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Moderator: **Leslie H. Kratcoski**

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Operator: Good day, and welcome to the Snap-on Second Quarter 2018 Results Investor conference call. Today's conference is being recorded.

And at this time, I would like to turn the conference over to Leslie Kratcoski, Investor Relations. Please go ahead.

Leslie Kratcoski: Thanks, Jennifer and good morning everyone. Thanks for joining us today to review Snap-on's second 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 discussion. These slides can be accessed under the Downloads tab in the webcast viewer as well as on our website, Snap-on.com under the Investors section. These slides will be archived on our website, along with the transcript of today's call.

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

Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings. Finally, this presentation includes non-GAAP measures of financial performance, which are not meant to be considered in isolation or as a substitute to 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'd now like to turn the call over to Nick Pinchuk. Nick?

Nick Pinchuk: Thanks, Leslie. Good morning, everybody. As usual, I'll start with some of the highlights of our quarter, I'll speak about the general environment, the trends we see, some of the headwinds we've encountered and the progress we've made. Then Aldo will move into a more detailed review of the financials.

We believe that our second quarter further demonstrated Snap-on's ability to continue its trajectory of positive results, overcoming headwinds and period to period variations. We are encouraged by these results. Like every quarter, we had disparities from group to group and within each group. The van business remains below trend and some segments and some geographies saw a down period. But once again, once again, our strengths overcame. Diagnostics progress in the van network, broad gains in the critical industries and a rise in our software products across our businesses. Those gains – those gains overcame the variations and moved us forward again.

Our reported sales in the quarter were up $33.2 million or 3.6% to $954.6 million including positive foreign currency translation of $13 million. They also reflected an incremental $8.1 million from acquisitions including last year's Norbar operation and this year's FASTORQ business. Now organic sales for the quarter rose 1.3% with strong activity in critical industries and in diagnostics and repair information products, some of our higher margin areas.

The OpCo operating margin was 20.2% reaching 20% for the first time, representing a 30-basis point increase over 2017 including an unfavorable 10 basis point drag from lower margin acquisitions and 20 basis points of favorable currency. Profitability that demonstrates the ability of Snap-on value creation to consistently drive earnings growth.

For financial services, operating income grew to $57.8 million, $57.8 million from last year's $54.6 million. That result combined with OpCo to raise our consolidated operating margin to 24.2%, up a similar 30 basis points. Our earnings per share, they reached $3.12 including a 1 cent benefit related to the implementation of the U.S. tax legislation. That EPS was up from the $2.60 recorded last year; a rise of 20%. So those are the numbers.

From an overall macro perspective, we do believe the automotive repair arena remains favorable. The Tools Group, it didn't return to growth but we did see sequential improvement and we do see further opportunities for advancement. The other side of auto repair activity, Repair Systems & Information, or the RS&I Group, encountered a period of unevenness across the business. Higher sales of diagnostics and repair information to independent repair shop owners and managers versus a decline in the equipment area. Despite that, we like RS&I's progress and capitalizing on the rising requirement for database solutions in vehicle repair.

Snap-on has a growing array of leading products to take advantage of that trend. New repair tools, hardware and software, like the innovative midrange Apollo handheld diagnostic, incorporating intelligent diagnostics in its two-year data package; and in products like our continually improving Mitchell 1 ProDemand repair information software, strong offerings like those in the software and data arena – and data areas served RS&I and Snap-on very well in the quarter.

For the Commercial & Industrial, or the C&I group, organic sales were up mid-single digits, solid organic growth across sectors and geographies. In the critical industries, double digit improvement around the world, strength in places like aviation, natural resources, military and general industry, progress in almost every sector. Also encouraging for C&I, SNA Europe, our European hand tools business, delivering another quarter of sales growth, and our Asia Pacific division, registering solid increases in key countries like India, Indonesia and Japan.

So overall, the results remain favorable. The Tools Group, sequential improvement but not back to growth; RS&I, uneven results but propelled by advancement in diagnostics and information products, offset by challenges in under-car equipment; and strong gains in the critical industries of C&I. The opportunities outweighed the challenges and the results show it.

In the operating income margin, clearly demonstrated once again the leverage and the power of Snap-on value creation, safety, quality, customer connection, innovation and rapid continuous improvement. Those are the principles guiding our organization in the ongoing development of our products and solutions, born out of the insights and observations gathered at our customers' workplaces, which together with RCI helped drive the product and margin progress again.

Well that's the macro overview. Now let's move to the segments. In the C&I Group, organic sales were up 4.4%, including $8.1 million from Norbar and FASTORQ, and $5.8 million of favorable foreign currency. As reported volume rose by 9%.

The operating income of C&I improved to 14.5%, a 60-basis point rise from 2017, volume and RCI offset 30 basis points from unfavorable currency and a 10-basis point impact from those recent acquisitions. For the Industrial Division, the progress across the critical industries was broad based and double digits with most sectors and most geographies advancing in the quarter. We believe the reasonably positive macroeconomic conditions coupled with an array of new products that solve critical tasks is driving those gains. And they're continuing.

Speaking of critical industries and products, one of the great demonstrations of customer connection and innovation has been our automated tool control system, ATC, the smart toolbox that keeps track of repair tools avoiding foreign object damage that – that's important in so many places. Made in our Algona, Iowa and Conway, Arkansas plants. It's been at the forefront of our extension of critical industries and it keeps evolving, just recently adding a fingerprint feature to the basic card ID access protocol. And we're about to launch a new facial recognition access system that expands ATC's adaptability and application helping support ongoing international placement. ATC, a spearhead, a Snap-on – a spearhead for Snap-on in critical industries. It's already recognized as the top of the line in tool control and we're making it stronger.

