FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Snap-on fourth quarter 2009 conference call. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Leslie Kratcoski, Vice President, Investor Relations. You may begin.

Leslie Kratcoski - *Snap-on Incorporated - VP IR*

Thank you. Good morning, everyone. Thank you for joining us today to review Snap-on's fourth quarter 2009 results, which are detailed in our press release, issued earlier this morning. Before we begin, I would just like to take this opportunity to introduce myself. As Mark said, my name is Leslie Kratcoski and I joined Snap-on in December. I've already had the pleasure of speaking with several of you and I do look forward to meeting and working with all of you. We have on the call today Nick Pinchuk, Snap-on's Chief Executive Officer; and Marty Ellen, Snap-on's Chief Financial Officer. Nick will kickoff the call this morning with his perspective on our performance. Marty will then provide a more detailed review of our financial results. Afterwards, we'll take your questions.

As usual, we have provided slides to supplement our discussion. You can find a copy of these slides on our website next to the audio icon for the call. These slides will be archived on our website, along with a transcript of today's call. Any statements made during this call relative to management's expectations, estimates, or beliefs, or otherwise state management's or the company's outlook, plans, or projections, are forward-looking statements and actual results may differ materially from those made in such statements. Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings. With that said, I'll now turn the call over to Nick.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Thanks, Leslie. Good morning, everybody.

Well, 2009 is in the books, and we finished the year with another quarter of progress. The tools group and the commercial industrial group both ended with sequential improvements, so while we were challenged throughout the year, we were encouraged again by the fourth quarter results. We believe that it's fair to say that the Snap-on team extended its ongoing trend of operating improvement and of strategic progress. In the fourth quarter, our overall operating margin of 11.5% before financial services was our highest of the year, and it was more than 200 basis points up from where we were at the end of the third quarter, and while the earnings are below the 2008 record fourth quarter levels, we did finish 2009 with a relatively strong performance and were well positioned for the opportunities as they unfold going forward.

Marty will take you through the financials in a minute, but first I'll provide some perspective on the market environment, cover some of the operating highlights, and discuss just how we're managing through the uncertain times. For the overall corporation, excluding currency, which now has turned positive for us, fourth quarter sales were down 11.1% from 2008. There was an overall 5% sequential increase from the third quarter, but that's about in line with normal seasonality.

I think it's fair to say that on balance we believe the markets have stabilized, but overall, they are not yet clearly rebounding. In that, however, there's some mild good news. We believe that distributor destocking is behind us, and we did see some modest strength in stronger than seasonally normal sequential sales increases from our industrial division. However, Europe, Europe in general continues to lag, not showing any significant signs of recovery, and the distributors there appear to be reluctant to begin restocking.

I believe you know by now that we closely monitor big ticket sales, big ticket items, diagnostic items and tool storage units sold through our van channel and undercar equipment sold through the C&I Group. These are high value products purchases that are either more discretionary or have a longer payback, and we believe they can be a reasonable barometer of the overall market environment, and, by extension, they can be a gauge of the general confidence level for our various customers, customers like garage owners who are in themselves small businessmen, trying to forecast the future before making investments in longer-term items. Here again, the signs for us are mixed. Equipment continued mildly favorable trends, but tool storage and diagnostics were down slightly, showing no recovery, so as I said, mild favorability, but no broad upswing.

So in this uncertain environment, we'll continue to balance the need for operating improvement, balance that need with the investment in growth areas of strategic importance. We'll remain focused on the elements of our Snap-on value creation, areas like rapid continuous improvement, RCI, as we call it, innovation, customer connection, safety and quality. Those are the processes that have been so transformative in helping us weather this difficult environment and weather it with encouraging results.

Speaking of results, our full year organic sales were down 14% in 2008, but we're reasonably encouraged that we're able to limit the impact of that downturn on a sales decrease of about $390 million, the operating income change was contained to $118 million, and that included an additional $7 million of restructuring spend. We believe that's a strong testament to the improvements we've continued to make, even in the turbulent times. Throughout the past year, we also continue to focus on those areas we believe will be strategically decisive for Snap-on, for our operations going forward.

Maintaining the health of our franchise network expanding our presence in vehicle repair segments, rolling the Snap-on brand out of the garage and into other mission-critical arenas, and strengthening our physical capability in emerging markets. During the quarter and throughout the year, we continue to invest and advance along each of those crucial dimensions.

