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Moderator: **Sara Verbsky**

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Operator: Good day, and welcome to the Snap-on Fourth Quarter and Full Year 2018 Results Investor conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Sara Verbsky. Please go ahead.

Sara Verbsky: Thank you, and good morning everyone. Thank you for joining us today to review Snap-on's fourth quarter results, which are detailed in our press release issued earlier this morning.

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

As usual, we have provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the webcast viewer, as well as on our Web site snapon.com, under the Investors section. These slides will be archived on our Web site along with a transcript of today's call.

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

Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

Finally, this presentation includes non-GAAP measures of financial performance, which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding these measures, 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, Sara. Good morning everybody. Today, I'll start with the view of our fourth quarter, give you an update on the environment and the trends we see, take you through some of the turbulence we've encountered and speak about the progress we've made. As usual, Aldo will then provide a more detailed review of the financials.

Results for the quarter for the full year this time include a number of special non-recurring legal, tax, and debt events that affected our as reported levels. So to provide greater clarity, we're going to refer to amounts excluding those onetime effects as an -- as adjusted number to make everything comparable from an overview level. And when you look through it all, Snap-on did see external turbulence in a number of areas, but we offset those challenges by and large and made what I think is recognizable progress.

We saw disparity from group to group and within each group. But overall, we're encouraged by our position for going forward. Fourth quarter sales of $952.5 million as reported were down 2.3%, including $17.1 million or 180 basis point impact from unfavorable foreign currency, much different than the beginning of the year.

Organic sales were about flat down 0.6%. Generally, shortfalls in the OEM dealership arena and in our international franchise businesses, including the UK, we're about offset by gains in critical industries, our Asia Pacific region and the beginning growth in the U.S. van channel.

From an earnings perspective, our OPCO operating income for the quarter, including the onetime benefit from a legal settlement and an offsetting impact of unfavorable foreign currency effects was $182.1 million, increasing 15.3% compared to last year, which also included legal impacts.

OI margin for the quarter, as reported, was 19.1%, up 290 basis points. On an as adjusted basis, excluding the non-recurring items, the OI margin was 18.7%, compared with 19.4% in 2017. For financial services, operating income of $56.1 million was up compared to last year's $54.4 million.

As reported, OI margin including both the financial services and OPCO was 23%, up 290 basis points. The as adjusted OI margin was 22.6% compared to the as adjusted 23.1% recorded last year. So we're trying to give you a comparable-to-comparable on this.

Quarterly as reported EPS of $3.09 was 85 cents or 37.9% above last year's. On an as adjusted basis, the EPS was $3.03, exceeding the $2.69 from last year by 34 cents, an increase of 12.6%.

Those are the numbers. Now, let's speak about the markets. Well, we believe the automotive repair environment continues to be generally favorable. Having said that though, in the areas serving vehicle OEMs and dealerships, we have seen some pause. We think that's likely associated with the multiple forecasts for lower new car sales and the uncertainty that often accompanies the transition from a strong vehicle industry to a more moderate sales environment. Based on our past experience though, it's not clear how long that uncertainty continues. Lower new car sales can also ignite greater interest in dealership repair activity.

On the other hand, we've been hearing from our franchisees and from technicians and from the shop owners themselves that there's considerable optimism in the independent repair…that the optimism in the independent repair shops is strong and unaffected by the latest round of OEM forecasts as you might expect. So we believe vehicle repair remains a favorable place to operate.

For critical industries, we're seeing progress, significant progress. Strong activity in aviation and general industry. In that arena for us calendarization of orders can create variation from quarter-to-quarter but our overall activity trend continues to look quite promising. We do like the trajectory in critical industries. It's very positive. And that positive extended across our C&I Group, including Asia Pacific, double-digit growth. And at SNA Europe showing mixed but positive results across the continent more than offsetting the clear impact of Brexit.

We do believe we're well positioned to confront the challenges of this particular period and to make progress along our runways for growth. We're also confident that we have continuing potential on our runways for improvement. Snap-on value creation processes, safety, quality, customer connection, innovation and rapid continuous improvement. They're constant fuel for our progress, especially customer connection, understanding the work of professional technicians, and innovation matching that insight with technology.

We believe, I'm going to talk about it a little bit, we believe our product lineup is growing stronger every day and we keep investing to make it so because we believe in our potential. So across the corporation I would characterize our markets as mixed, positive with significant potential, yet turbulent from period-to-period.

Now for the full year, sales were $3.74 billion, an increase of 1-1/2% as reported and 0.5% organically. The critical industries overcoming shortfall in the vehicle OEM dealership arena and relative flatness over the year in the Tools Group.

As reported, OPCO margins for the year was 19.4%, up 140 basis points. Excluding the onetime events, the OPCO margin percent as adjusted was 19.3%, compared with an as adjusted 19.3% for last year, maintaining our profitability against the turbulence.

As reported earnings per share for the year was $11.87, up 24.7%. And excluding the non-recurring events, the EPS was $11.81, up $1.69 or 16.7% compared to last year's as adjusted number.

When we include the income from financial services of $230.1 million, which rose $12.6 million in the year, the consolidated operating margin for the corporation was 23.5% or as adjusted 23.4%, up 20 basis points.