Precision is becoming increasingly important in critical situations and torque products are a significant enabler in that trend. We've been building our torque capabilities to match that direction. And this quarter our City of Industry, California torque operation combined with our Sturtevant Richmont acquisition in Illinois to extend the Sturtevant Richmont Digital Torque Control series, the DTC. The versatility of Sturtevant Richmont's interchangeable heads and the compact package of our City of Industry micro torque electronics, they've been combined to add another dimension to our DTC line. It gives us more to sell in critical heavy assembly operations where the space is often tight and the ability to adapt wrench head – adapt wrench head size is quite valuable as the technician moves from application to application. We believe we have a winner in the new digital torque control series and early customer feedback confirms it.

And late last quarter, we introduced a new half inch pneumatic impact wrench, the PT650 power tool, manufactured at our Murphy, North Carolina facility, right here in the U.S. You might remember our top of the line PT850, introduced to accolades last year, 810 foot pounds and power while still weighing a relatively light 4.3 pounds. The go-to tool for the toughest fasteners, top techs love it. Well late in June we introduced its little sibling, the PT650 power tool, also from the Murphy plant, a little less power, a little less spiffy and of course more economical. It's an attractive package, aimed at the entry level technician, and we hear good things about its reception.

So C&I, a promising quarter, moving down its runways for growth, extending to critical industries and driving strong profitability.

Now onto the Tools Group. Organic sales down 1.5% reflecting primarily a low single digit decline in the U.S. and essentially flat international results. Operating earnings, $79 million, down 2.1%, an OI margin of 19.2%, lower by 30 basis points but still among the group's strongest. We do believe our actions to reinvigorate the van channel are bearing fruit. Now this quarter didn't create an overall increase, but they did positively affect the U.S. franchise operations. Tool Storage showed some recovery led by the new high margin midrange KCP 1422, and handheld diagnostics also made progress, authoring another increase in software sales as we roll out more Apollo and ZEUS units with the revolutionary intelligent diagnostics feature, the data package sales that accompanies most of those units builds our software penetration, and software sales did grow again this quarter. You can see it in the Tools Group's gross margin. It rose to 45.9%, up a 150 basis point, due in part to favorable currency, but also reflecting a big boost from the power of our new products.

Beyond the financial numbers, we do see continuing strength in other areas. Advancements in our network are also evident in our franchisee health metrics, indicators we monitor and evaluate regularly, and again this quarter they remain favorable. And that positivity was not just from our own internal measures. We were again acknowledged by an outside publication, listing Snap-on as a franchise of choice both in the U.S. and abroad. We finished number 11, up two spots in *Entrepreneur Magazine's* list of top global franchises published in June. *Entrepreneur* ranks, the top 200 global franchises by using a 150 data point formula, factors like cost and fees, franchise support, brand strength, financial strength, stability and international size and growth. Now, this type of recognition reflects the fundamental and contemporary strength of our franchisees in our overall van business. And it would have not been achieved without innovative new products.

I just spoke about the introduction of our Snap-on KCP1425. We spoke about it last quarter as well, a full featured mid-tier tool storage unit with greater capacity in a compact footprint, made in Algona, Iowa, released at the end of March. It was a clear success and it did help our tool storage line move forward. And we believe that our new socket line, the Flank Drive Extra, we call it FDX, will have a significant long-term positive impact. Out of our Milwaukee plant, the FDX is the simply the most important innovation in socket design since the original Snap-on Flank Drive System was introduced decades ago. The new FDX delivers improved turning power, better fastener engagement and greater strength. The patented innovation is that a grips the fasteners further off the corner with a more angled socket wall for greater turning power, as much as 50% more on damaged, rounded fasteners, very important in a garage. It has an optimally chamfered lip on the hex end, additional leverage on shallow headed fasteners and on fasteners with limited top clearance. The contour of its outer wall enables easier socket removal and the large clearly identifiable markings on the socket sides, make picking the correct size fast and easy even in dimly lit spaces. It was launched in June, the initial response has been quite enthusiastic and we believe it should be. Well, that's the Tools Group.

Now onto RS&I, as reported sales of $343.1 million, up 1.5% including positive currency translation of $4.9 million. Organic sales were flat reflecting mid-single digit sales gains of diagnostics and repair information products to the independent repair shop owners and managers, flat OEM dealership activity and mid-single-digit decline in undercar equipment. Now RS&I operating earnings in the quarter increased $6.5 million or 7.9% to $88.7 million. The operating margin was strong, 25.9%, up 160 basis points overcoming 20 basis points of unfavorable foreign currency translation, a margin gain that was again driven by innovative product.

Repair shop products like our NEXIQ pocket HD handheld diagnostic for the heavy duty truck market specifically designed using customer connection for OEM and aftermarket repair centers or for fleet maintenance facilities. The pocket HD provides immediate access to critical diagnostic information for heavy duty repair. It's both versatile and reliable with the larger display and user friendly features. Whether you're responsible for maintaining a large fleet or just responsible for a truck or two, the intuitive software of the pocket HD makes diagnostic easy. It comes preloaded with the standard heavy duty and light medium truck data and it also offers software for particulate filter like regeneration and anti-lock system software, which covers both Bendix® and Meritor WABCO® systems. The new pocket HD is a powerful addition to any truck shop and we believe it's a winning product.

Late last year, we launched the ZEUS, our top of the line handheld diagnostic. In April of this year, we introduced Apollo, our midrange handheld. With those new products, we further differentiated our offerings from competitors by giving professionals access to our intelligent diagnostics features and our proprietary databases in a handheld. Early sales have been strong for both models, and as I've said previously, the data packaging feature has been a big plus. And when you put those advancements together with the continuous gains being registered by Mitchell 1 with its repair information software and with its shop management systems, software sales at RS&I are also on the clear rise, matching the trend in vehicle repair and driving profitability.