So now let's move on to a discussion of the operating groups and of their progress in those strategic areas. The C&I Group posted its strongest quarter of the year with operating income at $21.7 million. As expected, we spent $5.7 million in the quarter on restructuring in that segment, primarily in Europe. S&A Europe, our European-based tools business, that operation continues to experience some of the largest sales declines in the segment, and that reflects the market the operation serves and its strong concentration in the south of Europe, which has been particularly hard hit by the recession, and Spain still has the 17 or 18% unemployment rate. So it's understandable. Appropriately therefore, that business incurred the majority of the restructuring expense in the quarter.

At S&A Europe, we're taking aggressive actions. We're acting to contain costs and to permanently reduce the fixed expense, while not taking out capacity. Because we believe the capacity will be needed when the markets recover. With the volume decline, inventory reduction efforts, and restructuring costs, S&A Europe accounted for a major slice of C&I's income decline for 2008. On the other hand, the results from the other C&I business in the fourth quarter were fairly positive despite the market environment and a volume decline, despite that volume decline.

Through RCI and reaping the benefits of past restructuring actions, the remaining C&I business have essentially offset the impact of the decline, an encouraging performance given the times, we believe. For example, the industrial division. Now, before the downturn, this is a business that was expanding nicely and had achieved record sales in the fourth quarter of 2008. Sales were down in 2009 versus that record. There remains, however, continuing opportunity industrial that we believe will accelerate in a sustained recovery.

Mission critical industries like railroads, aerospace, educational opportunities, the military, emerging industries like wind power, these customers value the Snap-on brand reputation for productivity, reliability and repeatability and they are embracing Snap-on innovations. Our industrial division registered significant wins in the past quarter in all of the industries I mentioned and its sales showed double-digit increase, sequential increase ahead of normal seasonality. We also saw some positive trends in the equipment division, especially in North America. A strong seasonal increase versus the third quarter.

As I said in the past, when it comes to innovation in RCI, equipment is one of our great success stories. In the fourth quarter, sales of alignment equipment were a real bright spot for us. Our imaging and alignment technology is second to none and we believe that advantage is helping us gain share in the strategically important garage infrastructure space. The equipment business also made some fine improvements in the quarter in RCI, process cost reduction, design cost improvements, and purchasing savings.

They all combined to make equipment one of the big drivers of C&I profitability in the period. Moving on to the tools group, where the fourth quarter was also the strongest of 2009. Earnings increased both sequentially and from the prior year. In fact, the fourth quarter operating income margin of 13.2% is the second highest reported for any quarter by the tools group in over five years. Encouraging given the sales levels. Sales were up about 2% from the third quarter. That's about in line with normal seasonality. And while we're not seeing recovery on big ticket items, our hand tools continue to perform solidly.

Of course I think -- I'm sure I've said this in the past, that hand tools are the products where users can see the most immediate productivity increase and the quickest payback. So it stands to reason that Snap-on would perform well in that product line, even in these times. Repair work, after all, is reasonably strong. The mechanics have cash. They may not have great visibility to the days ahead, but they are willing to spend in making today's job easier and more productive. And they are doing just that with Snap-on hand tools.

In the past, I mentioned the importance of supporting our franchisee network and ensuring it remains strong. This, this was a strategic focus for us as we entered the downturn, as we've managed through it. And we've had success in that goal, both in the fourth quarter and throughout 2009. A number of actions we call Snap-on's franchisee stimulus program seems to be working. Van count has held firm now for several quarters and van turnover, franchisee turnover continues at historical all-time lows. I'll let Marty cover the finance company in detail, but I'll just say that the integration of Snap-on Credit is moving forward, on plan, without disruption to our customers and our franchisees. The credit company is a powerful asset to supporting our franchisees and maintaining that advantage was a key win for us in 2009.

Now a word about diagnostics and information, or D&I. That group had another solid quarter. Organic sales were down from 2008 by 16.6% $25.7 million and as in past quarters, the declines were focused primarily at equipment Slowings, or EQS, and

Snap-on business solution, SBS. Those are the businesses most directly impacted by the turmoil in the OEM dealership space in North America. Having said that, though, RCI and other cost reduction activities have limited the damage and kept operating income levels strong. At $30 million for the period, representing 23.2% of sales for the group.

Beyond that, we're starting to see some glimmer of positive activity from the OEMs. They do seem to be moving forward, selected essential tool programs that have upside for EQS and EPS and SBS, though challenged by dealership consolidation, is having some success in offsetting the declines with sales outside North America and in near adjacent markets, places like commercial vehicles and construction equipment. And through our handheld diagnostics business and Mitchell One, Snap-on is expanding its presence in the garage infrastructure segment, providing integrated solutions, offering productivity enhancements to the growing independent shop segment throughout North America.