That's the overview. Now, let's talk about the individual operating Groups and their fourth quarter results. Let's start with C&I. Reported sales for the Group including $400,000 of acquisition related volume and $9.9 million of unfavorable currency, grew $2 million or 6%. Organic sales increased $11.5 million or 3.5%.

Robust performances in our Asia Pacific operation and our specialty torque division, I haven't talked about it very much before, but torque is getting bigger. Those two are particularly encouraging. Beyond that, the SNA Europe operation and the industrial division both registered low single-digit growth with mixed results across the industries and the geographies.

SNA Europe recorded single-digit increases in most of the core European markets that were partially offset by a double-digit decline in the UK. Overall growth, despite the well-publicized uncertainty that's Brexit in this time period.

Now the industrial division also showed variation, across the business, up for aerospace and general industry, partially offset by some softness in natural resources and military but overall showing a positive outlook. C&I operating income was about flat with 2017, $50.8 million, down about $500,000 from last year.

Operating margin was 14.8%, down 20 basis points, reflecting the effect of the expansion in Asia Pacific. And Asia Pacific did expand. More than -- it expanded more than offsetting the turbulence in China but gains in other key markets, particularly India, but also Thailand and Indonesia. Advances that were made possible only by customer connection and innovation. Two of our Snap-on value creation processes driving new products in markets like India, effective products like those in our Blue-Point hand tool offering. This year we added almost 300 new tools to the Blue-Point lineup and it helped drive those expanded sales on the subcontinent.

Another success in India was the Asian Dragon imaging aligner, ideal for tight spaces. It's a high-end imaging aligner in a compact package, perfect for the really small footprints of the Indian repair shops and the customers in India, they seem to agree.

Also strong in C&I, as I mentioned before, is our specialty torque business. It's making encouraging strides, strong growth, driven in part by a widening array of new offerings. Developed in combination with SNA Europe and our specialty torque operations, products like our new powerful wireless torque control unit. That has been co-developed by SNA Europe and specialty torque.

Demand, there's a demand for efficiency and autonomy across the critical markets. And with that the torque position is rising in importance and Snap-on, combining our long-held experience in that field with the capability of our new torque acquisitions like Sturtevant Richmont and Norbar, we’re poised to take advantage.

And you can see it in this new unit. The new torque control unit is a great example. It puts together Snap-on SNA Europe's industry leading ergonomic design capabilities with Sturtevant Richmont’s wireless capabilities. It also incorporates Sturtevant Richmonts's unique DIN style rectangular connector. Accommodating a wide variety of interchangeable wrench heads, allowing it to engage a broad array of customers like no other product, in aviation and natural resources and heavy duty and in general industry. It's another timely add to Snap-on SNA Europe's lineup, and it clearly matches the industry trends. It's going to be a big seller.

Now, let's talk about the Industrial division, focused on critical industries, outside the vehicle garage, gains now accomplished for nine straight quarters. And that trend’s been driven by customer connection, extending our understanding of critical work. The progress of understanding the work can be measured in the number of new tools solutions we offer each year. Well, just last year we added over 5000 new products to our critical industry lineup. That's quite a few.

So I think you can say with -- we say with confidence, we're rolling the Snap-on brand out of the garage, extending to critical industries with greater strength than ever before. Critical industries is a favorable market environment and we're amplifying that opportunity with innovative new products aimed at solving the tasks of consequence that inhabit that space. And the result is encouraging.

Now let's talk about the Tools Group. Organic sales about flat, up 0.4%. But continued growth in the U.S. operations up low single-digits, a positive that was again offset by a decline in international operations including the UK. Operating income in the quarter was $57 million, comparing to $67.3 million in 2017. The OI margin was 14.0%, a 240 basis point decrease. You can see that in the recent swing to unfavorable currency transaction from a positive position in the prior quarter, in product mix, and in the increased spending to strengthen franchisee support. Those were all the drivers of that margin.

In the quarter and throughout the year however, the Tools group did confirm the strength and the market leading position of our van network. It wasn't evident so clearly in the recent financials, but it was somewhat visible in the franchisee sales gains of their vans in the quarter. And it was clear in the franchisee health metrics, those health metrics we monitor each quarter. The franchisees and the networks are strong.

And the position -- and that positivity was once again acknowledged by multiple publications, all listing Snap-on as a franchise of choice. This quarter, we were once again ranked among the top franchise organizations both in the U.S. and abroad. We were again recognized by Franchise Business Review, which in its latest ranking for franchisee satisfaction listed Snap-on as a top 50 franchise, making the 12th -- marking the 12th consecutive year we received that award.

We were also ranked number one among all franchisees in Entrepreneur Magazine's 2018 list of top franchises for veterans. And abroad Snap-on was ranked number four in the Elite Franchise Magazine's Top UK franchises for 2018, finishing above a number of prominent international and UK only franchises.

Now this type of recognition reflects the fundamental strength of our franchisees and of our van business in general. And it wouldn't have been achieved without continuously investing in a continuous stream of innovative new products. And in 2018, once again, the Tools group increased the number of hit products, those $1 million sellers developed from a direct observation gained in the field. One is our Flex-Head Ratcheting Wrench. We just launched the full complement of these powerful problem solvers, you know, the ratcheting wrenches and we've been expanding our new line continuously and the Flex-Head is the latest addition.

