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Moderator: **Leslie H. Kratcoski**

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Operator: Good day everyone, and welcome to the Snap-on Incorporated 2017 Fourth Quarter and Full-year Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Leslie Kratcoski with Investor Relations. Please go ahead, ma'am.

Leslie Kratcoski: Thanks, (Tony), and good morning, everyone. Thanks for joining us today to review Snap-on's fourth quarter results, which are detailed in our press release issued earlier this morning.

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

As usual, we've provided slides to supplement our discussions. These slides can be accessed under the Downloads tab in the webcast viewer as well as on our website, snapon.com, under the Investor Information. These slides will be archived on our website, along with the transcript of today's call. Any statements made during this call relative to management's expectations, estimates or beliefs or otherwise state management's or the company's outlook, plans or projections are forward-looking statements, and actual results may differ materially from those made in such statements.

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

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

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

This is not a typical quarter. There are a number of special non-recurring events that impacted the results, a legal charge, and the transition associated with the new tax law. But when you look through all that, Snap-on again showed overall and significant progress along our runways, achieving both growth and profitability.

As with most quarters, we had headwinds and we had opportunities. We took advantage of the opportunities and we overcame the headwinds. Overall sales in the quarter were $974.6 million, 9.5% higher than last year, strong. That total included $29.7 million of acquisition-related volume from last year's Car-O-Liner and Sturtevant Richmont operations and this year's BTC and Norbar businesses, and $16.2 million of favorable foreign currency. Our organic growth was 4.3%, relatively encouraging, with varied results across the groups.

Let's start by looking at the non-recurring events. First, the one-time legal charge, a judgment in a patent-related litigation matter that is being appealed. It impacted operating income by $30.9 million and the earnings per share by 33 cents. Second, a $7 million, or $0.12 EPS charge, associated with the implementation in the new U.S. tax legislation.

Excluding the legal charge, OpCo operating margin was 19.4% of sales, down 40 basis points, reflecting primarily a 30 basis point dilution from lower margin acquisitions and the impact of unfavorable foreign currency.

For Financial Services, operating income of $54.4 million compared to last year's $51.6 million. As reported, the EPS was $2.29, but excluding the legal charge and the impact of the tax legislation, earnings per share as adjusted grew to $2.69, that's an increase of 8.9%. That's our results.

And our markets? Well we believe the automotive repair segments continue to remain favorable, although, we again saw mixed results in that arena, new technologies, aging vehicles, requiring innovative tools and specialized equipment and updated diagnostics, and more repairs continue to make that a favorable place to be. As I said though, we had mixed outcomes.

Our Tools Group was below trend in the U.S., looking similar to what we saw in the third quarter, unsatisfying. However, the Repair Systems & Information or RS&I Group continued its considerable advancement serving repair shop owners and managers. From an overview level, we believe the ongoing progress of RS&I, taken together with what we know to be the strong fundamentals, clearly indicate that there's ongoing and abundant opportunity available in the segment.

Now if you look to Commercial & Industrial - now our, you know, Commercial & Industrial, or C&I Group, it had one of its strongest quarters. Organic sales were up nicely across almost all industries and geographies, including Europe and Asia. Performances in the period from our critical industries focused businesses, with the Industrial Division and SNA Europe both experiencing strong double-digit growth, were especially encouraging.

Within Industrial, you know, an area that's on an upward trend, nearly all segments generated double-digit growth with natural resources, military and general industry leading the way. And SNA Europe's volume in the period was similarly positive again, reflecting gains across almost all geographies.

So across the corporation, I'd characterize our markets as mixed, but on the whole, clearly positive. With overall strength in automotive repair, notwithstanding the outcome of our Tools Group, and continuing strength in the critical industries and gains across geographies, despite the challenges of the quarter - despite the challenges of the quarter - and headwinds will always exist.

We remain confident that our businesses are well-positioned to capitalize on the possibilities, on the opportunities that do exist along our runways for growth. And looking ahead, we also see clear runways for improvement. We said this many times. Snap-on Value Creation Processes, safety, quality, customer connection, innovation and Rapid Continuous Improvement, or RCI, driving, ongoing and significant advancements as they have for some time.

Now for the full-year, sales of $3.69 billion represented an as-reported increase of 7.5%. The organic volume gain was 3.4%, with the RS&I Group up 7.6%, the C&I Group rising 4.5%, and the Tools Group roughly flat.

As-reported EPS for the year was $9.52, but excluding the legal matters and the impact of the tax legislation, earnings per share as-adjusted reached $10.12, that's an increase of 10%.

OpCo OI percent as-adjusted was 19.3%, up 20 basis points, overcoming 50 basis points dilutive impact from acquisitions and a decrease of 20 basis points associated with unfavorable currency.

And when we include the income from Financial Services of $217.5 million, which rose $18.8 million, the consolidated operating margin for the corporation as-adjusted was 23.2%, up a similar 20 basis points. The quarter and the year, sales gains and profit increases, taking advantage of opportunities on our runways for growth and driving down our runways for improvement.

Now, let's move to the individual operating groups and their fourth quarter results. The Tools Group. Organic sales down 3% and operating earnings of $67.3 million, representing a margin rate of 16.4%, down 120 basis points. We do believe our actions to reinvigorate the van channel sales will be effective, but they didn't create improvement in the fourth quarter.

In the quarter and throughout the year, however, the Tools Group did confirm the strength and the market-leading position of its van network. It wasn't evident in the recent financials, but it was clear in the franchisee health metrics we monitor each period. The franchisees are strong and the turnover is low and that positivity was once again acknowledged by multiple publications, listing Snap-on as a franchise of choice.

And just this past quarter, Snap-on was ranked among the top franchise organizations, both in the U.S. and abroad. We were again recognized by *Franchise Business Review*, which collects franchisee's satisfaction data. And in its latest ranking, listed Snap-on as a Top 50 franchise, marking the 11th consecutive year we received that award based on satisfaction.