I think it's important to remember again that Snap-on is tied to auto repair rather than to the overall auto manufacturing industry. And we believe that the fundamental drivers of that repair segment remain positive. Miles driven and rising again and household spending for auto repair are increasing. The indicators remain favorable for the future for that sector. I'll wrap up with emerging markets. We've been committed to moving forward with our initiatives in Asia and eastern Europe.

Throughout the year, we've been committed throughout the year. We've added distribution capabilities and launched new products, specifically designed for those new markets. From band saws to power tools, to undercar equipment. And in the third quarter, we opened a new tool storage manufacturing facility in China and we launched our new plant in Belarus in the fourth quarter.

With that Minsk plant, we added capabilities, but we also created advantage in our cost structure. So those ongoing investments amidst this uncertain environment, we believe demonstrate our commitment to emerging markets. It also speaks to our balanced approach in managing through the turbulence, pursuing cost reduction, while investing for strategic advantage. Now I'll turn the call over to Marty to cover the financials in more detail. Marty?

Marty Ellen - *Snap-on Incorporated - CFO*

Thanks, Nick.

I will begin with our consolidated operating results, which are shown on slide six. Sales in the fourth quarter of $618 million increased 6.2% sequentially from the third quarter. Without currency, sales were up sequentially 5%. As compared to last year, reported sales in the quarter were down 7.4%, and absent foreign currency effects, organic sales declined to 11.1% year-over-year. As we said, we were encouraged by the sequential sales increase in the quarter, in light of the continued head winds, particularly affecting certain markets in Europe.

Consolidated gross profit margin of 46% in the quarter increased 110 basis points from last year. Because of lower production volumes, primarily in Europe, excess capacity costs continue to pose a challenge. However, we were more than able to offset those with material cost reductions, savings from our RCI initiatives, benefits of past restructurings and other cost reductions. The net effect was a 200-basis point gross margin improvement in the quarter. Gross margin was further aided by better sales mix, particularly in the diagnostics and information segment, which improved consolidated gross margin by another 110 basis points. On the downside, restructuring costs included in gross profit, reduced the gross margin by 85 basis points, and currency when measured on a year-over-year basis reduced gross margin by another 90 basis points.

LIFO gains in the quarter from our continued inventory reduction efforts were offset by certain higher inventory provisions and the liquidation of slower moving items. Operating expenses in the quarter of $213 million were up $1.8 million from prior year. We achieved $19.2 million from cost reduction and cost containment actions. We also benefited from $4.7 million of lower restructuring costs that are recorded in operating expenses. These improvements allowed us to more than offset higher pension expense, higher mark to market incentive compensation expense, unfavorable currency of $7.4 million, and certain other expense increases. Also, last year's expenses did benefit by $5.4 million from a favorable preacquisition contingency adjustment at Snap-on Business Solutions.

Total restructuring costs in both the fourth quarters of 2009 and 2008 were $6.7 million, with the majority of this year's relating to the commercial and industrial, or C&I segment. For the full year, restructuring charges of $22 million were up $7.3 million from 2008. Of this $22 million, $18.2 million was in the C &I segment, primarily to improve the segment's cost structure in Europe. As communicated during the third quarter call, we expected that financial services would again incur an operating loss this quarter following the July 16 termination of the joint venture with CIT. The operating loss in the fourth quarter for financial services was $3.8 million, which was within the range previously communicated to you. We'll cover financial services in more detail later, including the dispute with CIT that was disclosed in today's press release.

Again, with this quarter's press release, we have included supplemental earnings and balance sheet schedules, which separate our financial services segment from the other operations of Snap-on. This will now be our standard practice. Interest expense in the quarter increased $6 million year-over-year as a result of higher debt levels. In 2009, we issued $550 million of fixed rate long-term notes. The proceeds from these notes are being used for General Corporate purposes and most importantly for the funding of Snap-on credits on balance sheet portfolio. After year end, we did repay $150 million of floating rate notes that matured in January.

Our fourth quarter effective income tax rate of 31.4% compares favorably to 32.6% in the fourth quarter of last year. And finally, net earnings of $36.6 million, or $0.63 per diluted share increased 44.1% sequentially from the third quarter of 2009. Compared to the fourth quarter of 2008, net earnings declined $22 million, or 37.5%. Of this decline, $13.5 million resulted from the after-tax impact of lower financial services earnings, as well as higher interest expense.