The flexibility of the head makes it possible to access fasteners in very difficult locations, alternator brackets, motor mounts, serpentine belt and suspension bolts. And we put the new

Flex-Head together with Snap-on's durable gearing, extraordinary length and low profile. It all combines for industry-leading strength, power and accessibility. It's another hit product and it makes the line of Snap-on ratcheting wrenches even stronger, even more versatile.

And believe me, we've been working hard to strengthen our tool storage line up, migrating some of the premium options like the power drawer and speed organizer into the mid-range, equipping our Heavy Duty Shop Cart with some of the advanced options like AC outlets and USB ports and introducing our KMP1422, the mid-tier with high capacity and small footprint. And this past quarter, we introduced our new Flip color schemes, creating boxes that shift colors under different conditions and viewing angles. Three different patterns with three distinct color shifts: burgundy-to-bronze, blue-to-purple-to-orange and grey-to-blue-to-gold. They're brand new, but they're catching attention and selling well.

The Tools group may be below the growth trend, but we keep investing, we keep building its strength with new product and network vitality. And it's starting to bring the U.S. channel back to its growth trajectory. Well that's the Tools group.

Now, let's move to RS&I. Volume in the fourth quarter was $339.9 million, down organically 3.5%, primarily because of high single-digit decreases in our business is focused on vehicle OEMs and the dealerships. It’s a turbulent period in that lumpy project-driven sector.

RS&I operating earnings of $87.4 million decreased $2.8 million, including $1.3 million of unfavorable foreign currency. OI margin was strong, 25.7%, up 40 basis points from last year with growth in innovative software and information products driving that progress.

Along those lines, our Mitchell1 division providing software to independent shops, continues to pursue customer connection and innovation, bringing great new products to improve shop efficiency. As an example, we just added our ADAS Quick Link to the Mitchell lineup. The new

Advanced Driver Assistance System or ADAS, helps technicians diagnose, repair and calibrate a variety of driver assist functions, making the required repair information, component locations, wiring diagrams, repair procedures and recalibration processes all available with ease, with incredible ease. And it offers data on products for all OEM brands. So it creates that date at the fingertips of the technicians for all the OEM brands. Our ADAS Quick Link is unique in the industry and it clearly drives shop and technicians' productivity. It makes the repair of lane departure warnings, adaptive cruise control and other driver assists much easier. It's already received and it will be quite popular in the days ahead. Another example of how Snap-on Value Creation is authoring that continues upward trend at Mitchell1.

We keep driving to expand RS&I's position with repair shop-owners and managers, offering more new products to sell developed by our value creation processes or added by our strategic and coherent acquisitions. And we're confident it's a winning formula.

Well, that's our quarter. OPCO organic sales decreased 0.6%, about flat to last year. Significant positives in the critical space that is C&I, favorable trends in the Industrial business, gains in India, Thailand and Indonesia, overcoming the China turbulence and the ongoing return of the U.S. van channel to growth. The impacts of near term uncertainty, transition to lower auto sales, and the turbulence of Brexit about offset by those positive gains.

OI margin as adjusted, 18.7%, down 70 basis points. Still strong, but impacted by the shortfall in the van channel, the unfavorable flip in the currency, and the spending to strengthen our U.S. van channel. And, an overall as adjusted EPS of $3.03, up 12.6%. That's our 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 $952.5 million in the quarter were down 2.3%, reflecting a 6/10 of 1% organic sales decline, $0.4 million of acquisition-related sales and $17.1 million of unfavorable foreign currency translation.

The organic sales decrease this quarter, principally reflected low single digit declines in sales to repair shop owners and managers in the Repair Systems and Information segment, largely offset by a low single digit growth in the Commercial and Industrial segment.

Sales in the Snap-on Tools segment were essentially flat, but reflected low single-digit gains in the U.S. franchise operations. Consolidated gross margin of 48% improved 20 basis points, primarily due to savings from RCI initiatives, partially offset by higher material and other costs.

The operating expense margin of 28.9% reflected 40 basis points of benefit from the $4.3 million legal settlement Nick referred to earlier. This compares to an operating expense margin of 31.6% last year which included 320 basis points of negative effect associated with a $30.9 million legal charge incurred during Q4 of 2017.

Operating earnings before financial services of $182.1 million or 19.1% of sales compares to $158 million or 16.2% of sales in Q4 2017. Excluding the effects of the legal items in both years as adjusted, operating margin before financial services of 18.7% compared to 19.4% last year.

Financial services revenue of $82.7 million and operating earnings of $56.1 million increased $2.8 million and $1.7 million respectively from 2017. Consolidated operating earnings of $238.2 million or 23% of revenues, including $4.5 million of unfavorable foreign currency effects, compared to $212.4 million or 20.1% of revenues a year ago.

Excluding the effects of the legal items in both years as adjusted, operating margin of 22.6% compared to 23.1% last year.

Our fourth quarter effective income tax rate of 22% compared to 33% last year. Our Q4 2017 rate was reduced by 120 basis points as a result of the legal charge recorded in that period, but was increased by 360 basis points as a result of a $7 million charge related to the implementation of the new tax legislation in the U.S. Excluding both the legal and tax charges, the effective tax rate in the fourth quarter of 2017 as adjusted was 30.6%.

