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Moderator: **Leslie Kratcoski**

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Operator: Good day and welcome to the Snap-on Third Quarter 2018 Results Investor conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Leslie Kratcoski. Please go ahead.

Leslie Kratcoski: Thanks Todd and good morning everyone. Thanks for joining Snap-on today to review our third quarter results which are detailed in our press release 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 provided slides to supplement our discussion. The slides can be accessed under the Download tab in the Web cast viewer as well as on our website, snapon.com, under the Investor section. These slides will be archived on our Web site 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 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 will now turn the call over to Nick Pinchuk. Nick?

Nick Pinchuk: Thanks Leslie. Good morning everyone. Today I'll start with the highlights of our third quarter, give you an update on the environment and the trends we see and I'll take you through some of the turbulence we've encountered and speak about our physical and financial progress. Aldo will then provide a more detailed review of the financials.

We believe that our third quarter again demonstrated Snap-on's ability to continue its trajectory of positive results overcoming period to period variation. We are encouraged by the results. Like every quarter we had disparities from group to group and within each group. The van business appears to have stabilized with incremental improvement in organic sales trends, sales gains in the U.S. offset by declines in other geographies. Some sub segments saw a down period. With challenges in our businesses serving independent repair shop owners and managers, and in sales to OEM dealerships, but once again, our strength overcame. Organic sales in the quarter were up 0.6%. Sales gains in critical industries and Asia-Pacific, a return to growth in the U.S. van channel, progress in hand tools and power tools and the rise of software. It all combined to prevail against the variations and move us forward again. OpCo operating margin of 19.3% was up from last year as adjusted by 70 basis points. Improved product mix across the groups, net positive foreign currency, and again the benefits of rapid continuous improvement or RCI, they showed the way.

For Financial Services operating income was $59.3 million. That grew $3.3 million from last year's $56 million. And that result combined with OpCo to raise our consolidated operating margins to 23.7%, up 90 basis points as adjusted. And excluding the onetime tax charge associated with the transition to the new U.S. tax legislation, adjusted EPS was $2.88, up 17.6%.

Now let's speak about the markets. We believe the automotive repair environment continues to be genuinely favorable. We did see mixed results from our businesses in that arena, but based on what we've been hearing from our franchisees, from technicians, and from shop owners and managers, we believe that vehicle repair remains a favorite place to operate and Snap-on, we believe we're well-positioned to take advantage. For the critical industries, verticals like aviation, oil and gas, mining and heavy duty, we're seeing significant progress, activities strong almost across the board. We like the way the critical industries are sounding and trending.

We had further advancements outside the US. Our Asia-Pacific division registering solid increases in key countries like Japan, and India and Indonesia. We do believe we're well-positioned to confront the challenges and make progress along our runways for growth, but at the same time it's clear that we have great potential on our runways for improvement. The Snap-on value creation processes - safety, quality, customer connection, innovation, and Rapid Continuous Improvement or RCI. They're a constant driver of our progress, especially customer connection, understanding the work of professional technicians, and innovation, matching that insight with technology.

And in this quarter Snap-on value creation, customer connection, and innovation drove significant margin gain in the face of turbulence. And besides that, it led to more prestigious product awards than we've ever had, more recognition than in any single year. Just this quarter, Snap-on was prominently represented with 18 Professional Tool and Equipment News (PTEN), People's Choice Product Awards where the actual users, the technicians, make the selections. Probably the best award.

We were also recognized with seven PTEN Innovation awards. And we were honored with two Motor Magazine Top 20 awards. An essential driver of Snap-on growth is innovative product that makes work easier. It's always been our strength and those recent awards are testimony that great Snap-on products just keep on coming, driving progress. You can see it in the margins. So that's the environment.

Now we'll move to the individual operating groups. Let's start with C&I. Sales of $330.2 million in the quarter, it increased $15.6 million, including a $1.6 million related to acquisitions and $6.5 million of unfavorable foreign currency translation. Organic growth was 6.7%, gains across all divisions and most geographies. Operating margins reached 16.1%, one of C&I's highest, maybe the highest for C&I, representing a ten basis point improvement from last year. That result reflects the power of our ongoing stream of innovative new products for critical industries, the product development investment necessary to build the future, a robust effort in RCI, and favorable foreign currency.

Let's take the industrial division, focused on critical industries outside the vehicle garage, it showed broad-based gains with strong overall year over year performance now accomplished for eight straight quarters. We continue to rise in critical industries and it's a favorable market environment that we're amplifying with innovative new products aimed at solving critical tasks and the result is very encouraging. The quarter saw advancements driven by great products like our lineup of 14.4 volt cordless tools, spanning everything from ratchets, to drills, to wrenches, to saws, to screwdrivers. Each product developed for customers both in and outside of the garage. They're compact, they're powerful and they're flexible and the customers are noticing. All of them now include variable speed triggers for maximum control, MicroLithium batteries that are lightweight and long lasting and those batteries are interchangeable between all the matching voltage Snap-on tools, MicroLithium tools, lots of convenience in that.

