing I can think of for sure.

And then, of course, just this quarter, we extended the TechKnow vans, another 10% growth quarter-over-quarter, 20% year-over-year, and that saves time because it gives an - it puts an expert at the beck and call of a franchisee for a short period of time. And it also gives him and expands his selling space. So the TechKnow vans both amplify the time and allow them to time share more space for selling. So you have those two things going on and there's a number of smaller things which we focus on in terms of how they're going to manage their inventory - how they're going to do other things.

Liam Burke: Great, thanks Nick.

Nick Pinchuk: Sure.

Operator: Thank you, and we'll take our last question from Richard Hilgert at the Morningstar. Please go ahead, your line is open.

Richard Hilgert: Thanks. Good morning guys and thanks for taking my questions. I just wanted to ask about future technologies in the industry. We're hearing more and more about hybrids coming sooner, battery electrics coming sooner and obviously some of these things are already out there today, along with autonomous features of vehicles. Are you already developing tools for some of these areas and if so, what are some of the areas that you're already seeing coming through for new tooling and electronics diagnostics?

Nick Pinchuk: Sure, I mean we are developing - actually remember, change is our friend. It requires the mechanic to change his toolset and to get new implements to allow him to repair these cars. And make no mistake about it, they need repair. And so, we are working on this, but just to be clear, so you know, unfortunately for us, it ain't happening next Thursday. There are 300 million vehicles on the road in North America and a very micro percentage of them are really hybrids and electronic - even today. But we are doing new things.

For example, hybrids and electronics we're bringing out a whole - we have a whole line of insulating tools. If you're poking around inside those engine compartments where they're electric or hybrids, there's a lot of voltage in there. You don't want to get fried. And in fact, there's a lot of danger. So, a whole set of tools has to be used to particularly do that, and we have them available.

In terms of automated cars - that's what I was talking about in terms of torque. Every time - any time a car becomes more reliant on a system, it requires more calibration, more precise adjustment and torque is one of the things that's more important. Of course, there's a whole bunch of other things, like alignment and tire balancing and a number of things that emanate from precision that opens up a whole new range of opportunities for us. So as cars become more automatic, we're investing in torque.

You heard me talk about the AT-300, that's why - because of the need for that precision - that's why the SUVs and light trucks are requiring the precise torques of such large numbers. They didn't used to do that. In terms of things like lane departure systems or self-parks or adjusting cruise control - automated cruise control, they all need more. That means precision. That's why we're buying in the torque sector because we believe this is a natural emanation of it. One of the bright spots of the Tools Group in the fourth quarter was torque was up, substantially - verifying that - confirming that view of the world.

Richard Hilgert: Okay, great. My other question it deals with some of the questions that I'm getting from investors with respect to the finance operations. Aldo, I was wondering if you could talk a little bit about the credit policy there and how it works. Some of the pushback I get is that there's concerns that the franchisees are given too much credit authority and that collecting back might be more difficult for them. Is there any kind of comments you can make about the credit policy standards right now and the fact that the business isn't necessarily growing because policies are getting weak, it's just a matter of the business and its natural growth rates?

Aldo Pagliari: Yeah, Richard, I think that last word is a good one. The business policy of sorts is to rely heavily on our experience. And when I say our experience, that also includes the experience curve of the franchisees themselves. We have a traditional database that you get reports from various agencies and credit bureaus and things of that nature. We have our own internal history, which means a lot and we keep that as a reservoir of information at the credit company. And we actually stripe and monitor the progress that our franchisees make along their path through a career in this business and track trends and are able to instil in them some training. We provide training when we go to the periodic conferences. But they are in a position to meet their customers up close and personal each and every week for the most part, and offer back to the credit company an informed credit decision that might not be apparent in the bureaus or in the database.

Such as - what's the peer group feedback on that technician in a garage? What is the garage itself doing? Is there a stream of work or does it look like a garage vulnerable to a downturn? My point is that there's a lot of information resident in the franchisees and their own employees, because some of them do have employees. And we try to incorporate that into our final decision when we make a credit choice.

So, as the model evolves, it's always enhanced. As the franchisees attempt to grow, they reach into new spaces. They meet new customers. Those customers will have different credit profiles and you adjust accordingly along the way.

Richard Hilgert: Very good. Thanks again for taking my questions.

Nick Pinchuk: Sure.

Operator: Thank you. And it appears we have no further questions at this time. I'd like to turn it back over to Ms. Leslie Kratcoski for any additional or closing remarks.

Leslie Kratcoski: Thanks Savannah. We appreciate everyone joining the call today. A replay will be available on Snapon.com shortly. And always, we thank you for your interest in the company. Good day.

Operator: This does conclude today's program. Thank you for your participation. You may disconnect at any time, and have a great day.