Finally, net earnings on a reported basis of $175 million, or $3.09 per share, including a 6-cent unfavorable impact associated with foreign currency, compared to $129.5 million or $2.24 per share a year ago. Excluding 6 cents per share for the legal settlement, adjusted earnings per share were $3.03, up 12.6% compared to Q4 2017 adjusted earnings per share of $2.69, which excluded the legal and tax charges last year. Now let's turn to our segment results.

Starting with C&I group on Slide 7. Sales of $343.7 million in the quarter increased 6/10 of 1%, reflecting a 3.5% organic sales gain and $0.4 million of acquisition-related sales, partially offset by $9.9 million of unfavorable foreign currency translation. The organic increase included a double digit gain in sales in both our Asia Pacific operations and specialty tools business, as well as a low single-digit gains in our European based hand tools business and in sales to customers in critical industries.

Asia benefited from a strong sales performance in India and across Southeast Asia, more than overcoming lower sales in China. Within the critical industries, continued strength in sales into the aerospace segment, as well as in general industry, more than offset softer sales to the military and natural resources.

Gross margin of 38.5% decreased 80 basis points, primarily due to this higher sales volumes of lower gross margin products principally in Asia Pacific, as well as higher material and other cost, partially offset by savings from RCI initiatives.

The operating expense margin of 23.7% improved 60 basis points, primarily as a result of sales volume leverage. Operating earnings for the C&I segment of $50.8 million decreased 1%, and the operating margin of 14.8% decreased 20 basis points from 15% in 2017.

Turning now to Slide 8. Sales in the Snap-on Tools Group of $407.4 million decreased 4/10 of 1%, reflecting a 0.4% organic sales increase more than offset by $3.4 million of unfavorable foreign currency translation. The organic sales change includes a low single-digit increase in the U.S., partially offset by a low single-digit decline internationally.

Gross margin of 40.2% decreased 120 basis points year-over-year, primarily due to increased sales of lower gross margin products, as well as 20 basis points of unfavorable foreign currency effects and higher material and other costs.

The operating expense margin of 26.2%, increased 120 basis points year-over-year, primarily due to higher costs, including efforts to provide greater levels of field, marketing and technical support for our franchisees. Operating earnings for the Snap-on Tools Group of $57 million decreased 15.3%, and the operating margin of 14% compared to 16.4% in 2017.

Turning to the RS&I Group shown on Slide 9. Sales of $339.9 million decreased 4.7%, reflecting a 3.5% organic sales decline and $4.7 million of unfavorable foreign currency translation. The lower organic sales reflects a high single-digit decline in sales to OEM dealerships and a low single-digit decrease in sales of undercar equipment.

Gross margin of 47.5% improved 210 basis points, primarily as a result of the shift in sales that included reduced volumes within our OEM facilitation programs, which typically feature lower gross margin products. Gross margin also benefited from RCI.

The operating expense margin of 21.8% increased 170 basis points year-over-year, primarily due to the effect of lower OEM facilitation sales volumes and higher other costs. Operating earnings for the RS&I group of $87.4 million decreased 3.1% from prior year levels. However the operating margin of 25.7% improved 40 basis points from last year.

Now turning to Slide 10. Operating earnings from Financial Services of $56.1 million on revenue of $82.7 million increased 3.1% and 3.5% respectively from a year ago. Fourth quarter Financial Services expenses of $26.6 million increased $1.1 million, primarily due to a $500,000 year-over-year increase in provisions for losses on contract receivables and increases in other operating expenses. Total provision expense for finance receivables of $16 million in the fourth quarter was the same as in 2017. As a percentage of the average portfolio, Financial Services expenses were 1.3% in both of the fourth quarters of 2018 and 2017.

The average yield on finance receivables in the fourth quarter was 17.7%, compared to 17.8% in 2017, driven principally by product mix and reflective of the credit quality of customers originating loans over the past several months. The respective average yield on contract receivables was 9.2% for both 2017 and 2018.

Total loan originations of $267.1 million increased $2.1 million or 8/10 of 1% year-over-year due to higher origination of contract receivables, principally franchise finance. While finance receivable originations were essentially flat, we did see some sequential year-over-year improvement in the United States.

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 $16.8 million in the fourth quarter.

As for the 60 day plus delinquency trends, they are stable year-over-year and also reflect the seasonal increase we typically experience in Q4. As it relates to extended credit, or finance receivables, the largest portion of the portfolio, trailing 12 month net losses of $52.3 million represented 3.16% of outstandings at quarter end, up 24 basis points year-over-year, but essentially flat sequentially again this quarter, further supporting continued stabilization in the portfolio's credit metric performance.

Now turning to slide 12. Cash provided by operating activities of $215.9 million in the quarter, increased $22.4 million or 11.6% from comparable 2017 levels, primarily reflecting higher net earnings, partially offset by the settlement of the employment-related litigation matter. Net cash used by investing activities of $60.8 million included net additions to finance receivables of $38.4 million and capital expenditures of $22.4 million.