One of those tools is the CTR767 14.4 V 3/8 inch drive MicroLithium cordless ratchet. It was released at the beginning of this year. And it's one of Motor Magazine's Top 20 Tools. There's a long neck, an extra 6 inches. Jobs like timing belt changes or work near a firewall, jobs that require reach, it makes them much easier and there's a lot of those tasks across the workplaces of the world. And that extended neck doesn't compromise leverage or power. The 767's especially rugged construction supports up to 40 foot pounds of torque output while the robust ratchet mechanism, head and neck can handle 158 foot pounds of manual torque. There's a variable speed trigger for greater control. It can reach 275 RPMs. It has the torque to be versatile and it has the speed to make quick work of the task. A customer connection showed us what was needed to make ratchet work easier – speed, accessibility, torque, reach and strength – and the CTR767 has all of that. It's a difference maker for working professionals and the market reception confirms it. You can see it in the power tool results.

In this quarter, our City of Industry, in California, the plant in California, torque operation, introduced a Snap-on CTECH30 and a CTECH240 Micro Torque Wrench, the smallest electronic torque wrenches in the market. Compact steel bodies, only 10.2 inches in length and less than an inch in diameter, they're light, just under a pound. That compares to the standard torque wrench which is 16.5 inches long and 1.9 inches in diameter and weighs nearly 2 pounds. The Micro Torques are designed for aviation, manufacturing and other critical industries where tight spaces are common and lightweight is important. The slim micro design enables techs to reach fasteners that are recessed or obstructed, often eliminating the need to remove components in order to gain access, saving a lot of time. The short overall length also enables a large swing arc even in tight spaces and that's a big factor for job productivity. And the micros have interchangeable heads that make them useful across a variety of applications for different fasteners and special situations like those found all the time in aviation where accessibility and flexibility are critical.

The CTECH micros are great tools and the technicians have responded. It's product like these, aimed at industry needs that help drive our progress across critical industries and we keep working customer connection and innovation so the advancements will only continue. C&I, maintaining its momentum, extending in critical industries, building both sales and profitability.

Now on to the Tools Group. Organic sales about flat, 0.1%, but a return to growth in the U.S. operation, up low single digits. And that return to growth was offset by variation internationally. That's the story of the Tools Group. Operating income in the quarter was $59.3 million and that compares to $56.4 million in 2017. The OI margin was 15.2%, an 80 basis point increase. Favorable product mix, higher margin new products, software, the benefits of RCI, and the favorable foreign currency, they made the difference.

Now the third quarter is when we hold our annual Snap-on Franchisee Conference, our SFC. This year it was in Nashville and it was the largest Snap-on gathering in our 98 year history with more than 8800 attendee's – franchisees, family members from over 3100 routes. For the franchisees it's an opportunity for training, for ordering new product and for fun. For the company it's an opportunity to gauge our franchisees' outlook on the business. Order volume was up, most product categories showing gains over last year. And I can attest that the franchisees displayed confidence in our business and optimism in their future. And that positive outlook is reinforced once again by the advancements evident in our franchisee health metrics. These are the financial and physical indicators we monitor and evaluate regularly and they remain favorable and robust. It's a significant factor. We do believe our franchisees continue to grow stronger and if you were with us in Nashville you could have seen it clearly.

And there are real reasons for the confidence. Our product lines are getting stronger. You heard about the product awards, well beyond that there's a continuous stream of great new offerings, attention getters in hand tools and tool storage. The third quarter was strong hand tool quarter. You can understand why when you see innovations like our new TSLF 72 1/4 inch drive Dual 80 Technology Speeder Handle Flex Head Ratchet, long name for a special product, aimed at decreasing job times and increasing technician efficiency in any shop. The Speeder represents the fastest way to manually tighten or loosen fasteners. The flexible head provides access in tight automotive applications and the Dual 80 Technology features a dual paw, each with seven teeth engaging the gears, so has great strength and superior durability. The Speeder Flex Head has only been out a short time but it's been received with considerable enthusiasm, the kind that'll make it another one of our hit products, a $1 million seller in the first year.

Now let's talk about tool storage and the new KRSC 242. It's a 36 inch heavy duty shop cart with five AC outlets, and two USB ports, a speed drawer and a side panel organizer. It helps techs organize and securely charge their tools and devices with tremendous ease. It offers two durable top options, stainless steel or bed liner, both popular features. And it comes in a variety of standard and newly released colors that make it different. The KRSC 242, it's already achieved hit product status and we believe it has much more runway. Well that's the Tools Group. Enthusiastic SFC, the U.S. returning to growth and a substantial margin increase driven by innovative new products.

Now RS&I. Organic sales were down 4.8% due to a high single digit decline in sales of diagnostic and repair information products to independent repair shop owners and managers. Sales to independent shops were down reflecting a muted period of selling diagnostics through the van channel. No new handhelds were launched in the quarter and the U.S. Tools Group growth – U.S. tools grew in the quarter – was achieved by franchisee focus on the great new products launched in other segments. And then sales to vehicle dealerships were also down in the quarter reflecting fewer OEM programs in that lumpy business.

Despite that variation, however, RS&I OI margin was 25.7%, quite strong, a rise of 60 basis points from last year. Once again RCI, innovation and software drove that progress. Our Mitchell1 division continued to advance it's industry leading productivity solutions by introducing a text messaging feature across its shop management line. It became clear that users see efficiency in having text messaging capabilities integrated with the shop management software rather than relying on a general standalone third-party service. The new integrated feature offers the capability of sending customers automated reminder texts about upcoming appointments, thank you notes for their repair business, and invitations to participate in online surveys about their experience. The response has been overwhelmingly positive, fortifying, you know, reinforcing and fortifying our leadership position in repair shop management software.