So to wrap up RS&I, you can say improving positions with repair shop owners and managers, growth in diagnostics and information offsetting the other areas, organic sales flat but profits and margins up nicely.

Well those are the highlights of our quarter. Tools Group, still off, but improved. C&I reporting an overall strong performance, especially in critical industries, and RS&I expanding strength in diagnostic and repair information. Progress along our runways for coherent growth and clear advancements down our runways for improvement. Overall sales increasing organically by 1.3%. OpCo operating income margin of 20.2%, up 30 basis points. EPS $3.12 in the quarter, 20% higher than last year. It was an encouraging quarter.

Now, I will turn the call over to Aldo, Aldo.

Aldo Pagliari: Thanks Nick. Our consolidated operating results are summarized on slide 6. Net sales of $954.6 million in the quarter increased 3.6%, reflecting 1.3% organic sales gain, $8.1 million of acquisition-related sales and $13 million of favorable foreign currency translation. The organic sales gain this quarter particularly reflects strong sales in critical industries and in diagnostics and repair information products.

Consolidated gross margin of 51% increased 70 basis points primarily due to benefits from higher sales and savings from RCI initiatives and 10 basis points of favorable foreign currency, partially offset by higher material and other costs. The operating expense margin of 30.8% compared to 30.4% last year, primarily due to higher cost and 10 basis points of operating expenses from acquisitions, partially offset by 10 basis points of favorable foreign currency. As a result, our operating margin before financial services of 20.2%, improved 30 basis points from 19.9% last year.

Financial services revenue of $82 million and operating earnings of $57.8 million increased 5.5% and 5.9% respectively from 2017.

Consolidated operating margin of 24.2% of revenues improved 30 basis points from a year ago.

Our second quarter effective income tax rate of 23.8% was decreased by 20 basis points as a result of a $500,000 tax benefit related to newly issued guidance associated with last year's U.S. tax legislation. Excluding this benefit, the effective tax rate for the quarter as adjusted was 24.0% and compared to 30.6% a year ago.

Finally, net earnings of $178.7 million, or $3.12 per diluted share, compared to $153.2 million, or $2.60 per diluted share, a year ago. Excluding the aforementioned tax benefit, net earnings as adjusted was $178.2 million, or $3.11 per diluted share, up 19.6% compared to last year.

Now let’s turn to our segment results. Starting with the C&I Group on slide 7, sales of $337.8 million in the quarter increased 9%, reflecting a 4.4% organic sales gain, $8.1 million of acquisition-related sales and $5.8 million of favorable foreign currency translation. The organic increase primarily includes double-digit gains in sales to customers in critical industries and a slight increase in our European-based hand tools business, partially offset by a low single-digit decrease in sales of power tools.

Sales growth within the critical industries business was broad-based across the end markets we serve, including both U.S. and international aviation, natural resources, the military and technical education. Gross margin of 39.4% increased 40 basis points, primarily due to higher sales volume in RCI, partially offset by 30 basis points of unfavorable foreign currency. The operating expense margin of 24.9% improved 20 basis points compared to last year. Operating earnings for the C&I segment of $49 million increased to 14% and the operating margin of 14.5% improved 60 basis points from 2017.

Turning now to slide 8. Sales in the Snap-on Tools Group of $411.9 million decreased 0.5%, reflecting a 1.5% organic sales decline, partially offset by $4.2 million of favorable foreign currency translation. The organic sales decrease includes a low single-digit decline in the United States, while sales internationally were essentially flat. Although, sales were again lower year-over-year in the United States, the percentage decline was less than that experienced in Q1, reflecting some sales recovery in the United States due in part to a modest year-over-year increase in sales of tool storage.

Gross margin of 45.9% improved 150 basis points year-over-year, primarily due to 70 basis points of favorable foreign currency effects, higher sales of higher margin products, and benefits for the Company's RCI initiatives.

The operating expense margin of 26.7% increased 180 basis points year-over-year, primarily due to higher costs and the effect of the lower sales.

Operating earnings for the Snap-on Tools Group of $79.0 million decreased 2.1% and the operating margin of 19.2% compared to 19.5% in 2017.

Turning to the RS&I Group shown on slide 9, sales of $343.1 million increased 1.5%, reflecting essentially flat organic sales and $4.9 million of favorable foreign currency translation. The organic sales level includes a mid-single digit gain in sales of diagnostic and repair information products, largely offset by a mid-single-digit sales decrease of undercar equipment. Sales to OEM dealerships were essentially flat.

Gross margin of 48.1% improved 120 basis points primarily as a result of a shift in sales that included higher volumes of higher gross margin products and benefits from RCI, partially offset by 20 basis points of unfavorable foreign currency. The operating expense margin of 22.2% improved 40 basis points over the last year. Operating earnings for the RS&I Group of $88.7 million increased 7.9% from prior year levels. The operating margin of 25.9% improved 160 basis points from last year despite the 20 basis points of negative currency effects.

Now turning to slide 10. Operating earnings from financial services of $57.8 million on revenue of $82 million increased to 5.9% and 5.5% respectively from year ago. Financial services expenses, up 24.2 million, increased $1.1 million, primarily due to an approximately $800,000 increase in provisions for losses on finance receivables, which totaled $13.6 million in the quarter. On a sequential basis, finance receivables provision expense was down $2.2 million from $15.8 million in the first quarter, reflecting some further stabilization in the portfolio credit metrics. As a percentage of the average portfolio, Financial Services expenses were 1.2% in both the second quarters of 2018 and 2017.