We were also once again recognized by the *Military Times*, which included Snap-on on its “Best for Vets” annual ranking, coming in at number five for the second year in a row and the only mobile tool franchise on the entire list.

And abroad, Snap-on was ranked number two in *Elite Franchise Magazine's* Top U.K. franchises for 2018, finishing above many U.K.-only franchises and ahead of some very popular global brands.

Now this type of recognition reflects the fundamental strength of the franchisees in our van business and it would not have been achieved without a continuous stream of innovative new products. And in 2017, once again, the Tools Group increased its number of hit products, those $1 million sellers developed from direct observations gained in the field that I think you've become familiar with.

Tool Storage sales were still a shortfall in the quarter, but we're taking action. You heard me speak of migrating some premium options like the PowerDrawer, the speed organizer into our lower ranges, we're doing that. We're introducing new features and new themes. We're retooling the Rock N' Roll vans and we'll be expanding our line with a model that offers attractive capacity in a compact footprint, some high-end features at a price that's affordable to young technicians. A unit aimed at making them Snap-on customers for life and contributing to a restart for the Tools Group.

And just in December, probably too late to affect the fourth quarter, we introduced our new series of 12-point high-performance ratcheting box wrenches. Cold-formed gears, proprietary steel for durability, extended handle for leverage, 80 teeth and an eight-tooth pawl to minimize the swing arc, another unique tool reducing technician job time, particularly in difficult and critical situations. The Tools Group may be below trend, but we keep building its strength with new product and network vitality. Well that's the Tools Group.

Now let's move to RS&I. Volume in the fourth quarter was $356.8 million, with an organic rise of 6.2%, double-digit sales gains in the OEM dealerships and low single-digit increases in diagnostics and repair information products. Operating earnings of $89.8 million, increased $7.3 million for an OI margin of 25.2%, down 60 basis points from last year, but with a 50 basis point decline from lower margin acquisitions and negative currency effects.

Once again, we saw some compelling products, giving us more to sell to those repair shop owners and managers, offerings like the NEXIQ Blue-Link Mini, our electronic logging device. It won a Professional Tool and Equipment Innovation of the Year Award at the SEMA show in Las Vegas. The Blue-Link Mini logs driver hours, vehicle movement, engine hours, and vehicle performance data like speed and miles per gallon. All of that allows heavy-duty customers to meet the electronic data logging regulation that took effect in December. And it appears to be a winning product with great customer reception. We saw that.

Our diagnostics and repair information businesses were also led by new products. We mentioned last quarter, the launch of our game-changing handheld intelligent diagnostics, the ZEUS. Well, it's selling well. Hardware and software subscriptions, yes, subscriptions, a new focus for one of our introductions, a great unit raising the bar in advanced repair, and helping to offset the difficult comparison of last year's fourth quarter, both the launch of the MODIS Edge handheld and our very popular Thermal Imager in that category.

RS&I also advanced its position in the repair information space, the Mitchell 1 business, enhancing our ProDemand software by adding a new user interface. It takes repair information to a whole new level of intelligence with advanced search technology that scans the vast Mitchell 1 database and returns exactly the specific information the technician needs for that particular job. OEM data and Snap-on's proprietary SureTrack real-world data, real-world information is now more tightly integrated and the new interface amplifies the power of that combination. It makes the technician's diagnosis job easier, quicker and more accurate.

Finally in the period, RS&I's equipment division introduced the new V2100 imaging wheel aligner. It's targeted squarely at meeting the needs of independent shops that work on multiple brands of vehicles and perform a variety of repair services. Those shops typically can't have a dedicated alignment guy; they just don't do that many alignments. What they do need is an ease-of-use mid-tier unit. Different vehicle brands have varying alignment procedures. It's a major challenge for a general tech. Well, the V2100 is the right unit with an intuitive interface that will guide through the multiple approaches to align with clarity. For a general tech, it reduces alignment time by 30%, a great saving and a nice boost to our equipment line-up. We keep driving to expand RS&I's position with the repair shop owners and managers, offering new products to sell, developed by our customer connection and innovation processes or added by our strategic and coherent acquisitions. And you can see it in the numbers.

Now, on to C&I. Sales increased in the period 19.4% from 2016, helped by - I want to say that again - sales increased in the period 19.4% from 2016, helped by $19.1 million in acquisition-related volume and $6.8 million of favorable currency.

Organic sales were up 10.1%, among the highest we've ever seen at C&I. That near-record increase reflects improvements from almost every operating division, including gains by Industrial, SNA Europe, Power Tools and the Asia-Pacific division. The group's operating income was $50.9 million. That's up from the $43.9 million reported last year. Operating income margin was 14.9%, down 40 basis points, but reflecting a 50 basis point impact from the acquisitions, dilutive acquisitions, and another 50 basis point decline from unfavorable currency. In fact, those impacts notwithstanding, 14.9% is among the highest margins we've seen for the group in the last several years - last four years or so. In effect, C&I had one of its strongest quarters.

Reassuringly, SNA Europe again posted increased organic sales, up double digits, continuing its progress, now 17 quarters in a row of year-over-year growth, and profit climbed right along, up 19 straight quarters, 19 quarters in a row of profitability improvement, reflecting Snap-on value creation at work, with innovative new products and improved new processes driving positive trends in some pretty challenging geographies.

Also in C&I, our Industrial division made encouraging strides, as I mentioned before, strong double-digit growth, driven in part by our strong double-digit growth for our industrial division, driven in part by our widening array of new products.