Net cash used by financing activities of $135.1 million included cash dividends of $53.1 million and a repurchase of 630,000 shares of common stock for $99.7 million under our existing share repurchase programs. Full year 2018 share repurchases totalled 1.769 million shares for $284.1 million. As of year-end, we had remaining availability to repurchase up to an additional $215.7 million of common stock under existing authorizations.

Turning to slide 13. Trade and other accounts receivable increased $17 million from 2017 year end, including $20.8 million of unfavorable currency translation. Days sales outstanding of 67 days compared to 66 days at 2017 year end. Inventories increased $35 million including $23.2 million of unfavorable foreign currency from 2017 year-end. As a reminder, the increase in inventory from 2017 year-end 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 2.9 compared to 3.2 at year-end 2017. Inventories decreased approximately $17 million from the end of the third quarter. Our year-end cash position of $140.9 million increased $48.9 million from 2017 year-end levels.

Our net debt-to-capital ratio decreased to 24.2% 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 $177.1 million of commercial paper borrowings outstanding.

That concludes my remarks on our fourth quarter performance. I'll now briefly review a few outlook items for 2019. We anticipate that capital expenditures will be in the range of $90 million to $100 million. We currently anticipate that our full year 2019 effective income tax rate will be comparable to our full year 2018 effective tax rate of 24%.

I'll now turn the call back to Nick for his closing thoughts. Nick?

Nick Pinchuk: Thanks, Aldo. The Snap-on fourth quarter, near-term turbulence, the auto sales transition and the associated uncertainty, and the effect of Brexit. All of that about offset by C&I's favorable trajectory, -- continuing the favorable trajectory of C&I, continuing to extend in critical industries, Asia Pacific progressing, overcoming China's turbulence, and the Tools U.S. recovery.

We believe strongly in our opportunities for growth and improvement. That's why we keeping increasing our customer connection and working on innovation and launching new products. Looking forward, we see attractive opportunity and we believe we have a strong position to take advantage, a position in product, in an optimistic and capable van network, in a growing penetration of critical industry, in a building array of unique repair databases and in expanding capability in the broad markets of Asia Pacific…all serving as an effective base for moving forward, for offsetting turbulence and for achieving a positive trajectory through 2019 and beyond.

Before I turn the call over to the operator, I'll speak directly to our franchisees and associates around the world. I know you more than anyone see the turbulence of the day. And I know that we've been able to prevail because of your extraordinary capability, energy and dedication. For your role in our progress, you have my admiration. And for your unfailing commitment to our team, you have my thanks.

Now I'll turn the call over to the operator. Operator?

Operator: Thank you. Ladies and gentlemen, at this time, we will open the floor for questions. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad.

If you're 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 Curtis Nagle with Bank of America.

Curtis Nagle: Good morning, and thanks very much for taking the question.

Nick Pinchuk: Hi.

Curtis Nagle: So I guess the first one. Good morning, Nick. How are you?

Nick Pinchuk: Fine.

Curtis Nagle: Could you guys – good, good. Maybe speak just a little bit more specifically about why you guys are -- it sounds like pretty confident that the U.S. franchise business is on a trajectory of sustained growth after, you know, a couple of years of, you know, fairly modest results on a revenue basis.

Nick Pinchuk: Yes. Look, I think this is the thing. I mean, there are a lot goes in and goes out in this quarter, as you can listen. But the thing is, if we look at our franchise business, a second quarter – there's a second quarter of positivity, positive growth, a return to positive growth.

And we think, if you look at the sales off the van, they exceeded the numbers. They were, you know, -- now, over time, the sales of the van generally equal our numbers. But, our sales aren't sales off the van, they're sales to -- our sales are the sales to the franchisees then they sell to end customers. The end customer sales were pretty strong in this quarter and they started to approach where we want the Tools business to be so we're encouraged by that. It's one data point, but we're encouraged. And then we saw how we came out of 2018 toward the end of the year they were positive. So, I think we feel good about that.

More than that, when you talk to the franchisees, they're optimistic. I spend a lot of time talking to them and I look at our product line. I think our product line is nonpareil and stronger and getting stronger every day and the franchisees agree.

Curtis Nagle: Got it. And then just quickly shifting to RSI. I don't know if you specifically commented on this, but how did the diagnostics businesses fair and, you know, how you're looking at next year and then when does the MODIS launch?

Nick Pinchuk: Yes. Well, first of all couple of things, MODIS is an existing product. It's not a launch. It sold very well in the quarter. The diagnostics business, diagnostics sales primarily through the Tools group -- the Tools group sales of diagnostics were up year-over-year. It was a less rich mix, which is one of the product mix problems associated with Tools group margins. But MODIS and SOLUS sold very well through in diagnostic, in terms of the Tools group. If you signal back to the RS&I business itself, the sales to the Tools group were less than last year. But that just has to do with the inventory adjustments between the Tools group and RS&I. I would suggest that diagnostics had a pretty robust selling period in this quarter.

If you look at Repair Systems and Information, we usually, how we describe that is the Repair Systems and Information sold to independent shops, it's fairly positive and they're good margin drivers for RS&I, which is part of the reason why you see RS&I 25.7% up 40 basis points.

Curtis Nagle: And then how you think about this year?