The average yield on finance receivable in the second quarter was 17.7% compared to 17.9% in 2017, driven principally by product mix. The respective average yield on contract receivables was 9.1% for both 2017 and 2018. Total loan originations of $276.1 million increase $5.5 million or 2% as a result of higher originations of contract receivables. Originations of finance receivables were down only slightly.

Moving to slide 11. Our quarter end balance sheet includes approximately $2 billion of gross financing receivables, including $1.77 billion from our U.S operation. Our worldwide gross financial services portfolio grew $20.4 million in the second quarter, as for the 60-day plus delinquency trends, they are stable year-over-year and in the United States have come down sequentially from the first quarter, which we view as an indicator of further stability in the portfolio.

As it relates to extended credit or finance receivables, the largest portion of the portfolio trailing 12 month bet losses of $51.5 million represented 3.17% of outstandings at quarter end, a 56 basis points year-over-year, but only 9 basis points sequentially, which is less than the sequential increases experienced over the last several quarters.

Now turning to slide 12. Cash provided by operating activities of $186.9 million in the quarter, increased $59.8 million from comparable 2017 levels, primarily reflecting higher net earnings and an increase from net changes in operating assets and liabilities. Net cash used by investing activities of $63.7 million included net additions to finance receivables of $40.3 million and capital expenditures of $20.6 million. Net cash used by financing activities of $105.3 million included cash dividends of $46.3 million and the repurchase of 371,000 shares of common stock for $55.2 million under our existing share repurchase program. Year-to-date share repurchases totaled 646,000 shares for $98.7 million. As of the end of June, we had remaining availability to repurchase up to an additional $345.1 million of common stock under existing authorizations.

Turning to slide 13. Trade and other accounts receivables decreased $8.5 million from 2017 year-end levels due to $12.9 million of unfavorable foreign currency. Days sales outstanding of 64 days improved by 2 days from 2017 year-end. Inventories increased $29.5 million from 2017 year-end. As a reminder, the year-to-date increase in inventory included $20.9 million related to the recognition of an inventory asset associated with the adoption of ASU Topic 606 on revenue recognition. On a trailing 12-month basis, inventory turns of 3.0 compared to 3.2 at year-end 2017.

Our quarter end cash position of $112.3 million increased $20.3 million from 2017 year-end levels. Our net debt to capital ratio decreased to 23.7% from 27% at year-end 2017. 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 $115.5 million of commercial paper borrowings outstanding.

That concludes my remarks on our second quarter performance. I'll now turn the call back to Nick for his closing thoughts. Nick?

Nick Pinchuk: Thanks, Aldo. The Snap-on second quarter. Tools Group, still off but improving. OI margin at 19.2%, one of its highest. C&I, the extension to critical industries continuing a positive trend. OI margin at 14.5%, up 60 basis points against unfavorable currency and unfavorable acquisition. RS&I, sales flat but the gains in diagnostics and information driving OI margins to a very strong

25.9%, up 150 basis points from last year. It all came together for an organic sales rise of 1.3%, overall OI margins of 20.2% and an EPS of $3.12 up 20%.

And we believe, the trajectories demonstrated in the quarter, the progress of diagnostics, the gains in critical industries and the rise of software are significant trends that bode well for continuing progress along our runways for growth. We also believe that the results for the quarter are strong testimony to the power of Snap-on value creation, especially customer connection, innovation and RCI, to drive significant profit and margin achievement even in challenged situations. This was an encouraging quarter, positive for the present and promising for the future. And we're confident that we have the products, the business models and the team to continue our positive trend throughout 2018 and beyond.

Now, before I turn the call over to the operator, I'll speak directly to our franchisees and associates. I know many of you are listening. The progress of the second quarter would not have been possible without your contribution. For your achievements in delivering this performance, you have my congratulations, and for your support of our efforts and your commitment to our team, you have my thanks.

Now, let's turn the call over the operator. Operator?

Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. Please pause for just a moment to allow everyone an opportunity to signal for questions. Our first question comes from Liam Burke with B. Riley FBR.

Liam Burke: Yes, good morning, Nick; good morning, Aldo.

Nick Pinchuk: Good morning, Liam.

Liam Burke: Nick, you mentioned in the core Snap-on Tool Group, you saw a modest step up in storage sales, call it stabilization. You were down organically. Can you give some color on how the hand tool business did? And how new product introductions went this quarter into the channel?

Nick Pinchuk: Well, you know, hand tools were off a little bit, not much, but slightly. You could call it, you know, low single-digits. So it's really kind of, you could call it flattish sort of, but down a little bit, you know, for the arithmetic purposes. The introduction of the new 1422, that mid-tier tool storage unit, was its fairly boffo and it helped to ignite better tool storage. Tool storage was up slightly in the quarter. So we saw some come back, of course just barely, but it was up in the quarter which has been our first up in a while, so we feel pretty positive about that. And the new product introductions associated with diagnostics tended to drive some positivity. The hand tools business, you know I referred to FDX, the new wrenching system, I mean the new socket system that we have, and we're very bullish on that, but it was introduced late in the quarter so it didn’t make that much of a difference in this quarter. Diagnostics showed some increases and software off course was up which helped drive profitability. The Tools Group margins, the 45.9 I think is maybe an all-time high. So those products were very good for us.

Liam Burke: And you've mentioned in the C&I business you've had new introductions on the power tools side. The power tools were down in the quarter. Is this just the timing of introduction of the new products or is there anything in power tools that are proving to be challenging?