Having been up down in recent periods, aerospace showed good progress in the quarter, rising worldwide. For the first time in a while it's risen both in domestic and international, on a boost from customer connection, offering products like our new cordless grease gun kits. Many planes have service requirements which prohibit them from using the industry standard units. With customer connection, Snap-on developed a new gun, which limits the grease delivery pressure, matching a special aircraft requirement. And based on further customer connection, we also added improvements like an extended length pressure hose, giving technicians that added reach to reach and service the landing gear, and a clear grease cartridge tube, allowing users to quickly identify the type of material in the gun. Now these seem like simple improvements, and they are, but they're quite effective in making critical work easier in special aerospace situations.

Just like - and just like in the Industrial division, SNA Europe's also been using customer connection and innovation to drive its continuing expansion. For example, in the critical power generation industry in Europe, with a significant amount of oil in Northern Europe being pumped from offshore, there was opportunity for a special toolkit for servicing the individual ocean rigs. Customer connection, observing the environment and the task, led to the development of what we're calling the pump man toolkit, combining Bahco’s Tools at Height with - safe when you use them at height with the safety suspenders - with our large array of non-sparking tools, eliminating fire hazards and addressing the service and safety needs for the critical oil rig environment. These specialized pump man kits were released just this year, but based on early reception, we believe they'll be a big driver for our expansion in the oil and gas industry and a great help in continuing SNA Europe's upward trajectory.

Power Tools Division returned to growth in the quarter and new product paved the way. One winner was our new CDRR761, a 14.4 volt 3/8 inch MicroLithium right angle drill, lightweight, provides up to 150 inch pounds of torque, offers two speed ranges and a variable speed switch. It's great for driving screws with control. It was launched to help technicians get into small, tight spaces under - like under the dash and on the firewall, and it has an integrated LED light to illuminate that dark work. It was introduced in the fourth quarter and it's already a million dollar seller, one of our hit products that drive growth.

Well that's our fourth quarter, OpCo organic sales rising 4.3%, progress along our runways for coherent growth and advancement down our runways for improvement - safety, quality, customer connection, innovation and rapid continuous improvement. Tools Group working on regaining growth, RS&I, continuing its considerable strength, and C&I starting to show its potential, which - with much more to go, all of it driving a 19.4% adjusted operating margin despite the dilutive acquisitions, and an as-adjusted EPS of $2.69, up 8.9%. That's our fourth quarter.

Now I'll turn the call over to Aldo. Aldo?

Aldo Pagliari: Thanks, Nick. Our consolidated operating results are summarized on Slide 6. Net sales of $974.6 million in the quarter increased 9.5%, reflecting a 4.3% organic sales gain, $29.7 million of acquisition-related sales, and $16.2 million of favorable foreign currency translation. The year-over-year organic sales growth, which was the highest level achieved of any quarter in 2017, reflects ongoing progress in serving repair shop owners and managers in the vehicle repair sector, as well as broad-based growth in the businesses that comprise the Commercial and Industrial segment.

Consolidated gross margin of 47.7% declined 220 basis points, primarily due to higher sales of lower gross margin products, 60 basis points of lower gross margins on acquisition-related sales, and 20 basis points of unfavorable foreign currency.

The operating expense margin of 31.5% increased 140 basis points, as 320 basis points related to the legal charge that, as Nick has mentioned, is being appealed. These were partially offset by benefits from sales volume leverage and a 40-basis point benefit from operating expenses for acquisitions.

Operating earnings before financial services of $157.7 million, or 16.2% of sales, includes the legal charge and compares to $176.1 million, or 19.8% of sales in the prior year. Excluding the legal charge, operating earnings before financial services as adjusted was $188.6 million, or 19.4% of sales.

Financial services revenue of $79.9 million and operating earnings of $54.4 million increased $5.7 million and $2.8 million respectively from 2016.

Consolidated operating earnings of $212.1 million, or 20.1% of revenues, compared to $227.7 million, or 23.6% of revenues a year ago. Excluding the legal charge, consolidated operating earnings as adjusted was $243.0 million, or 23.0% of revenues.

Our fourth quarter effective income tax rate of 33.0% was reduced by 120 basis points as a result of the legal charge but increased by 360 basis points as a result of a $7 million charge related to the implementation of the new tax legislation in the United States. This tax charge includes an estimated transition tax on unremitted foreign earnings of $13.7 million, partially offset by an estimated tax benefit related to the revaluation of deferred tax assets and liabilities of $6.7 million. Excluding both the legal and tax charges, the effective tax rate in the fourth quarter of 2017 as adjusted was 30.6%, as compared to 30.8% in Q4 of 2016.

Finally, net earnings of $129.5 million, or $2.24 per diluted share, compared to $146.3 million, or $2.47 per share, a year ago. Excluding the legal charge and tax charge, net earnings as adjusted was $155.6 million. Adjusted diluted earnings per share of $2.69 represented an increase of 8.9%. Now let's turn to our segment results.

Staring with the C&I group on Slide 7, sales of $341.7 million in the quarter increased 19.4%, reflecting a 10.1% organic sales gain, $19.1 million of acquisition-related sales, and $6.8 million of favorable foreign currency translation. The organic sales increase includes double-digit gains in sales to customers in critical industries and in the European-based hand tools business, as well as low single-digit gains in both the segment’s Power Tools and Asia-Pacific Operations. The gains in critical industries were positive across the board, including strong growth in international aviation and the military, two areas which were weaker earlier in the year.

Gross margin of 39.2% declined 110 basis points from 40.3% a year ago, due to higher sales of lower gross margin products and 50 basis points of unfavorable foreign currency effects. The operating expense margin of 24.3% improved 70 basis points, primarily due to the benefits of sales volume leverage, partially offset by 50 basis points of operating expenses related to our acquisitions.

Operating earnings for the C&I segment of $50.9 million increased 15.9%, and the operating margin of 14.9% compared to 15.3% a year ago, including the 100 basis point impact from currency and acquisitions mentioned above.