And we launched other great products in the period like the Car-O-Liner our recent acquisition. This is one of the things we wanted to do with Car-O-Liner when we acquired it. Like the Car-O-Liner CT, so we launched Car-O-Liner CTR9 fully automatic spot welder. Our customer connection effort showed that with the expanding variation of steels now used in vehicle bodies, collision repair has taken on a new level of complexity. Technicians now spent considerable effort identifying and measuring the specific material before the welding, the specific material they're working on before the welding can begin. It takes extra time and it's often a source of welding error. Well the Car-O-Liner CTR9 fixes all that. It measures thickness, determines the electrical resistance and identifies the exact steel being welded automatically. It brings unmatched speed and accuracy to collision repair. It's a real productivity enhancer. And we launched it in Europe at the Automechanika show to considerable enthusiasm. And it'll be introduced later this year – later this fall in the U.S. and we're confident it will be quite a hit, boding good things for the Car-O-Liner future. RS&I, minimizing the impact of sales variation with innovation, new product, technology and software.

That's the highlights of our quarter. C&I continuing its positive trend of growth and profitability, extending across emerging markets and critical industries. Tools Group reigniting the U.S. van channel and registering margin strength. RS&I, margin progress, despite the challenges in the quarter. Progress along our runways for coherent growth and advancements down our runways for improvement. OpCo operating income margin of 19.3%, up 70 basis points on an adjusted apples to apples basis. And an as adjusted EPS, $2.88 in the quarter, 17.6% higher than last year. It was another encouraging quarter. Now I'll turn the call over to Aldo. Aldo?

Aldo Pagliari: Thanks Nick. Our consolidated operating results are summarized on slide 6. Net sales of $898.1 million in the quarter were down 0.6% reflecting a 0.6% organic sales gain, $1.4 million of acquisition related sales and $12.5 million of unfavorable foreign currency translation. The organic sales gain this quarter principally reflected broad based growth in the Commercial and Industrial segment and low single digit growth in the U.S. franchise operations of the Snap-on Tools Group.

Consolidated gross margin of 50.5% improved 80 basis points primarily due to a shift in sales mix, savings from RCI initiatives and 30 basis points of favorable foreign currency, partially offset by higher material and other costs. The operating expense margin of 31.2% compared to 32.8% last year which included 170 basis points from the $15 million legal charge that was incurred during Q3 of 2017. As a result, operating margin before financial services of 19.3% was up 240 basis points on a reported basis and 70 basis points on an as adjusted basis, respectively, from Q3 of 2017.

Financial services revenue of $82 million and operating earnings of $59.3 million increased 3.8% and 5.9% respectively from 2017. Consolidated operating margin of 23.7% of revenues was up 250 basis points on a reported basis and 90 basis points on an adjusted basis, respectively, from last year. Our third quarter effective income tax rate of 24.0% included a charge of 90 basis points, or $1.8 million, related to newly issued guidance associated with last year's U.S. tax legislation. Excluding this charge the effective tax rate for the third quarter as adjusted was 23.1%. This compared to a rate of 30.7% last year on an adjusted basis to exclude the 60 basis points of benefit from the legal charge.

Finally net earnings on a reported basis of $163.2 million or $2.85 per share compared to $133.4 million at $2.29 per share a year ago. Excluding $0.03 per share for the tax charge, adjusted earnings per share was $2.88, up 17.6% compared to Q3 2017 adjusted earnings per share of $2.45 which excludes the $0.16 per share legal charge last year. Now let's turn to our segment results.

Starting with C&I group on slide 7, sales of $330.2 million in the quarter increased 5% reflecting a 6.7% organic sales gain and $1.4 million of acquisition related sales partially offset by $6.5 million of unfavorable foreign currency translation. The organic increase was broad based and included a double digit gain in the sales of power tools, a high single digit gain in in the sales in our Asia-Pacific operation, a mid-single digit gain to customers in critical industries and slightly higher sales in the European based hands tools business.

Gross margin of 39.6% decreased 70 basis points primarily due to higher sales volumes of lower gross margin products, principally in Asia-Pacific in power tools, as well as higher material and other cost, partially offset by benefits from RCI and 30 basis points of favorable foreign currency. The operating expense margin of 23.5% improved 80 basis points primarily as a result of sales volume leverage. Operating earnings for the C&I segment of $53 million increased 5.4% and the operating margin of 16.1% improved 10 basis points from 2017.

Turning now to slide 8, sales in Snap-on Tools Group of $389.8 million decreased 0.7% reflecting slightly higher organic sales growth more than upset by $3.2 million of unfavorable foreign currency translation. The organic sales change includes a low single digit increase in the United States largely offset by a high single digit decline internationally. Gross margin of 43.6% improved 180 basis points year over year primarily due to 50 basis points of favorable foreign currency effects, increased sales of higher gross margin products, and benefits from the company’s RCI initiatives. The operating expense margin of 28.4% increased 100 basis points year over year primarily due to cost and 10 basis points of unfavorable foreign currency effects. Operating earnings for the Snap-on Tools Group of $59.3 million increased 5.1% and the operating margin of 15.2% improved 80 basis points year over year.