Nick Pinchuk: No, the power tools on the C&I side rises or falls with the introduction of new product, and I talked about the PT650 which is the little sibling of something we produced last year. So one, in the quarters, we had a somewhat earlier release last year of the big brother, the PT850, so you’re up against that one, and this one came out I said I think in the late June. So you really didn’t see an effect in that and so you have that kind of disconnect. And of course, there is the question of power tools in C&I sells primarily, it sells externally, but also sells big to the Tools Group. So there is a little bit of lag in terms of and disconnect between those two. You know it will go into inventory and the Tools Group will sell it, that will sometimes drive differentiation in the quarter, but we think power tools has got good things ahead of us because we like the power tools product that are coming out. We like the 650 and we like other things that are coming out later in the year.

Liam Burke: Great. Thank you, Nick.

Nick Pinchuk: Sure.

Operator: Thank you. Our next question comes from David Leiker with Baird.

Joe Vruwink: Hi this is Joe Vruwink for David.

Aldo Pagliari: Hi, Joe.

Nick Pinchuk: Hi, Joe.

Joe Vruwink: Maybe just wrapping up the product discussion for the Tools Group, so diagnostics in the quarter, it sounds like the overall category between Tools and RS&I was up by some amount. Were your diagnostics sales into the tool channel up as well?

Nick Pinchuk: Yes, diagnostic, the handheld diagnostics were up, you know, low single digits, a couple percent. The big thing is you know you got those, you know, big ticket but higher margin diagnostics units of Apollo and ZEUS. Now, we often say that they have to share the margins with RS&I, but Apollo versus its predecessor is higher margin, so that’s why you're seeing the impact on margins.

Joe Vruwink: Okay great. And then, there has been quite of lot of work done in tool storage, not just a new product, new features at the mid-level. You've been renovating the Rock 'n' Roll cabs. Was that an ongoing effort through Q2, so that Q2 would necessarily reflect a full three months benefit from all of these items and really I know Q3 is tough because you have the conference, but Q3 would really be the first quarter everything is consistently selling for three months?

Nick Pinchuk: Yes, that's right, I mean, it was an ongoing thing and we're putting on the 3D modeler on the vans, on the Rock 'n' Roll cabs. The Rock 'n' Roll cabs are I think, our franchises continue to tell us, they are very effective, so you'd be entitled to that. Now remember, I say, and I say this every third quarter, that our third quarter can be a little squirrelly because we have the conference and it depends how many days our guys are in the field and all those things. But you will see the full force of that product going on, that feature going on in the second half. So, we're pretty positive about that.

Joe Vruwink: And when you set back and just think about because for the big ticket categories, diagnostic and tool storage, that's a pretty sharp rebound higher compared to what the trend has been recently. When you think about just the new products that helped drive that, is it more than just a one quarter phenomenon? Are we looking at getting these products in front of the entire network and so we have three more quarters of benefit? Just how are you thinking about that?

Nick Pinchuk: Well I'm thinking that they're going to have legs. I mean we think, you know, if you're talking about big ticket items, we think the diagnostics units keep driving. And of course, if you think about this, the driving of new software, you can look at the numbers about one third, you know, let say software starts to increase dramatically because only single digits of the people were buying subscriptions. Now one-third of installed base was taking updates in a year. But when you do a ZEUS, more than 90% have taken the data package and Apollo close to 90% have taken the data package. And those are subscriptions, and so those represent a significant portion of the installed base. So that's what driving -- that annuity out there is what's driving the software growth in the Tools Group. And we see that going forward more than anything and as well as the further sales of those. And then we have new products ready to roll out as well. Now, one of the things I will tell you that I think has good legs is the socket wrenching system, so I think that will keep going.

Joe Vruwink: And then last question from me so, obviously, these big ticket products are supported by Snap-on credit, and the portfolio has really done a nice job in kind of normalizing, so the improve -- the increase I should say in delinquencies, you are seeing that slow to pretty, I would say, normal levels. When you think of about supporting growth in these products on a go forward basis, would it be your expectation that the risk of the customer buying these products is pretty comparable to the current portfolio, so not so much an increase in provision or delinquency is associated with this growth?

Nick Pinchuk: Yes, I'd say that. I think that's right. I mean I think the business is pretty well balanced now. I think like I said, like we said many times in many calls, the credit system is a kind of self-correcting system and it continually corrects both by us and by the franchisees. We think they are in a good spot now. Actually, we think the system is pretty balanced. You see originations kind of matching what big ticket is. You see sales by us matching or actually sales off the van are better than sales, our sales, to the vans themselves. So, this makes for pretty good balance at least in the short-term. We feel pretty positive about where the Tools Group is. Now, I'd like to see it growing off course, but it's certainly better than last quarter.

Joe Vruwink: Great. Thank you very much.

Operator: Thank you. Ladies and gentlemen, if you find that your question has been answered you may remove yourself from the question queue by dialing star 2. Our next question comes from Bret Jordan with Jefferies.

Bret Jordan: Hey, good morning, guys.

Aldo Pagliari: Good morning.

Nick Pinchuk: Morning.

Bret Jordan: Hey, a question on the 1422 or I guess the new tool storage lines, are the margins comparable in that mix versus the old tool storage categories?

Nick Pinchuk: Better.

Bret Jordan: Okay, and I guess because it seems like it's more content that you've been adding to them, is it just that you are passing that through…

(Crosstalk)

Nick Pinchuk: I mean, hey, look at the gross margin, up 150 basis points. The thing is, you know, I think that's the most the telling thing. We're selling these products but we’re not giving them away. I mean, fundamentally, that's what RCI is about, customer connection, innovation, rolling out products, more content, getting your price and also being able to control your cost in the face of even material changes.

Bret Jordan: Okay.

(Crosstalk)

Nick Pinchuk: …45.9%, I believe, now we don’t know for sure, I think it's an all-time high for the Tools Group.

Bret Jordan: Okay, so that was not just software driving margins higher?

Nick Pinchuk: The software was a factor, but it wasn’t just software. The Iqon, you know, the 1422 is higher margin.