Nick Pinchuk: I feel, I kind of like our product line, when I see it coming out I like the momentum in this year. So quarter-to-quarter you can, you know, one of the things you'll find as you follow us over time, you can't really hang yourself in any one quarter in terms of products as you break it down by product. But we like our diagnostic offering, they are better than anything in the market. And it's only getting stronger in providing more options for customers, for technicians. And no one can match them and we have enhancements coming in the next year.

Curtis Nagle: All right. Thanks very much. I appreciate it.

Nick Pinchuk: Sure.

Operator: Thank you. We'll take our next question from Christopher Glynn with Oppenheimer.

Christopher Glynn: Thank you. Good morning. Can you hear me?

Nick Pinchuk: Yes, sure. Good morning.

Christopher Glynn: Okay, great. Hey. So at C&I the 3-1/2% organic was particularly striking on the comparison, you're up 10% last year so that stood out. I'm just wondering if that, you know, equates as comparisons normalize to increase the organic confidence and ability and visibility for C&I as you contemplate 2019.

Nick Pinchuk: Actually, 3-1/2% was nice. I mean, I think if you look at over five -- C&I is one of those businesses, which tends to be more variable in terms of the -- even though it's got positive trajectory, our C&I has grown, take a look at our Industrial business it's grown over the last five quarters like at 7% -- 7% or 8% organically. But, quarter-by-quarter, it's been all over the map, mid-teens and some low single-digits because of the calendarization of those orders. That was the basis of my comment. So we thought this quarter was nice. We had great order activity. We did well in aviation and other places. But, but, in general industry, but we, you know, it wasn't as strong as some other quarters. So this was kind of a little bit of a flat period for C&I, it's still was a good -- if you look at the overall trajectory it was very strong.

Christopher Glynn: Okay. Yes, I thought so too …

(Crosstalk)

Nick Pinchuk: So I guess the other way to say that is we have positive expectations around C&I.

Christopher Glynn: Okay. And then for SOT between mix and investment, margins were down quite a bit there. I'm just wondering how we think about the margin run rates currently that you experienced for the full year 2018.

(Crosstalk)

Nick Pinchuk: Sorry, sorry go ahead. Sorry.

Christopher Glynn: Yes. And just if there are any kind of sustained headwinds, if we should expect a little continued pressure there.

Nick Pinchuk: You know, the currency is going to be -- the currency flipped on us. They had 40 basis points of good news last quarter in currency. That flipped to negative this quarter. So part of the problem -- I usually don't mention currency, but part of the problem is that flip, you can't necessarily adjust in pricing and other things that quickly. And so it was kind of an unusual flip for us, we usually don't see it that quick. We'll see continuing pressure, but we'll deal with that in terms of market pricing and so on and RCI and so on. You're going to see some pressure on material costs, and that eats up some of our RCI, but we have RCI against those.

The margin mix I think was more or less kind of a phenomena that is hard to forecast, but this was a particularly low point of the quarter. Fundamentally last year you were selling, you were pounding ZEUS into the marketplace. Diagnostics -- our highest priced diagnostic unit great margins, this time we were pounding the -- we're pushing the non-intelligent diagnostic portion of our lineup, the MODIS and the SOLUS, so those are lower margins. That was pretty much what drove that. I wouldn't expect that to continue in that kind of level going forward. So I suppose that's a long way of explaining why we thought this was kind of a lower point.

Christopher Glynn: Got it. Thank you.

Aldo Pagliari: Sure.

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

David MacGregor: Nick, I guess I'm just looking at the relatively flat Tool segment organic growth in both 3Q and 4Q, and wondering why do you think the conversion of SFC orders was so disappointing? And I guess while we’re on that, what kind of order growth did you see from the 2019 regional kickoffs and any reason to believe you'll see a maybe a better conversion rate on those orders than you did on the SFC orders?

Nick Pinchuk: Look, I think we've said to till the cows come home, that you can't really get sales from the SFC. If the SFC orders are up and they were up, that's an encouraging event. And part of it is, I tell you the sales off the van have been pretty good. So I kind of feel okay about that. I think if you look at the U.S., we feel even though the numbers aren't quite showing it yet, we see the U.S. making progress. The thing that has bedevilled the Tools group in these is the unlooked for effect of Brexit on the UK and some softness internationally. But it really has offset any kind of gain we see in the U.S. and I think the U.S. gain is somewhat muted compared to what the franchisees are seeing. So I feel okay about that. I don't think -- I think the SFC kind of did its job.

David MacGregor: And the regional kickoffs, your thoughts there?

Nick Pinchuk: Regional kickoffs, if you look at the orders that are currently coming out the regional kickoffs into the first quarter, they look pretty good. You know? So I feel okay about that. Of course, there are always ups and downs when you go from region-to-region-to-region and from franchisee-to-franchisee. But I think when we look at the effect -- and what we've tried to do was, bring the effect in closer to those events as we did -- as you know we did in the SFC, and that seems to have worked some in the divisional kickoffs, as well as the SFC.