Turning now to Slide 8. Sales in the Tools Group of $409.2 million decreased 2.0%, reflecting a 3.0% organic sales decline, partially offset by $4.3 million of favorable foreign currency translation. The organic sales decrease includes a mid-single-digit decline in the US, which was only partially offset by a mid-single-digit sales gain internationally.

Gross margin of 41.4% decreased 60 basis points year over year, due to the lower volume and related cost. The operating expense margin of 25% increased 60 basis points year over year, primarily due to the effect of the lower sales. Operating earnings for the Snap-on Tools group of $67.3 million decreased 8.4%, and the operating margin of 16.4% compared to 17.6% in 2016.

Turning to the RS&I Group, shown on Slide 9, sales of $356.8 million increased 11.6%, reflecting a 6.2% organic sales gain, $10.6 million of acquisition-related sales, and $6.2 million of favorable foreign currency translation. The organic sales increase reflected a double-digit gain in sales to OEM dealerships and a low single-digit increase in sales of diagnostic and repair information products.

Gross margin of 45.4% declined 240 basis points as a 110-basis point impact from acquisitions, higher sales of lower gross margin products, and 10 basis points of unfavorable foreign currency were partially offset by savings from RCI initiatives. The operating expense margin of 20.2% improved 180 basis points, due to the higher sales volume and 80 basis points of benefits from acquisitions, partially offset by 10 basis points of unfavorable foreign currency. Operating earnings for the RS&I Group of $89.8 million increased 8.8% from prior-year levels. The operating margin of 25.2% compared to 25.8% last year, including a 30-basis point impact from acquisitions.

Now, turning to Slide 10. Operating earnings from Financial Services of $54.4 million on revenue of $79.9 million compared to operating earnings of $51.6 million on revenue of $74.2 million a year ago. Financial Services expenses of $25.5 million increased $2.9 million, primarily due to a $2.4 million year-over-year increase in provisions for losses on finance receivables, which totaled $16.0 million in the quarter. This is up $3.2 million sequentially from $12.8 million in the third quarter of 2017 and compares to a third to fourth quarter sequential increase in the prior year of $2.8 million. As a percentage of the average portfolio, Financial Services expenses were 1.3% in both the fourth quarters of 2017 and 2016.

In the fourth quarter, the average yield on finance receivables was 17.8% in 2017 compared to 18.2% in 2016, due in part to the portfolio mix, as well as a higher percentage of originations utilizing market rebates in 2017. The respective average yield on contract receivables was 9.2% and 9.3%. Total loan originations of $265 million in the fourth quarter increased $4.7 million, or 1.8% year over year, as higher originations of contract receivables, principally franchise finance, were partially offset by a decline in finance receivables originations due to the lower year-over-year sales of big ticket items in the U.S. by the Snap-on Tools Group.

Moving to Slide 11. Our quarter-end balance sheet includes approximately $2 billion of gross financing receivables, including $1.74 billion from our U.S. operation. Our worldwide gross financial services portfolio grew $28.1 million, or 1.4%, in the fourth quarter. As for finance portfolio losses and delinquency trends, they are, as expected, tracking higher year over year, similar to what we've seen over the last several quarters, and also reflecting typical seasonal increases. We believe these trends, however, continue to support our view of an appropriate risk-reward balance in this segment of our business.

As it relates to extended credit, or finance receivables, the largest portion of the portfolio, trailing 12-month losses of $46.7 million represented 2.92% of outstandings at quarter end, up 61 basis points year over year and 15 basis points sequentially. The 60-plus day delinquency rate of 1.9% for U.S. extended credit increased 20 basis points sequentially, typical of the seasonal increase from the third to fourth quarter. Overall, operating earnings in the Financial Services segment rose 5.4% year over year, and our allowance for doubtful accounts reflects the above mentioned trends in the portfolio's performance.

Now turning to Slide 12. Cash provided by operating activities of $195.5 million in the quarter increased $41.8 million from comparable 2016 levels, due primarily to lower discretionary pension contributions and cash paid for income taxes in 2017. Net cash used by investing activities of $59.0 million included net additions to finance receivables of $38.2 million, down from $53.6

million in the fourth quarter of 2016. Capital expenditures of $24.7 million in the quarter compared with $17.7 million last year.

Net cash used by financing activities of $136.6 million included dividend payments to shareholders of $46.4 million and the repurchase of 472,000 shares of common stock for $75.3 million under our existing share repurchase programs. Full-year 2017 share repurchases totaled 1.82 million shares for $287.9 million.

Turning to Slide 13. Trade and other accounts receivable increased $76.8 million from 2016 year-end levels, primarily due to higher sales, $21.7 million of foreign currency translation and $9.5 million from acquisitions. Days sales outstanding of 66 days was up from 63 days a year ago but down from 67 days at the end of the third quarter. Inventories increased $108.3 million from 2016 yearend primarily to support increased customer demand in certain segments and new product introductions; foreign currency translation and acquisitions contributed $23.9 million and $5.7 million of the increase respectively. On a trailing 12-month basis, inventory turns of 3.2 compared to 3.3 at year-end 2016. Inventories decreased approximately $11 million from the end of the third quarter.

Our year end cash position of $92.0 million increased $14.4 million from 2016 yearend levels. Our net debt to capital ratio increased to 27.0% to from 26.3% year over year. In addition to cash and expected cash flow from operations, we have more than $700 million in available credit facilities. As of quarter end, we had $151 million of commercial paper borrowings outstanding. That concludes my remarks on our fourth quarter performance. I'll now briefly review a few outlook items for 2018.

We anticipate that capital expenditures will be in the range of $90 million to $100 million. As a result of the recently enacted tax legislation in the United States, we currently anticipate that our full-year 2018 effective income tax rate will be in a range of 24% to 25%. This compares to a full year 2017 effective tax rate on a reported and on an adjusted basis of 31.1% and 30.6% respectively. I'll now turn the call back to Nick for his closing thoughts. Nick?