Bret Jordan: That's perfect. And then, the franchise event, is there anything particularly new that is going to be rolled around that, sort of a catalyst?

Nick Pinchuk: Yeah, but I'm not announcing it on this call. So, you know, yes, we will roll out some things I think, and it looks like it's being better attended than, at least per registrations right now, better attended than ever before.

(Crosstalk)

Nick Pinchuk: More franchisees attending than ever before.

Bret Jordan: Okay. And then just as housekeeping, within C&I, what percentage is now critical industries, and I guess what of that critical industries is U.S versus international?

Nick Pinchuk: Let's see, well, look critical industries in C&I is about 40%, I would say, roughly, for government work 40% and it's about 25%, maybe 30%, international, yes.

Bret Jordan: Okay. Great. Thank you.

Nick Pinchuk: Sure.

Operator: Thank you. Our next question comes from Christopher Glynn with Oppenheimer.

Christopher Glynn: Hey, good morning. Just wanted a step back on some of the big ticket launches with Iqon and Apollo and ask about the process of getting that into the channel. I think initially you might recognize revenue ahead of end purchase. I imagine the sell-through lags the initial channel fill a little bit. But can you explain how that works? And, you know, where the second quarter lies on that process?

Nick Pinchuk: I don't know, I mean, this is like every other product. We sell it to the franchisee. They take it and we book the sale expect for -- that's for all the products and then we -- in the case of diagnostics products, we track what we call activations. So, we know right away when they sold into the industry. And so when I'm saying these products are, we not only sold more to franchisees, but we know that they are selling better off the van than anyone than their predecessors. Because we see the activations because they have to come back to us to activate the software, so we have that.

And then you know there is the whole data package question that's appended to ZEUS and Apollo. The franchise sells that, but we don't book it, we amortize it over 36 months or 24 months depending on the period. And remember that, remember here that just to be clear, one of the things we monitor very clearly is sales -- overall sales to end customers, for the quarter and for the year-to-date, the sales to end customers off the vans are higher than the sales and our sales to our franchisees.

Christopher Glynn: That was for the overall Tools Group, right.

Nick Pinchuk: Everything. Yes, everything, right, everything. Now, if you look at any particular product, particularly when you roll out a new product, of course it's a lag. You know, there is the guys got to get trained, you know, they got to socialize and we roll them out regionally, so there is a lot of variation from product to product. But for sure, there is a significant -- we've been clear that delivered sales is what we call them, sales off the van, have been for a long-term and clearly in the quarter, better off the van than we sold to them and therefore their inventories are shrinking.

Christopher Glynn: Okay and then on the storage, congrats on getting that up in the quarter. As I understand it the second quarter comp might have been especially easy in the second half what in ‘17 wasn't down quite as much. So, what would be some wisdom you might impart as we think about that?

Nick Pinchuk: Gee, I don’t know. I don’t think I worry so much about those comps. I think this quarter was -- if I look at the absolute amount, I was encouraged by the absolute amounts of these quarters. So I'm not so concerned about rolling into whether the third quarter or the fourth quarter was down or up. I'm looking for a positive both sequential and year-over-year improvement.

However, I will again say that our third quarter was always squirrely because you don’t know how many weeks or how many days the franchise is going to sell, and it's always been so and I've said so on every call that I've faced the third quarter. But we're optimistic going forward, we see like I said, we saw some improvement and we do see opportunities going forward.

Christopher Glynn: Thank you.

Nick Pinchuk: Sure.

Operator: Thank you. Our next question comes from Gary Prestopino with Barrington Research.

Gary Prestopino: Hey, good morning, all.

Nick Pinchuk: Hey, Gary. How are you?

Gary Prestopino: Just fine. Hey, Nick, I think this is important question here and I don’t know how you can, you know, maybe break it out for us. But it seems that with a lot of these new products that you’re putting out and with data and more software being sold, subscriptions, can you give us an idea of just, you know, what percentage of the sales that you are doing right now, encompass data and software versus where they were last year at this time and where you think they may be able to go?

Nick Pinchuk: You know, I can tell you this that the software sales in the Tools Group are up strong double digits. And the software sales in the Tools Group, you know, are maybe, what would I say, a quarter of diagnostic sales or maybe a third of diagnostic sales, so you can kind of triangulate around that kind of thing. There are dribs and drabs in software in a lot of different places, but you can look at that. It's about a third of the diagnostic sales and we're up strong double digits in that particular area. And so that is very profitable. If you pivot to the RS&I Group, software comprises about a third of that business, and we're up mid-single digits there, but it's a much broader thing in a much different industry. There is a little bit of double pounding because they're selling into the Tools Group. But it's still positive. Software, one of the cool things is our databases are coming home, and they are giving us better sales and that what's driving this kind of profitability. If you looked at our gross margin this quarter, it's pretty strong. I usually don’t talk about gross margin, but if you look at the overall businesses gross margin, I think it's an all-time high as well and it's being driven…

(Crosstalk)

Gary Prestopino: Yes, I guess what I'm getting at is that, it seems that with, you know, more use of software, more use of data that, you know, there has been you are driving a little bit more of a shift change in your product mix and that these gross margins at least, you know, not on an absolute number basis, but gross margin expansion should be sustainable as long as you keep selling these products and introducing new products. Is that kind of correct?

Nick Pinchuk: Sure, I mean the thing is, think of it this way. The balance in the Apollo and the ZEUS was that we packaged the software. The data package was appended to the hard body, and therefore a bigger out-of-the-box price. So we risked that, higher prices for our customers, but we sold them in pretty bigger numbers than their predecessors and that created a bigger software stream which we'll keep recognizing. So, we don't recognize a portion of that higher price because we wait, we recognize it month-by-month. So what you are seeing is a growing amortization of that in some cases, in many cases. So you will see that sort of annuity coming home.