David MacGregor: You've got the lower inventory turns even adjusted for the $20 million year-over-year. I guess, do you feel like you're over inventoried right now in big ticket merchandise or just what's the makeup of that segment …

(Crosstalk)

Nick Pinchuk: No. I wouldn't say we're over inventoried in big ticket merchandise. I would say that we're adding a lot of tools. We added 5,000 different line items for Industrial last year. So we keep adding the tools. But now, you could say okay, we're not getting all sales we want. But, if you look at the trajectory of our businesses, if you look at near-term maybe you can get in a twist. But if you look at the trajectory of the Tools group over a five, six years, you'll see that it's more than 5%. If you look at the trajectory of C&I, it's a little bit below where we wanted to be. If you look at RS&I, it is where we want it to be. So you get those trajectories. I don't think while we're working on the quarter-to-quarter, we think we see the long-term good and adding the number of products is part of that strategy and we see it working overtime.

David MacGregor: Okay. Just a second question. You'd referenced the increase of $500,000 of provision for contract receivables. Can you -- what can you say right now about current trends in franchisee credit? You called out the franchisee health metrics, I guess what would you cite as being the most bullish of the franchisees attitude?

Aldo Pagliari: David, it's Aldo. The contract receivable provision largely reflects the leased equipment into garages. The franchisee health metrics have been steady and we experienced historically very, very low losses on the franchise portion of that. So, because you're coming off a low base, it just -- you can get noise one quarter to the next. When the K comes out, you guys get to see in about a week, but you'll see on a full year basis, the provisions for contract receivables are actually lower on a full year basis, so you just get some noise quarter-to-quarter. But in this quarter mostly adjustment relates to leased equipment to garages.

David MacGregor: Are you comfortable with current trends in franchisee credit? Are you seeing any inflections there that should be …

Aldo Pagliari: I certainly am comfortable. I'm certainly very comfortable.

Nick Pinchuk: We are comfortable.

David MacGregor: Yes. You're not seeing any inflections?

Nick Pinchuk: No. We're not seeing any inflections.

Aldo Pagliari: None.

Nick Pinchuk: In fact, if anything, I think it's getting better. So, I mean, I don't know.

(Crosstalk)

Nick Pinchuk: Yes. Sure.

Operator: Thank you. We'll take our next question from David Leiker with Baird.

Joe Vruwink: Good morning. This is Joe Vruwink for David.

Nick Pinchuk: Yes, Joe.

Joe Vruwink: I wanted to drill in to Tools group margin a bit more so I understand the dynamic with the diagnostic product category. Can you talk about Power Tools growth in the quarter? And then, was that subject to additional tariffs pressures at all in the quarter?

Nick Pinchuk: Power Tools had some tariff pressure in the quarter, but its growth -- it was -- I wouldn't call it a factor in the quarter. Power Tools -- except that Power Tools was one of the places that didn't grow in the quarter in the Tools group. So Power Tools didn't have a particularly robust quarter. It had a pretty good quarter last quarter. So we kind of didn't read anything into that, but it didn't have particular growth. So it wasn't -- if you're looking for the tariffs effect of that, I wouldn't call that a factor here.

The factors are the ones I called out. The flip, if you look at the currency around the pound and the Canadian dollar and so on, where they went in the last quarter and particularly the end of the last quarter you can see that motion. And so, we just didn't -- maybe we should have been better at it, but we didn't get our oar in the water quickly enough. And so that 40 basis point to 20 basis point flip was a tough one on them. And then they do spend, we want them to spend, and by the way, we think that's paying off when you see the sales off the van, and then if you look at the margins, the product mix, it was a particularly weak product mix compared to the ZEUS in the last quarter. That's the way it played out. And so yes, you're rightly pointing out that, that was a -- arithmetically that was a dominant number.

Joe Vruwink: And then on the franchisee support initiatives. I understand those are going on all the time, but they typically don't get called out in the quarterly deck. So, was it a larger than normal investment in the quarter? And if that's the case, why now?

Nick Pinchuk: It's somewhat larger. But the thing is part of it is that we, you know, remember I said that -- I wouldn't say it's like, what I would call a singularity in the quarter -- in this quarter. But remember, when you have your intelligent diagnostics and we have more of these, I would say, more complex product offerings around the new hand tools, around Flex-Head ratchetings, around the FDX, the hand tools around Flank Drive Extra and around the intelligent diagnostic. You go to spend, we made a conscious decision that we have to spend more time helping our franchisees communicate the value of those to the marketplace, so that's been growing a little bit.

And we see the payoffs though. I'm telling you, we think, we see the payoffs. I think the -- I like the sales off the van this quarter. So I feel okay about that. Now, this is as you say arithmetically dominant, you pointed out, arithmetically dominating is that margin shortfall. But part of it is that, but also the margins, the product mix is a big thing in that, and the reversal on the currency. And then of course you have some tariffs and some materials eating up some of our RCI.

Joe Vruwink: I think Snap-on has a pretty good track record of making these corporate investments when you see a growth opportunity. I'm thinking about the Rock N Roll cabs and the TechKnow vans and some of the early cycle studying the franchisees and increasing their productivity. All of those investments ultimately drove an organic growth improvement.

Nick Pinchuk: Yes.

Joe Vruwink: Is that what we're seeing this quarter, calling out the investment and the technical skills so your franchisees are better positioned to sell diagnostics? Would you expect that drives an acceleration in diagnostic growth during 2019?