Nick Pinchuk: Thanks Aldo. Well I started by saying that we were encouraged but unsatisfied in the quarter and we were. The Tools Group remained below trend, not yet recovering. But we continue to have confidence in the market and in our inherent strengths. We do have a strong franchise network. The turnover and our franchisee health metrics say so. And we are investing in new products and support to restart the growth engine. You can see it in the Zeus, revolutionizing vehicle diagnostics and moving us further into subscription-based software.

But despite the Tools Group challenges, we overcame again. Organic sales growth was 4.3% and the “as reported” number was 9.5%. The RS&I group and the C&I group both had strong quarters. RS&I “as reported” growth 11.6% and an organic gain of 6.2% and OI margin of 25.2% -- a significant contribution to our performance. C&I had a near record quarter, rolling the Snap-on brand out of the garage with success – “as reported” sales at 19.4% and an organic increase at 10.1%, OI margin of 14.9% -- among the group's highest.

The results in the quarter I think clearly demonstrate that our coherent runways for growth, expanding with repair shop owners and managers and extending to critical industries are wide with abundant opportunities. And we're confident we have the strength and the position all along our runways for further - all along our runways we have the strength and position for further growth and more improvement amplified by the new tax rates to maintain a positive performance trajectory as we move through 2018 and beyond.

Before I turn the call over to the operator I'll speak directly to our franchisees and associates. The performance of our fourth quarter and of the year and our clear opportunities going forward would not be possible without your extraordinary contributions. For your ongoing achievements you have my congratulations. And for your continuing dedication and commitment to our team you have my thanks. Now I'll turn the call over to the operator for questions. Operator?

Operator: Thank you. If you'd like to ask a question, please press the star key followed by the digit 1 on your touch-tone telephone. Please make sure that your mute function is turned off to allow your signal to reach our equipment. Once again that is star 1 to signal. We'll go first to Liam Burke with B Riley, FBR.

Liam Burke: Yes thank you. Good morning Nick. Good morning Aldo.

Male: Good morning Liam.

Liam Burke: Nick in the core Snap-on Tools Group you highlighted the fact that storage sales were down again but how did the core hand tool business fair this quarter on a year over year basis?

Nick Pinchuk: Well the hand tool business was I think improved from the fourth quarter but we're still - and it's still down some and we're still suffering the - I think the results of, you know, maybe the less than overwhelming offerings coming out of the SFC. So we're seeing improvement but not where we want it to be.

The big factor, you know the good news in the quarter I think is associated with the Zeus, the effect of the Zeus and its sale off the vans which is very encouraging for us. That's the silver lining in the quarter I think. But in general we've still got to keep working on the Tools Group, new product, new support.

Liam Burke: Okay and on a free cash flow basis Aldo, you're up about 35%, does that change your capital allocation outlook? You went through a good part of your buyback authorization. Does that become an increasing part of your capital allocation strategy?

Aldo Pagliari: Certainly share repurchase is part of our allocation strategy but I think our priorities remain the same Liam. We have good access to capital markets. The new tax action provides more cash generation opportunities, serving organic sales and then M&A opportunities, they'll become the two most important items on the list. But certainly share purchase, dividend strategy, pension contributions factor into that decision as well.

Liam Burke: Great. Thank you Nick. Thank you Aldo.

Nick Pinchuk: Sure. Thanks Liam.

Operator: Next is David MacGregor at Longbow Research.

David MacGregor: Yes good morning. Can you hear me okay?

Nick Pinchuk: Yes sure.

David MacGregor: Okay great. A couple questions. First of all, just on the C&I pretty remarkable organic growth. And it’s nice to see you fall - sort of firing on all the cylinders. I guess the question just how sustainable is it? And just talk about, you know, I know you don’t provide quantitative outlook and guidance on the year ahead but if you can just talk about, you know, how sustainable that organic growth might be given the strength you see in critical industries and European hand tools?

Nick Pinchuk: Well look I think you can look at it this way. I believe that SNA Europe was up double digits. And you might not see double-digit every quarter but I think we said in our thing it’s been up 17 quarters in a row in terms of sales and 19 quarters in a row in terms of profit. And we think it’s still got considerable headroom. It’s still not back to where it was pre-recession. So it took a big dip in the recession and we keep making it stronger so we're positive about SNA Europe and I think it would have a - had abundant demonstration of that. The industrial business is now through the downturn in the industrial sector in oil and gas and others. We kept investing in new products and our understanding in the marketplace and I think you're seeing that come to fruition.

Now I'm not going to say - and so you see those two big cylinders I think working based on improved capabilities that you can see coming through in the results to us. Now whether that's going to author double-digit growth or not is another question. And I think we prefer to say that we look at our growth on organic basis at 4% to 6% and we see C&I at the top end of that but it appears as though in this environment with the strength we have two big pistons there.

And the other place, you know, Asia-Pacific's had pretty good growth particularly in China and India, in turbulent markets I would say. And power tools came back. So I think you'd say C&I is positioned pretty well and the numbers show it. You take a look at those numbers, this is what we month by rolling the Snap-on brand out of the garage.

David MacGregor: Well congratulations for the - on all the progress there. I guess my second question was on the Tools segment and just if you could talk about franchisee order patterns through the quarter and what was changing there. I know your contract receivables are up. And you talked about that being driven by franchisee sales. Is it your sense that inventories are maybe up a little and accumulating within the franchisee network?

Nick Pinchuk: Actually no I don't think the inventories are accumulated.

Aldo Pagliari: Yes contract receivables David are up principally because of the launch of new vans...

Nick Pinchuk: Yes.

Aldo Pagliari: ...in the franchise channel so a lot of franchisees have upped the size of their vans that they're putting on the street. And that's one of the key drivers in franchise finance.