Gary Prestopino: And then, is the fact that what you're doing with the software and data and all that, is that just because we're continuing to see more complexity in vehicles? I mean, is a lot of this being driven by the fact that you know maybe cars from 2010 on have more technology, more software and these mechanics need to have this?

Nick Pinchuk: Exactly, they need that and like you say, 40% of the repairs in the car, the overall car PARC require a diagnostic unit, 80% of the repairs in the new car required diagnostic units and only getting worse, it's getting more complex. And we have the best one, it's a 1 billion record database for smart repairs and almost a 100-billion database for decoding some of the codes when you don't have an easy solution. People are liking that, that's why they are buying these products at strong prices.

Gary Prestopino: And then lastly…

(Crosstalk)

Nick Pinchuk: And responding to that trend, and we're the only ones who have the data.

Gary Prestopino: Yes, that's important. And then lastly just on the, you know, I know you doing a big refresh on the tool storage and with the vans and all that. Somebody may have asked this question, but I didn't quite get the answer. Where are you in that? Have you basically completed that or are we still going to be introducing more tool store units and you have more tinkering with the van channel to go?

Nick Pinchuk: Well, I'll let you know when we're growing at much bigger. We keep making tinker. We tinker all the time. We make changes all the time.

Gary Prestopino: Right.

Nick Pinchuk: So, we will keep changing the tool storage, but this is a big, you know, when we come up to an SFC, we do have changes associated with the tool storage line. We roll it out, 3,495 franchisees get to see it and so, we kind of be ready for that. So, you're seeing some of that changes going on. And if that doesn't work, we will keep tinkering.

Gary Prestopino: Okay. Thank you.

Nick Pinchuk: Okay? Sure.

Operator: Thank you. Our next question comes from David MacGregor with Longbow Research.

David MacGregor: Yes, good morning, everyone. I'm just trying to understand, a question on originations, Nick. Your finance receivables are down. Your diagnostics were up. Your storage is up. You've got software increase obviously. How do you reconcile that with finance receivables being down?

Nick Pinchuk: Well, I'll let Aldo answer that. But I'll tell you -- part of it is – there isn't necessarily a direct correlation because there is a timing difference in lot of that. But Aldo, you want to…

Aldo Pagliari: Yes, finance receivables are down 0.3%, so if you correlate that with a low single-digit, the increase in handheld diagnostics and tool storage, and you're down a little bit in other products generally speaking, I think it triangulates quite well, plus there is that timing difference Nick had mentioned. Right, but originations reflect sales of the franchisees off the van versus ourselves, but I think they triangulate very closely.

David MacGregor: Maybe I could follow up with you offline on that, to try and better understand some of the puts and takes. On the originations, you were up 2%, driven by growth in contract receivables. Can you talk about what's driving that growth? And how much of that is for franchises purchasing larger trucks and just more inventory versus maybe other factors that are at play there?

Aldo Pagliari: That's a good portion of it is in fact van related when you have contract franchisees coming on board, when they start up or assume routes, often times, they are financing the van that's involved, but also there is some financing of working capital. It's kind of normal, but that's been positive.

David MacGregor: Okay. And then how do franchisees' inventory levels stand at present, you know, specifically on big ticket storage and diagnostics?

Nick Pinchuk: Yes, I'll tell you what, I think, you know, it's hard to specify individual pieces, but all I can tell you is, the sales off the vans are better than our sales to them. And so, that's being going on throughout the whole year. Now, franchisee to franchisee, they may have more inventory or less inventory. I talk to franchisees who say both. I think you would say that, if it's a new product, they probably have more inventory than less because they are rolling it out and they like to put it in front of customers. And when they see customers, they want to strike while the iron is hot. I think for stuff that's been around for a while, they have less inventory.

David MacGregor: Okay. And then, you noted your reported delinquencies were stable year-over-year. I guess, you know, that marks the first year-over-year stability in about 10 quarters at this point. Did Snap-on become more accommodative on credit at the end of the quarter and if so does this this mark a more permanent change for credit policy?

Aldo Pagliari: No, I don't think so. I think the policy -- we're always again making some changes, more at the beginning of the year than in the middle of the year, but no change in that regard. I think what you are seeing is just an improvement in the base of activity and a stabilization as I mentioned. Normally, you get a sequential change of zero to 10 basis points. This time, you saw a 20 basis point improvement, if you look from Q1 moving into Q2. So I think this is just overall stabilization.

David MacGregor: On the SFC, I guess, you know, last, two years ago you had a great SFC. Last year, it was a little disappointing. What are you going to do differently this year to support a stronger sort of order growth performance? Are you revisiting the whole bundling strategy or maybe you could talk a little bit about that?

Nick Pinchuk: Sure, we learned some things about the size of the hand tool bundles last year. We learned some things about the length of the, you know, in other words the time period under which we were booking SFC orders. In other words, when you go to the SFC, you could book orders out for delivery out through February. So this year, we're tightening that window a little bit to be to make it more direct and understandable. I think our franchises like that and off course we are working hard on products.

Now, we think I'd say what based on registrations, it seems like this is going to be a pretty good one. So, the first step is getting people there, it looks like that's going to happen. Now, we think we have learned the lesson – we learned the lessons of last year. We expect that to work, but, you know, that's the art of -- sort of the art of the presentation.

David MacGregor: And then, you talked -- just to go back to tools for a second just quickly, your operating expenses in the tool segment were up 180 basis points. Can you just help us understand the main factors behind that increase?