Turning to the RS&I group shown on slide 9, sales of $314.4 million decreased 5.7% reflecting a 4.8% organic sales decline and $3.2 million of unfavorable foreign currency translation. The lower organic sales reflects a high single digit decline in sales of diagnostic and repair information products, and a mid-single digit sales decrease in sales to OEM dealerships, while sales of under car equipment were essentially flat. Gross margin of 48.7% improved 140 basis points primarily as a result of a shift in sales that included lower volumes of lower gross margin products and benefits from RCI. The operating expense margin of 23% increased 80 basis points year over year primarily due to the effect of lower sales volumes. Operating earnings for the RS&I group of $80.7 million decreased 3.7% from prior year levels. However, the operating margins of 25.7% improved 60 basis points from last year.

Now turning to slide 10, operating earnings from Financial Services of $59.3 million on revenue of $82 million increased 5.9% and 3.8%, respectively, from a year ago. Third-quarter Financial Services expenses of $22.7 million were down slightly year over year as higher operating expenses were more than offset by $700,000 and $400,000 of lower provision expense for finance and contract receivables respectively. On a sequential basis, total provision expense of $12.5 million was down $1.7 million from $14.2 million in the second quarter, reflecting further stabilization in the credit portfolio metrics. As a percentage of the average portfolio Financial Services expenses were 1.1% and 1.2% in the respective third quarters of 2018 and 2017. The average yield on finance receivables in the third quarter was 17.7% compared to 17.9% in 2017 driven principally by product mix and reflective of the credit quality of customer's originating loans in the quarter. Respective average yield on contract receivables was 9.2% for both 2017 and 2018. Total loan originations of $267 million decreased 1.8% primarily due to a 2.1% decline in originations of finance receivables.

Moving to slide 11, our quarter end balance sheet includes approximately $2.1 billion of gross financing receivables, including $1.8 billion from our U.S. operation. Our worldwide gross Financial Services portfolio grew $35.6 million in the third quarter. As for the sixty-day plus delinquency trends, they are stable year over year and increased sequentially reflecting typical seasonality. As it relates to extended credit for finance receivables, the largest portion of the portfolio, trailing 12 month net losses of $52 million, represented 3.18% of outstandings at quarter end, up 41 basis points year over year but essentially flat sequentially, further supporting continued stabilization in the portfolio's credit metric performance.

Now turning to slide 12, cash provided by operating activities of $129.8 million in the quarter increased $34.3 million or 35.9% from comparable 2017 levels, primarily reflecting higher net earnings. Net cash used by investing activities of $48.6 million included net additions to finance receivables of $22.7 million and capital expenditures of $29.9 million. Net cash used by financing activities of $71.3 million included cash dividends of $46.1 million and a repurchase of 493,000 shares of common stock for $85.7 million under our existing share repurchase programs. Year to date share repurchases totaled 1.139 million shares for $184.4 million. As of the end of September, we have remaining availability to repurchase up to an additional $306.5 million of common stock under existing authorizations.

Turning to slide 13, trade and other accounts receivables increased $3.1 million from 2017 year-end including $14.5 million of unfavorable currency translation. Day sales outstanding of 65 days improved one day from 2017 year-end. Inventories increased $51.8 million including $15.7 million of unfavorable foreign currency 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 accounting standards update topic 606 on revenue recognition.

On a trailing 12 month basis, inventory turns of 2.8 compared to 3.28 year-end 2017. Our quarter end cash position of $122.2 million increased $30.2 million from 2017 year-end levels. Our net debt to capital ratio increased - decreased to 23.8% 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 $154 million of commercial paper borrowings outstanding. That concludes my remarks on our third quarter performance. I'll now turn the call back to Nick for his closing thoughts. Nick?

Nick Pinchuk: Thanks Aldo. The Snap-on third quarter, turbulence and variation across some of our businesses, but we overcame and made progress. The U.S. Tools Group returned to growth, continuing on its improving trend. C&I, extending to critical industries, achieving progress across all its operations. RS&I did encounter challenges, but there are positive points throughout that operation, particularly in information and software.

And with all that, margins were up again in each group. C&I, 16.1%, up 10 basis points, possibly the best ever. Tools, 15.2%, up 80 basis points, and RS&I, 25.7%, up 60 basis points against the wind. And our overall margin, it was 19.3%, up 70 basis points, all demonstrating again the power of Snap-on value creation, customer connection and innovation authoring profitable, profitable new products. And RCI, creating productivity, runways for improvement that drive margin consistently. It was an encouraging quarter. And we believe the results of the period confirm that Snap-on has the opportunities to progress, the capabilities to take advantage and the team to improve even in difficult environments. And we're confident that those qualities, spread across our operation, will drive continued progress through the end of this year and on through 2019.

Before I turn the call over to the operator I'll speak to our franchisees and associates, I know you're listening. The encouraging performance of this quarter reflect your skill, your intensity and your contributions to our company. For your encouraging achievements, you have my congratulations, and for your unrelenting and unfailing support for our team, you have my thanks. Now I'll turn the call over to the operator. Operator?