Nick Pinchuk: I would expect it would drive a richening of our mix around software which it's doing and presumably a robust diagnostic sales, but also robust hand tool sales. And hand tools were nice in the quarter, so I feel positive about that. It's harder to -- it's not as easy as the Rock N Roll cabs because the Rock N Roll cabs was very palatable. Anyway, we're pretty positive about the quarter. Joe, if the UK and the international businesses didn't find the problems associated with Brexit, this would look a lot different. I think.

Joe Vruwink: And then my last question, on RS&I. You know, U.S. auto sales have been plateauing around $17 million for four years. This is probably going to be the fifth year around that level. So, it doesn't really seem like there is a major change in the end market outlook, and yet you're getting feedback from your sales team that the OEM dynamic has changed. Is there something else going on?

Nick Pinchuk: No, I don't -- I think didn't IHS take down the market below 17? Didn't NADA take down the market below 17? So I think they’ve forecasted down below 17. Didn't GM announce that they're closing a bunch of plants and therefore drawing in their home? I think everybody's been kind of demurring on this market, a lot of very public announcements. And I would suggest that that creates an aura. I'm not surprised at this at all. I think that creates an aura of uncertainty.

I'm not saying that this is a long-term thing. I think this is a shorter-term thing. I think we're feeling pretty good about next year in terms of projects. I think eventually, it's like gas prices. When gas prices go up everybody stops driving for a couple of weeks. So I think this is the same kind of thing and that's how I view it. Now, I could be wrong about this and we could be wrong, but that's the way we see it. The OEM projects have been coming down and we see some opportunities next year. So we think the effect was up. But I think the -- it's the concern and conservatism over what's going to happen in the future.

Joe Vruwink: And then last question on this. So even though there might be some questions around overall industry volume there are more new vehicles launching in 2019 versus 2018 and that typically is good for your facilitation business. Would you expect that to contribute more in ‘19 versus, you know, ‘18, was a down year versus ‘17? Does that come back for you?

Nick Pinchuk: Yes. I think so. I mean, of course famous last words. You know what I mean? But, yes. Yes.

Joe Vruwink: Thank you.

Nick Pinchuk: Sure.

Operator: We'll take our next question from Brett Jordan with Jefferies.

Brett Jordan: Good morning, guys.

Nick Pinchuk: Good morning.

Aldo Pagliari: Hey, Brett.

Brett Jordan: I guess on the Tools group margin again. I guess, I was thinking about that franchise support spend. And I guess, also you talked about lower margin mix. Was there anything I guess either accelerated rate of promotions this quarter year-over-year? Or maybe you could talk specifically about tool storage and whether your volumes were up year-over-year and sequentially in that space.

Nick Pinchuk: Tool storage was okay. Tool storage volumes were up. I don't think there was anything particularly special about the promotions around tool storage. I would suggest that there were special things around promotions around diagnostics. And, you know, I don't think -- we see these things from time-to-time. But remember, what we did was we had been pushing the intelligent diagnostics, you know, the software packages, the Apollo and the ZEUS with the data packages for what, three quarters. And so we've been pounding those. And there are other customers who are little bit less software receptive and want to look at the non-intelligent diagnostics, the non-enabled products that are MODIS and SOLUS. And so it came their time, and so we pushed those. And, you know, generally, when you do that, you do put promotions around it to get franchisee attention and give customers a reason to buy, and that's what happened in this situation. And the comparison to last year which was rolling out this new product ZEUS, the best thing since sliced bread and it is, it's a tough comparison.

Brett Jordan: Okay. And then I guess one question on the OEM side. Is there -- and this is sort of big picture. But do you see the OEMs sort of pushing more toward an OE tool set in the sense that I guess, Fiat Chrysler is now encrypting the OBD port. They haven't activated it yet, but sort of trying to protect their software internally. And are the OEMs pushing their own as opposed to outside buys now as a bigger structural trend?

Nick Pinchuk: No, I don't think that's a factor. I don't think that's a factor for us. It's always something we watch Brett. But I think for a dog's age they've wanted to take more of the repair back, but they haven't really been successful in doing that. I mean, this is what you're talking about, in Chrysler it's just the latest iteration of that effort I think. We watch it carefully, but I don't think it's an impact in what I'm talking about. What I'm talking about I think is more or less that fewer projects were done in the last couple of years -- in the last year -- and I think that had to do with the anticipation of uncertainty associated in a sense. And the dealership themselves. I mean, automation talked about restructuring I think the other day. And they're talking about it, that you say they talked about 40% less investment in dealerships. And so, you have all that stuff rolling through the industry. I just think these guys are getting up every day and getting bad news for breakfast and they're pulling in their horns a little bit. But that after a while they start saying wait a minute, I don't have new car sales but I better get some parts and service sales.

Brett Jordan: Okay. So you don't see it. It's not -- it's just lower spending, it's not a reallocation of where they are spending?

Nick Pinchuk: I don't think so. No. We're not seeing that.

Brett Jordan: All right. Thank you.

Nick Pinchuk: Sure. Thank you.

Operator: Thank you. Ladies and gentlemen, at this time there are no further questions in the queue. I would like to turn the floor back over to Ms. Sara Verbsky.

Sara Verbsky: Thank you all for joining us today. A replay of this call will be available shortly on snapon.com. As always, we appreciate your interest in Snap-on. Good day.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.