Nick Pinchuk: Yes, we're trying to sell more and we -- so investing in support in terms of people in the field, in terms training. When you roll out something like the Apollo or the ZEUS, hey, complicated uh? So, you got to put more time in training and supporting those sales. Our guys just don't -- they have a lot of other products to worry about, so you have to supplement that and that drives a lot of that. So, it's not a surprise to me. If I close my eyes and you told me that we rolled out products with intelligent diagnostics, and we have two of them in the field and then we rolled out a new different silhouette tool storage box, which is, again, you want to sell the features and so on. And we are talking about an FDX towards the end of the quarter which is new wrench, a new socket system, I would say we spent a lot of money trying to support that.

David MacGregor: Will that continue with that level over the next couple of quarters?

Nick Pinchuk: You know, I don't know, I mean, I think it depends on our feeling about how well our franchise, how well the training takes the first time. Usually, we make an assessment of that afterwards and we say, gee, do we need to roll some more because our guys aren't understanding it at all. You know, with products like this you want to make sure that both the seller and the customer appreciates the technology because as some people have said, other people are offering cheaper stuff.

David MacGregor: Okay. Last question from me, you've talked about the higher materials and other cost as a negative to consolidated gross margins. I guess, how do you expect second half to defer from the second quarter experience in terms of different…

(Crosstalk)

Nick Pinchuk: I don't know. I'm not really sure. I'm not sure. You know, for example, steel prices, we buy steel in the U.S. Our steel, you know, the Milwaukee sockets are made with U.S. steel. All our hand tools are made with U.S. steel and they rose 30% in the last 18 months. So, I'm not sure what's going to happen in the future. It's hard to say where there will be more or less. Certainly, we think we can manage it.

Operator: Thank you. Our next question comes from Scott Stember with C.L. King & Associates.

Scott Stember: My question's…

Nick Pinchuk: Sure.

Scott Stember: …can we just talk about RS&I, maybe just flesh out, it looks like a diagnostics and software did well and the flatness really came from the undercar care or the undercar equipment and flat OEM? Can you maybe just talk about, I know there is lumpiness in the business, but maybe just talk about, you know, what drove down in particular the undercar equipment side? Thanks.

Nick Pinchuk: Yes, that's a good question. I mean that is the question there. I mean the thing is the flatness to the OEM is generally driven by the chronic lumpiness of that business, and we've seen it go up and down in the past – the equipment business was off, I think it's mid-single digits or low single digits in the quarter and that it's a little worse than it's been. And you got a couple of effects; one is that, we had a couple of, in some of the peripheral pieces of that business, like brake lathes and so on, we had some pretty big distributions last year in terms of some major OEMs that did create a headwind. And we had some difficulties around things like we changed the deliveries associated with some of our, in our collision business, and we had a little destocking with distributors. And around some of our lift factories had the same kinds of things in terms of delivery. So, we had some things that you could explain some of it. I think the rest of it is just, boy, it was a tepid quarter. So, we saw a tepid quarter and we had a couple or three things in there that you could make some explanation, but I don't think they added up to the whole downturn.

Scott Stember: So, it sounds like probably two thirds of it was more transitory or at least some of it goes away?

Nick Pinchuk: Yes, I mean I think it is our job is to try to fix that. I mean we don't like it down there in that situation. So, we have to try to figure out how to deal with those -- the way we're dealing with the transitory stuff is couple of new products are rolling out. So some people might have been anticipating that and backing off. We've got some new products rolling out in the fall, so we will do that. We're going to take a look at that sourcing associated with, you know, the relationship with the distributors, and see if we can make sure that it doesn't just throw us that air ball again. And so, that's what we'll do in that situation.

Scott Stember: All right and on power tools, did you just talk about how that did within the tool segment? And how that affected the intercompany sales on C&I?

Nick Pinchuk: Yes, look, the power tools business was up slightly in the Tools Group. Cordless tools sold pretty well in the quarter. You know that pneumatic that I talked about coming out of the C&I business was launched late, so it wouldn't have any effect selling into the Tools Group. Generally, you saw the small tools that come from our Kunshan factory in China, the little 14.4 volts sell pretty well in the Tools Group, which created that positivity. And then, they were really selling down some of the inventory they had from prior distributions from the C&I business. And we expect that a little bit to change as new products rollout from C&I, but that's sort of it. Tools Group had a reasonably positive, holding their, you know, positive, holding their own in cordless though, weaker in pneumatic in the marketplace. And but some of that was driven by our smaller cordless power tools that come out of Kunshan. Therefore, in this quarter, the C&I power tools factory in Murphy didn't benefit from it.

Scott Stember: Got it. And just last question, you've talked about I guess the first salvo of tariffs that went out on steel and aluminum. Can you maybe just touch base on the last couple the $50 billion that were announced and $200 billion, how you guys can offset that going forward? Thanks.

Nick Pinchuk: Well, you know, I think, if you talked about products, generally, we source the markets from where we -- we're source in the markets where we sell, so we generally have a fairly positive profile versus those kinds of interruptions. And if we don't, we have the ability to move things around the resource. So when we look at the list of tariffs, we think we're pretty well positioned for those things, and those things that we are not, that's our job to make the difference. So at least as we look at it right now, we were not ringing our hands and worrying about them effectively. So, I think now things could change and things could be changing minute by minute out of the tariffs. So, I'm only saying what I see right today and what's in place today, we are okay.

Scott Stember: Got it. That's all I have. Thanks for taking my questions.

Operator: Thank you. At this time, I would like to turn the conference over to Leslie Kratcoski for closing remarks.

Leslie Kratcoski: Great. Thanks, everyone for joining us this morning. A replay of the call will be available shortly on our website. And as always, we appreciate your interest in Snap-on. Good day.

Operator: This concludes today's teleconference. You may now disconnect.