Operator: Thank you. If you would like to ask a question 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. We'll pause for just a moment to allow everyone an opportunity to signal for questions. We'll take our first question from Christopher Glynn with Oppenheimer.

Christopher Glynn: Thank you good morning.

Nick Pinchuk: Good morning.

Christopher Glynn: Nick you sounded pretty confident and excited about the new product lines getting stronger at SOT. I'm wondering if you, you know, would note that, that translates to improving visibility for the tools segment to get back into the target growth range in the short order?

Nick Pinchuk: Well I think look, you know, it certainly looks like it's on a trend that way and based on what we hear from the franchisees we see the impact of the, you know, the new product in the quarter. And we saw the SFC. The SFC was very enthusiastic. Now that's a windshield survey. It's kind of a qualitative view, but I will tell you the - you walked around that floor and I've never seen it busier. And the – all the product lines, you know, we saw we had a muted result in diagnostics, which we explained. Everything was fairly strong. So the response at the SFC to the new product was good. Now that isn't selling on to the end users. That says the franchisees liked the product, the power tools and the hand tools and the tool storage. Now we saw some of that come through though in the third quarter, reflecting much of that, so I feel pretty good about this.

Christopher Glynn: Yes, and what about the international? That wasn't a slim negative and it sort of seemed to come a little bit…

Nick Pinchuk: Yes.

Christopher Glynn: …out of the blue.

Nick Pinchuk: You know, I'll tell you what I've said for a long time that the third quarter is kind of a variable quarter, and that's particularly true in our international businesses because of the way the vacations run through that. And if you go back and you actually, and we did this, if you go back and you look at the third quarter, there's a lot of variations in the third quarter and, you know, extreme variations in our third quarter in those international businesses. And a couple of those lined up this time in the same direction and that created this kind of variation and turbulence.

Christopher Glynn: So you're not concerned about that in terms of trending?

Nick Pinchuk: I'm not really concerned about that. I think I've said often that the third quarter, particularly in international, isn't a trend driver. You can't really, particularly outside the United States, you can't fully bank on that being a trend.

Christopher Glynn: Okay. And then…

Nick Pinchuk: We're not really concerned about that.

Christopher Glynn: Okay. And the last one, also sticking with the tools segment. I'm just wondering if you are able to track the aftermarket among franchisees with their route customers? And if you think at the margin that kind of recirculation of aftermarket tools is, you know, maybe becoming a bigger piece in the franchisees stock in trade?

Nick Pinchuk: You mean second hand tools?

Christopher Glynn: Yes.

Nick Pinchuk: Is that what you mean? I don't know. I don't think so. I mean, they've always been there. I mean we don't see that increasing. I'm not hearing that, so I don't really believe that to be the case. I mean certainly it's been always a factor in diagnostics and tool storage, the bigger ticket items. But I don't see anything that tells me that boy that's a bigger number. I just spoke to a couple of franchisees a couple days ago and they didn’t seem to mention that. They were very robust about our product line.

Christopher Glynn: Well thank you.

Nick Pinchuk: ((Inaudible)) diagnostics bottom line, yes.

Operator: Thank you. We’ll take our next question from Scott Stember with C.L. King.

Scott Stember: Good morning guys.

Aldo Pagliari: Sure Scott.

Nick Pinchuk: Good morning.

Scott Stember: Can we maybe touch on the RS&I? I know last year in the third quarter I think you posted a high single digit organic sales number and…

Nick Pinchuk: I think was eight wasn’t it?

Scott Stember: Yes it was eight yes. And you’ve always warned…

Nick Pinchuk: Yes.

Scott Stember: …that this is a lumpy business. How much of it is difficult comps lumpiness, maybe just give us a little bit more, you know, detail…

Nick Pinchuk: It isn't all, you know, that's certainly some of it. Look, I think either there are two big factors in diagnostics really driving the reduction in this quarter. One is, the easy one to deal with is the sales, you know, our OEM programs business where we get an essential tool programs commissioned by OEM manufacturers. And that is quite lumpy and driven by technology, new launches and regulation and those things. And that tends to go up and down. We had a particularly strong couple of quarters last year where we got a lot of those programs coming out of the OEMs and we're in a period, and particularly this period, where there's a few - a smaller number of those and so that creates a comparison vacuum.

And then you look at, really if you want to talk about comparison, we had I think maybe our first or second best diagnostic quarter ever last year because we launched the Zeus at the end of the quarter. And so we had a great product launch, good SFC, lots of enthusiasm. And so comparing to that is, it wasn't, I hate to talk about year over year comparisons, but that's part of the thing. That is part of what drives that. Now remember, the Tools Group still grew even though it's diagnostics didn't, so it sold other things. And really what happened at the SFC is we didn't have new product in diagnostics. We had great new product in tool storage, and hand tools, and power tools and other things and so people paid attention to those. That's really the tale of the tape in this situation.

Scott Stember: And can you maybe speak to the visibility that you have I guess in the upcoming quarters with some of these larger programs and OEMs? Do you expect, you know anything to pop up?