Nick Pinchuk: We would say the opposite actually, that if anything that - you know, we don't have perfect visibility on this - if anything, the franchisees' inventories are coming down a little bit. I think the principal component of the franchisee story is the Zeus. The Zeus is selling well off the van and I don't know if the import of my remarks hits, but the franchisees are selling this big revolutionary new Zeus at higher levels than we've seen for a large unit. And they're selling what we calling a data package, which is three years of subscriptions. We never really sold subscriptions with a launch before. And that's happening at record levels.

So I think if you look at the franchise interface level one of the real great stories is around that revolutionary diagnostic, which is changing the industry, recognized as a market leader and it's pulling us more into subscriptions-based software. Now when you do this kind of thing it doesn't always register for the Tools Group right away because the franchisee sells the three-year subscription boom, and it gets financed or it - sold in another way. And we in the Tools Group recognize it on an amortized basis over the month so they see that kind of thing. But if you look at that level, the franchisees are pretty happy about this.

David MacGregor: And last question for me is just on the Tools business you talked about the gross margin pressure there and I appreciate you breaking it out for us. And to what extent was promotional pressure or promotional programs sort of a headwind on gross margins? And if you could tie that in with just some commentary around the general competitive environment in tools that'd be helpful…

Nick Pinchuk: I'll say it this way. Look I'll say it this way. Look the Tools Group volume is down. They're vertically integrated so you know that's going to play out in some kind of, you know, loss margin plus absorption in that kind of a situation. But also they want volume. If you were in the position of the Tools Group, you'd be wanting volume. And so they're working pretty hard to take advantage of every possible piece of daylight they can. That's not the most efficient way to sell.

David MacGregor: Right. Thank you.

Nick Pinchuk: Sure.

Operator: We go next to Gary Prestopino with Barrington.

Gary Prestopino: Hey good morning everyone.

Nick Pinchuk: Good morning Gary.

Gary Prestopino: Nick, on the tool storage area, I mean how far are you on the product refresh that I think you, you know we had talked about a couple of quarters over the last couple of quarters that you mentioned it a little in your earlier comments. I mean are you basically done with that product refresh?

Nick Pinchuk: I ain't done, no. I'm not done but we - we're - we brought out some stuff I think I said in the, you know, some different themes and some different features and we migrated some features down into smaller into some of the middle - mid-tier line and we're continuing to do that. And I think we continue to make changes associated with the tool storage because we think, you know, it didn't move. What happens to you Gary is it didn't move this quarter. Some of that stuff works but not enough to move the overall needle so you keep bringing out new stuff to try to make sure you can make the change.

I think one of the things we're kind of encouraged about is this entry level thing for the technicians which we're kind of focused on in this situation. We're kind of - we're seeing some reasonable effect that the - at the top end of the line and so we'd like to get these guys at the lower end with a little more activity. So you're seeing some of that.

Then you go back to Rock N Roll cab. The Rock N Roll cab we're refurbishing them and we furnished the first half of that refurbishment program right at the end of the year, you know. So they really weren't, if you look at it they really weren't on the road. And we expect to get the other half finished in another quarter let's say for government work. So you'll see those rolling out.

So I don't, if you're looking for me to tell you when the thing is going to turn around I guess I can't, but I have every confidence we can do this. And the reason I do this is because when you look at our van network, you talk to our franchisees, and see our product line, pretty strong. Now we have gaps and it's caused us some difficulty but the Tools Group, each one of our groups go up and down like this, and we bring them back. I think the thing about the quarter is, is for the second quarter in a row the Tools Group had difficulty and we achieved anyway because we had great quarters with RS&I and C&I.

Gary Prestopino: No, no I understand and get it and...

Nick Pinchuk: Yes.

Gary Prestopino: ...I'm just trying to try and get an idea of when we could see an inflection point in the Tools Group.

Nick Pinchuk: Yes I look I, you know, I think I said, the meaning of my word unsatisfied is this Gary, we expect to grow every quarter.

Gary Prestopino: Right.

Nick Pinchuk: And so when you don't grow in one of these divisions, you know, while there is the possibility of having a difficult quarter, we're not satisfied. So our expectation would be to grow but I can't, you know, in terms of forecasting for a financial situation I can't be saying that we're doing that. But I can tell you internally we're looking for it.

Gary Prestopino: And then what, in terms of refurbishing the vans, the Rock N Roll van cabs...

Nick Pinchuk: Yes.

Gary Prestopino: ...what are you doing there?

Nick Pinchuk: You know, first of all you start from the outside in. You make the outside look differently. You do different wrap. You go inside, you reorganize the structure of the vans themselves. You put new stuff on. You organize a more robust refreshment of the tool storage boxes on the van. You try to make sure you have different examples. And we installed a new computer system which will - a new 3-D modeling system - which if he doesn't see it on the van, or he sees it on the van and he likes a different color, you get a great picture of it. So we do those kinds of things.

(Crosstalk)

Nick Pinchuk: It's really to try to make it seem different so when the technician gets on the van he says, "Oh this is different. I ought to take a look at this stuff."

Gary Prestopino: Okay. And then getting back to the Zeus, which is interesting to me.

Nick Pinchuk: Yes.

Gary Prestopino: Is this federal I - what is it a federal regulation now that you have to monitor your mileage?

Nick Pinchuk: No, no, no. Sorry, sorry I probably confused you on this. The Zeus, I was talking about the Nexiq Blue-Link Mini. It's an electronic data logging. That's...

Gary Prestopino: Okay.

Nick Pinchuk: ...the heavy-duty business that you put on trucks that monitor the daily log. There was legislation that took place - that took effect in December, which drove that sale. ZEUS is for, your average vehicles in your - in Bimmer's auto repair, down in Illinois or something like that, or a muffler shop.

Male: Okay. Thank you.

Nick Pinchuk: Sure.

Gary Prestopino: All right. Thanks.

Operator: We go next to David Leiker with Baird.