Nick Pinchuk: We don't really give we don't really give guidance but, you know, boy it seems to be on the floor right now. So I kind of believe this is that, you know, the industry keeps being robust in automotive sales in the United States and North America. So we would expect some recovery off of this as we move forward. In fact I'm confident of that. The time constants of that I'm not sure of, but I'm pretty confident that, that happens. These things happen from time to time. You see and ebb and flow, which is why we classify it as a lumpy business. We're not actually concerned about it but it does - if it lines up with something like diagnostics having a muted quarter, you end up getting the results you have. But I still think, I like to think that RS&I did a great job, 25.7% is the second highest OI margin ever for diagnostics.

Scott Stember: And just a last question, just so, it sounds as if, you know, you're still comfortable with the, I guess, long term growth rate of the business which I think you've said in the past is in that mid-single digit range, that hasn't changed correct?

Nick Pinchuk: No, no that really hasn't changed. I mean, we had, like you said, we had an eight last year. In fact we had a pretty good year, maybe for, maybe five quarters or four quarters it was a little bit over the range 7% to 8%. I always said that I thought it was, you know, a 5% business and it kind of came back a little bit. But it's those specific reasons why that it's not like we're wringing our hands on this at all. When you talk to franchisees they like this - our products.

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

Nick Pinchuk: Sure.

Operator: Thank you. We'll take our next question from David MacGregor with Longbow Research.

David MacGregor: Good morning everyone.

Nick Pinchuk: Good morning.

David MacGregor: Yes congratulations on the SFC. It sounds like you were very pleased with the attendance. I'm just wondering, you know, what did the shorter SFC fulfillment window contribute to the third quarter tool segment growth?

Nick Pinchuk: You know, it's hard for me to say that. I mean we - you're saying that we - now let me make sure you're asking what - so fundamentally we didn't drive SFC orders out into next year. We kind of let them be through December and then for government work and then not so much into the next year. That's we - I think we talked about that on other calls. I'm not sure how much that really contributed to the whole thing.

I guess if you do arithmetic and you say okay, compare year over year, and as we did, you would say you did better than last year in your SFC orders and you did better because it was a shorter - and it was spread over fewer months, you would think it would contribute to that arithmetically right? And so I think that's true, but that's, to me that was tremendously encouraging because we had less - our guys when they were ordering were thinking of less time to be able to liquidate this kind of product. So we felt pretty good. I think that was a real positive for us.

David MacGregor: Okay. Within the tool segment how did the size of the average ticket compare to third quarter year ago and also maybe, you know, how does the number of transactions compare to third quarter a year ago?

Nick Pinchuk: Say the first part again David please?

David MacGregor: So sure. Within your tool segment, in your U.S. business, how did the size of the average ticket, sales ticket that your guys wrote, how did that compare year over year and then also…

Nick Pinchuk: Hey look I think, look I think it's probably a little smaller. I think RA was, what we call RA, the smaller ticket items. And hand tools was very strong and power tools was very strong. So the thing is if you - how we interpret these things is we roll off the products and hand tools was very strong off the SFC. I think you have felt this yourself, and power tools was also very strong, and we kind of get this reinforcement. And those two are generally smaller ticket items, although you can have a big ticket item in a power tool, you know, depending on which one it is. Generally they're smaller ticket items.

David MacGregor: Okay. And number of transactions perhaps?

Nick Pinchuk: You know, it's got to be. I mean the thing is their sales were – they're delivered - the sales off the van were about the same as the U.S. sales, so they were up about the same. So if they're selling those hand tools and power tools then the number of transactions are higher I think. That's probably true.

(Crosstalk)

Nick Pinchuk: I haven't looked at that data myself, I'm just extrapolating logically.

David MacGregor: Right, right that makes sense.

Nick Pinchuk: Right.

David MacGregor: If organic sales remain slow are you likely to respond with acquisition growth or is it possible we could see an extended period of below target growth?

Nick Pinchuk: You know, I think we're coming back. I think the Tools Group has started to solve its problem. I mean if you look at the U.S. everybody was focused on that like a heat seeking missile and it grew at 2.4% in the quarter. It had a, I think we would say, not where we want it to be, but a lot better than it's been. So it appears to me you would conclude that if you look at the history of the last three quarters in the Tools Group, it's gotten better every quarter. The second derivative of its growth has gotten better. So I think we're going back toward there. The RS&I situation we see as a positional thing and C&I has been doing pretty well, huh?

David MacGregor: Yes. One more if I could…

Nick Pinchuk: Okay. No I see it.

David MacGregor: …how did your storage business compare year over year?

Nick Pinchuk: Storage business in the quarter the - was about flat, down slightly. So it's kind of flat. The SFC was good though, the SFC was stronger. So, you know, it takes a while sometimes for that stuff to work its way through the system, so that's kind of what we saw in the storage business.

Operator: Thank you. We'll take our next question from…

Nick Pinchuk: Sure.

Operator: …David Leiker with Baird.

David Leiker: Good morning everyone.

Nick Pinchuk: Hey David.

David Leiker: Nick if we look at, on the international side of Snap-on tools, I mean you sell primarily in three regions. Are you suggesting all three of them are - struggled a bit in the quarter?

Nick Pinchuk: No I didn't. I'm suggesting, I can tell you that two of the three struggled in the quarter and one was up. We, I think that's sort of what I was saying in the prior call, you know, this time a couple of them lined up negatively. We always see a lot of variation in this quarter. And, you know, thankfully it's been, you know, mostly more - sometimes positive, sometimes negative, but this time we had two negatives line up so that's what drove this kind of thing. I don't think we see anything in this, so we're thinking it's just third quarter.

David Leiker: And then in the diagnostics and information you seem to be saying that's more of a comp issue versus last year and I think you had said Zeus was the launch in that. If you look at it sequentially is there - what's the tone of business in that part of RS&I?

Nick Pinchuk: I think, look, I think the tone of business was about, was down somewhat because you're getting further from the product launch of Apollo which was the beginning of the second quarter. I think the situation was one comparison to itself year over year and two comparison to being in front of all these other product lines that were launching at its primary stage which is the SFC. Remember the thing as, is the diagnostics business has only a few SKUs, you know, a relatively small number of SKUs. So when you launch a new product, even if it isn't at the SFC, it gets a lot of attention. When you launch a new hand tool, it's one of many, or launch a new power tool, it's one of many, so those tend to leap off the SFC or the kickoff. So at the SFC I think we had a set of compelling new products associated with power tools and hand tools, and they captured the attention of the people. And we just didn't have anything new and so – in diagnostics, and so that tended to be a little bit of a mute. And then it was comparing to last year which was kind of a pretty strong quarter.

David Leiker: Okay. And then…

(Crosstalk)

David Leiker: Okay. And then if we look at the Snap-on credit, the provisions are a little bit lower. Is that just kind of marking the market with what your actual experience or is there something else there?

Aldo Pagliari: So I got it David. It's reflective. There's been attenuation of losses. There's less charge-offs and therefore the provision that's required tended to be a little bit less. So sequentially you see improvement. Now again if you look at the absolutes, year over year it's still higher, but sequentially it's been improving and the trends are going in the right direction.

David Leiker: And then just one more number question on the corporate expense number came in, you know, a little bit light, you know, a good thing but that helped the margin there a bit, anything in particular there?

Aldo Pagliari: No mostly it's the legal expense if you look year over year. Our tendency still, you know, corporate expenses per quarter run between \$20 million to \$25 million. You're right, this year we're at the lower end of that range. Last year if you look and exclude the legal charges here we fell at about 23ish or something like that, so nothing really has changed there.

David Leiker: Okay great. Thank you much.

Aldo Pagliari: Sure.

Operator: Thank you. We'll take our next question from Gary Prestopino with Barrington.

Gary Prestopino: Hi. Good morning everyone.

Nick Pinchuk: Good morning Gary.

Gary Prestopino: Nick most of the questions have been answered but I guess could you maybe talk about, you mentioned that in the conference in Nashville orders were up a certain magnitude. You - could you maybe give us a range of what those orders were up vis-à-vis last year?

Nick Pinchuk: Yes. Look they ranged, they really ranged from, you know, high single digits to, in fact some people were double digits, to a couple we would say mid-single digits or maybe edging on low single digits. It was a pretty strong quarter. Diagnostics was not up, but everything else was pretty strong.

Gary Prestopino: Right and that was all hand tools and power tools right?

Nick Pinchuk: Yes power tools, you know, we have other things like compressors and air-conditioning units we sell and things like that.

Gary Prestopino: Okay...

Nick Pinchuk: And then…

Gary Prestopino: …((inaudible)) yes tool storage? Okay...

Nick Pinchuk: Yes.

Gary Prestopino: ...and then given what we're seeing as far as the, you know, you mentioned some of the lumpiness in the diagnostic business as you had tough comps and no new products. Does that really portend that this is more driven by new product introductions…

Nick Pinchuk: You know…

Gary Prestopino: …within that ((inaudible))?

Nick Pinchuk: ...look I think the answer is unfortunately a little more complicated than that in this quarter. It is driven by new product introductions. So when you introduce a new product particularly intelligent diagnostics which electrified everybody.

Gary Prestopino: Right.

Nick Pinchuk: The thing is those things tend to be tough comps. But then when you compare it like I said in an atmosphere of the SFC where everybody else is laying out their best - putting their best foot forward and diagnostics has already introduced two in less than a year, that's the kind of thing you see. Now you're still seeing sell through, you know, the Apollo both the Apollo and the Zeus did better than their predecessors. They rolled out better than their predecessors. But it's just that situation of Zeus lapping last year's incandescent introduction – it was one of our best diagnostic quarters, maybe the best diagnostic quarter ever – and the idea that they're up against, for franchisee attention, some of these other products. That's simply it.

Gary Prestopino: Okay.

Nick Pinchuk: Yes.

Gary Prestopino: And then really I think you might have mentioned this but the feedback from your franchisees is that the environment is still pretty positive in the automotive repair…

Nick Pinchuk: Yes, yes, yes. I mean like I said, I keep talking to them and I keep saying yes. They're talking about two bay shops now expanding to four, people being robust. Now you look at the BLS data in terms of the amount of the spending on car repair and the technician wages, they're all favorable.

Gary Prestopino: Okay, thank you.

Nick Pinchuk: Sure.

Operator: Thank you. We'll take our next question from Bret Jordan with Jefferies.

Bret Jordan: Hey good morning guys.

Nick Pinchuk: Good morning.

Bret Jordan: On the diagnostics question -- and I guess you said incandescent launch of Zeus -- is the trajectory of Apollo I guess lower than the launch trajectory of Zeus? And is that part of the diagnostics challenge?