Joe Vruwink: Hi. This is Joe Vruwink for David.

Nick Pinchuk: Joe.

Joe Vruwink: Was hoping to peel back the onion a bit more on the Tools Group. So if I look at finance receivable originations, and that's my proxy for big-ticket product sales, that was down 1%. To get to Tools Group of down 3%, it means the core hand tool, power tool business, let's call it, was down 4% and that down 4% is a weaker number than it's been tracking all year long. So I'm just wondering within Q4, what trends did you see that might explain maybe a weakening or I'm wondering since we're talking about ZEUS, are your franchisees spending more time selling ZEUS and maybe less time selling tools and that might be getting caught up in this number?

Nick Pinchuk: You know, let's just talk about this for a minute. As you know, I know you know this well, there isn't perfect linkage between the Tools Group sales and originations. For one thing, there is a time lag, you know, probably the stuff that's originated in the fourth quarter, some significant portion of it got sold by us in the third quarter, that's one thing, I think. Clear, you know this, you know, it works, it gets onto the van, they got to sell it and so on, that's one thing.

And ZEUS introduced a new wrinkle to this. ZEUS is two pieces. It is the hardware itself, you know, revolutionizing, intelligent diagnostics, faster screen, better color resolution, all that stuff and then it's a software package, a data software package underneath the intelligent diagnostic.

Well, the data software package sells for thousands of dollars because it's three years and that gets financed, but it doesn't get recognized at the Tools Group except on a monthly basis, amortized like a subscription. So not only is there, you know, is this new wrinkle introduced by ZEUS, in that you have franchisees, you know, financing something, which doesn't really get recognized as immediately by a sale by the Tools Group because it's the, you know, subscription-based software. We think it's a great situation because, you know, we're going to subscription based, that creates some of that disconnect. And so, you know, I think, you know, you could talk to us a little more extensively and we can talk about this a little bit more and go through it, that's number one.

Number two is your point is well taken though, I think, the ZEUS is a very expensive unit and we do have to take a lot of effort in training the franchisees and having our diagnostics, our 130 diagnostic systems developers and the TechKnow van supporting them and it takes a lot of effort to sell it. So a successful ZEUS sale can be drawing attention from other things, that's true. It's hard to quantify that though, Joe, you know. But that does happen.

Joe Vruwink: Okay. The point on software sales, that makes a lot of sense. Maybe if I spin the question around a little bit, so, U.S. down mid-single-digits. That was a consistent number as in Q3. Obviously, tool storage has been weak. We've talked about that, but in thinking about the core mechanic customer, what is your sense on just the backdrop there whether, you know, the BLS has data, it shows hours worked up, hiring up, earnings way up. It would seem like that customer is able to buy more tools. What is your sense on Snap-on's ability to tap into what is ultimately a pretty strong, I'll call it, wallet growth?

Nick Pinchuk: I agree. That's why I'm saying the automotive repair market is a robust market with abundant opportunity that we can drive down. We think we have the capability to do it. I mean, I think the fact that we're selling these ZEUS's in pretty good numbers…basically last year, we had a boffo quarter with the thermal imager. You know, we sold a lot of them in the fourth quarter. And at the franchisee level, they're overcoming that with ZEUS. And so what you got is people are paying…the ZEUS list price, you know, some people have looked at it, all-in is like $17,000. Now that's like a car price, you know, there's a lot of versions of that, that gets sold, but it's thousands of dollars, and we're selling it successfully. So we're able to tap into it I think if we have the right product.

Joe Vruwink: And you think recent, you know, you've talked about coming out of the franchise conference, that product introduction, but have there been other items launched in the back half of the year where entering Q1 or, you know, we're over a month into Q1, what have been more recent trends than just that undertaking around new products?

(Crosstalk)

Nick Pinchuk: That's why I put the power tool in the script. The power tool that we talked about, that 3/8-inch, mini power tool, right angle drill, sold out right away and it became a $1 million seller, you know, a hit product. So we are launching products. Our problem is, we're not selling enough tool storage, that's - you can kind of - and there are other issues, but the thing is that, we need to turn around tool storage. That's what I think. Now there are other things we'd like to see go better. So we are seeing encouraging - when we have the product, we believe we sell it.

Joe Vruwink: And then my last question, you know, a lot of our focus over the past year has been on finance receivables, but let's maybe talk about contract receivables. How much of the asset book is that category? And then can you just segment, of contract receivables, how much is maybe more of a commercial loan with the shop? How much is going to be van leases? And is the growth in van leases going on right now, is that historically a leading indicator of future activity or anything you can kind of foot to for why franchisees are reinvesting right now?

Aldo Pagliari: Joe, actually, there's not a lot to be gleaned. The mix within the portfolio has been rather constant. If you look at the end of Q4, 81% of the portfolio is extended credit, 15% is franchise finance and 3% is to, you know, leases of equipment to shop owners. That vacillates between 3% and 4% over the years. The franchise finance goes from 13.5% to 15.5%, so it's kind of all within range. I think it's a sign of prosperity and confidence when you see the franchisees up into a new van, particularly a larger van. I think they wouldn't make an investment like that if they didn't show their commitment to the future and want to keep growing their business.

Joe Vruwink: Okay. I'll leave it there. Thank you very much.

Nick Pinchuk: Thanks.

Operator: We'll go next to Christopher Glynn with Oppenheimer.

Christopher Glynn: Thanks. Good morning. I think last year, maybe a couple of phases you tightened credit a little bit. Just wondering, you know, what the results, learnings were around that, what the latest toggles are if, you know, that subsequently yielded to some opportunity to lose some credit backup perhaps?