Nick Pinchuk: No I don't think so. I think look I think Zeus was - the reason - I may regret using the word incandescent, you know? But look I - it was a big launch because everybody got excited. It was the first time we talked about intelligent diagnostics. So that was the rollout of the 100 billion data base and so that got everybody talking more. I think that's more or less that. Both of these - both of those products have exceeded their predecessors and their predecessors were pretty successful.

Bret Jordan: Okay.

Nick Pinchuk: Zeus is - and the other thing Bret is that Zeus is a higher price point.

Bret Jordan: Right.

Nick Pinchuk: So when we've got our guys out there pounding away at a $12,000 price point, it tends to distort the situation. Everybody gets really excited, a little bit more. You know, it's as qualitative as that, I think, but the Apollo was just as successful.

Bret Jordan: Okay. And then a question obviously we've talked a lot about tariffs and how you're relatively immune to them given your country of origin, or your local manufacturing, but I guess as you think about the assembly - assembled content and its country of origin do you see any pressure on your input costs and I guess as you think about the inverse of that, how do you stack up relative to your competition in your mix of imported assemblage versus theirs?

Nick Pinchuk: It's, you know, I can't speak for the competition. But look I think we make quite a bit of what we sell off those vans in America. We say like 75% to 80%. So we have a lot of U.S. competition, but don't, and when I say, you know, we have a thin wedge relative to other people versus tariffs, don't mean we're completely going to hit them, but we've been dealing with material cost for a dog's age. I mean our - we've been given salary increases, you know, for example people are talking about labor increases we've been giving pretty robust salary increases for a decade to everyone and been managing it. We've been absorbing it, except for the people in this room. And then, you know, we've been - we have seen material cost. For example we source U.S. steel, but U.S. steel rose, I think, 30% in the last 18 months and we've absorbed it. We have some of it in our P&L this time, but our margins are up 70 basis points.

Bret Jordan: All right, thank you.

Nick Pinchuk: So I think we'll see some of this in the future but I think, you know, I think we'll have to deal with it. Maybe I'll be explaining on a future call that we got dinged by some of it, but I think this is part of what we do is manage this. And one of the things we have Bret that's different is I think we're quite vertically integrated. So we have a lot of opportunity for RCI because of that vertical integration.

Bret Jordan: Okay great. Thank you.

Nick Pinchuk: Sure.

Operator: Thank you. We'll take our next question from Richard Hilgert with Morningstar.

Nick Pinchuk: Richard.

Richard Hilgert: Thank you. Good morning everyone.

Nick Pinchuk: Good morning.

Richard Hilgert: The RS&I group, is there, you know, you talked about how we're seeing some expansion out there going from two bays to four bays that kind of thing. So there's - there is this potential for more investment out there. Is there anything out there on the horizon that causes somewhat some uncertainty among general managers and shop owners that might cause them to curtail any of their spending? Is there any of that out there anywhere?

Nick Pinchuk: Well I don't think in the independent repair shops. I think those tend to roll pretty well. I mean I think over the years I've seen them tend to be - but of course people get different views. And during the recession they were cash rich and confidence poor so something can happen to puncture their balloon of confidence but I don't see it right now. For OEM dealerships, they can ebb and flow depending on how good I guess new car sales are. But one of the great things is, is that, you know, this movement towards information, and data and software is moving in a direction that plays in our advantage. And we see one of the stories behind our margins is that our software business keeps growing. The software content keeps growing. Software in the Tools Group was up significantly because of the intelligent diagnostic products of Zeus and Apollo and some other things. And software growth in Mitchell 1, Mitchell 1 our repair information and shop management because it's up again so the RS&I software growth, so a component of our margin gain is part of it is our software business is growing and that's contributing to margin rates.

Richard Hilgert: That's great. And that's a great segue for my next question, you know, how on your revenue for each of your groups, you know, you have your organic growth, you have your impact from acquisitions and your impact from currency. On your margins, you know, with revenue being slightly softer that would convey to me potential negative operating leverage for your margin but then you're offsetting a part of that coming from the mix of products some of that software. Is there any way to quantify, you know, here's how negative the operating leverage was, here's how positive the impact from software is or here is how positive the impact of RCI is? Do you have any kind of information you can or color you can give us on that?

Nick Pinchuk: Well, you know, that's kind of more detailed - I will say look over -- I'll just give you a little bit of thought – we're up 70 basis points as reported, 30 basis points was currency and we had some bad news associated with, you know, the volume wasn't down, the volume was still up on an organic basis. So on an apples to apples basis it's still up, so we didn't have any deleveraging in that. We had some material cost increases. We had some other cost increases associated with SFC. So you're ending up with RCI and margin mix that's about equal to the 70 basis points, a little bit better than the 70 basis points that you had to overcome in some of that bad news.

Richard Hilgert: Okay great. Thank you

Nick Pinchuk: Okay.

Operator: Thank you. At this time with no more questions. I'll turn it back to Leslie Kratcoski.

Leslie Kratcoski: Thanks everyone for joining us today. A replay of the call will be available shortly on snapon.com and as always we appreciate your interest. Thanks a lot and have a good day.

Operator: Thank you ladies and gentlemen. You may now disconnect and have a great day.