Aldo Pagliari: I think we look at credit each and every quarter, a little bit harder at certain times of the year than others, Chris. It evolves, but not big movements in terms of decision-making, we're always trying to tweak the portfolio in a positive way, try to put our franchisees and ourselves in a better place. Try to make sure we match our customers' needs up with what we were offering. So loosening credit, I wouldn't say that per se. I think we're judicious in terms of how we counsel the franchisees in approaching the situation. Having said that, one of the callers earlier made the comment that I think mechanics' wallets are getting bigger. I think that means that there probably is more capacity over time. We were trying to identify where that credit capacity is and loan to those mechanics.

Christopher Glynn: Okay. And then on the core vans channel, wondering if you're seeing any apparent rebalancing in the vans channel marketplace around historical price spreads around the few key competitors and maybe any changes on the relative under-penetration of some of your stronger peers?

Nick Pinchuk: You know, look, certainly if you looked at our numbers and you looked at some of the other numbers, you would conclude there's some change. We don't hear it from our franchisees. We don't hear them saying, oh, by the way, I have trouble competing with this guy or that guy over a particular product. So to the extent other people are growing, I guess you could argue that they're making inroads, where we could have had those inroads, but, or had that business. But you don't hear at the level. Nobody comes up and says, boy, you got to match this or we got to do this, or this is giving me problems. You don't hear it.

Christopher Glynn: Okay. And then just final, bookkeeping, if you told us I missed it, but what's the finance receivables allowance balance at the end of the year?

Aldo Pagliari: The balance is about 3% of the portfolio, if you look at the coverage ratio.

Christopher Glynn: Okay.

(Crosstalk)

Leslie Kratcoski: Can we move to the next question please.

Operator: Pardon me. Thank you. We'll go next to Scott Stember with CL King.

Scott Stember: Good morning, guys.

Nick Pinchuk: Good morning.

Scott Stember: Most of my questions have been answered, but I have one question. Nick, you had referred to the SFC, and I guess you're referring to the big pack of tools and maybe some bundling or unbundling that didn't go well, I guess from a pricing and just the actual packaging. Could you talk about what you've done to remedy that? And how long would we take to see that within improved numbers within the Tools Group? Thank you very much.

Nick Pinchuk: Look, I think, yes, the thing is that generally hand tools are something which are a little different than tool storage or diagnostics or anything else. The hand tools inventory is fairly ubiquitous on the van itself. They have a lot of hand tools, but generally, they have to be, you know, you have to attract them to a bundle. It didn't work so well, you know, some people took it in the SFC. We've tried to counter that by bringing out some new tools, that's why I talked, you know, some individual tools that would be attractive. So, when I talked about the ratcheting wrenches and the specific high-durability ratcheting wrench that gets into certain small spaces, that's the kind of thing we're doing. And a number - I could have talked for the whole call about those kinds of things and so that's what we're trying to do to try to restart that. I think, you're dangerous if you're looking in any one quarter at any particular group, because you do, even in the good - when they were growing like a 7%, you saw ups and downs in those things so you can't necessarily conclude that hand tools because it's up and down, would be in trouble in terms of a tool category or be wanting in any way, we just didn't quite have the right package and we're trying to restart that with new product.

Scott Stember: Got it. That's all I have. Thank you.

Nick Pinchuk: Okay. Thank you.

Operator: Next to Bret Jordan with Jefferies.

Bret Jordan: Hi. Good morning, guys.

Nick Pinchuk: Good morning.

Bret Jordan: Are you seeing any kind of a market share struggle, I guess. I mean, the question was kind of asked earlier. I have heard from mechanics that some of your other franchise peers are being aggressive on pricing at the shop level and is that something that you're hearing at all from your franchisees?

(Crosstalk)

Nick Pinchuk: You know from the, you know, Bret, from the 80,000 foot level, you would say, we must be seeing something like that, if other people are growing faster than you are. I don't know if the mechanisms for that competition are price or what, but when I ride and I was just on a van the other day and the guy never mentioned Mac or Matco, or any other competition.

Now of course, he is talking to me, you know, and you can argue this, but I do meet with these guys a lot and often they're just talking about ourselves, we could have - we could use different tool storage. We could use a new model in tool storage to address this kind of thing. We like the ZEUS. It takes, you know, we're enthusiastic about the ZEUS. The feedback I get is all associated with ourselves so I don't think we're feeling something that other people are doing other than maybe we're not doing as well as we could do versus what we expect of ourselves, that's the difference, I think. Really.

Bret Jordan: Okay.

Nick Pinchuk: I think the Snap-on franchise...

(Crosstalk)

Nick Pinchuk: ...you ask people about the preferred form of hand tool, that seems rock solid.

Bret Jordan: Okay. And then a housekeeping. On rates, would you expect and I guess the rates were down and maybe I think Aldo mentioned some promotional issues on the quarter on the funding rate, but would you expect rates to be up going forward just given the increasing rate environment? Or do you think we're still sort of - we're going to be kind of flat?

Aldo Pagliari: I think they stay, Bret. It wasn’t what I call promotions. The products that fascinated the customer is what we call featured products. Featured products usually have rebates associated with them. That marketing expense comes off of the interest income that we calculate and the uptake on those was just better than what it had been in Q4 of last year. So you get a little bit of a depressant effect.

And then the mix in the portfolio tend to be a little bit better quality credit and a lot of the shop owners with the ZEUS that Nick mentioned, the principal buyers of that are pretty good credit quality customers that drives the rate in the portfolio down a bit. So it depends on the mix of those. To answer your question, I think it stays in the 17% to 18% range on a holistic basis for finance receivables.

Bret Jordan: Okay. Great. Thank you. I appreciate it.

Nick Pinchuk: Thank you.

Operator: That concludes today's question-and-answer session. At this time, I'd like to turn the conference back to Leslie Kratcoski for any closing remarks.

Leslie Kratcoski: Thanks for joining us today. A replay of the call will be available shortly on snapon.com. And as always, we appreciate your interest in the company. Good day.

Operator: This concludes today's conference. We do thank you for your participation. You may now disconnect.