With that, I will now turn to our segment results. Starting with the C&I group on slide seven, segment sales of $302 million improved 13.9% sequentially from third quarter levels. Compared to last year, organic sales in the quarter declined 12.2%, primarily due to the continued economic downturn that is particularly affecting certain European markets, most notably, Spain. On a year-over-year basis, equipment sales in North America were up mid single digits and sales in Asia were up mid double digits.

Gross margin in the C&I segment was 33.6%. Before $4.7 million of restructuring charges, gross margin was 35.2%, down 230 basis points on a comparable basis with last year. The effects of sales mix and excess capacity costs created by lower production volumes, including our inventory reduction efforts, were partially offset by material and other cost reductions resulting in a net reduction in gross margin of 155 basis points. Since year end 2008, inventories in the C&I segment excluding currency were reduced by $76 million. Operating expenses in the quarter declined $4.6 million from prior year. This improvement is principally due to savings from ongoing restructuring and other cost reduction initiatives of $6.5 million, as well as lower sales volume related expenses.

Currency translation increased operating expenses by$ 4.2 million. Operating earnings for the quarter of $21.7 million include $5.7 million of restructuring charges. Before restructuring, the operating margin was 9.1% compared to 12.4% on a comparable basis in last year's fourth quarter, and improved from 5.3% on a comparable basis with the third quarter of 2009.

Turning now to slide eight, on a worldwide basis, organic sales in the Snap-on Tools group declined 3.7% year-over-year. Van count in the US at year end was comparable both to the third quarter of 2009, as well as year end 2008. In our international franchise operations, organic sales in the quarter were down 3.5%. Gross margin in the Snap-on Tools group increased to 45.4% in the quarter compared to 41.6% last year. Without restructuring costs in both years, the gross margin improvement was about 340 basis points.

Currency reduced gross margin by about 100 basis points. Material cost reductions and favorable factory utilization rates against last year significantly improved gross margin by about 385 basis points. Fourth quarter inventory reductions resulted in LIFO gains of about $6.7 million, but this was offset by increased inventory provisions and the liquidation of slower moving items.

Operating expenses in the quarter were down $4.4 million from 2008, notwithstanding currency head winds of $2.5 million. Expenses declined due to lower volume and from savings of $8.5 million, due to RCI initiatives, benefits from prior restructuring actions, and other cost containment initiatives. Also, restructuring costs recorded and operating expenses were lower by $2.9 million. As a percentage of sales, operating earnings of 13.2% in the quarter improved significantly from both 7.8% last year and 11.9% in the third quarter. Before restructuring costs, operating earnings improved 39.2% compared to the fourth quarter of last year on a comparable basis.

Turning to the diagnostics and information, or D&I group, which is shown on slide nine, fourth quarter sales of $129 million declined 15.6%. Before currency the decline was 16.6%. The segment sales decline was primarily due to lower sales to OEM dealerships. Gross profit margin of 53.2% in the quarter improved considerably over 46.7% a year ago, benefiting from an improved sales mix of higher margin, diagnostics, and software products. RCI and other cost improvements more or less offset $2 million of higher amortized product development costs. Operating earnings of $30 million in the quarter for the D&I group declined $4.3 million from prior year. Last year's operating income included a $5.4 million reduction of a preacquisition contingent liability associated with Snap-on Business Solutions. Cost savings from RCI and other cost reduction initiatives more than offset the income decline from the lower sales.

Now turning to slide ten, the comparisons for financial services reflect the July 16th termination of the Snap-on Credit joint venture with CIT. Since that date, we no longer sell contracts to CIT and record gains on sale. Rather, we are building over time an on balance sheet interest yielding portfolio. The fourth quarter loss of $3.8 million was within the range we communicated last quarter. In the fourth quarter, Snap-on Credit grew it's on book portfolio by $137 million.

Moving to slide 11 and 2009 year end, our balance sheet includes gross financial services receivables of $398 million, including $267 million at Snap-on Credit. Of this amount, $227 million are extended credit loans to technicians. As you know, Snap-on Credit continues to manage the run-off portfolio of contracts owned by CIT, which totaled $590 million at year end. We presently expect the portfolio on our books to grow by about 80 million in the first quarter and by about 300 million for all of next year. The net cash requirements of our international finance portfolios are substantially self funding. Portfolio loss and delinquency trends continue to be in line with our expectations.

Now turning to slide 12, consolidated operating cash flow was $96.7 million for the quarter and $347 million for the year, both substantially ahead of the year-ago amounts. As disclosed in our earnings release this morning, we filed a notice of arbitration on January 8 regarding a dispute with CIT relating to various underpayments made during the course of the joint venture. As a result of this dispute, we withheld $81.5 million against our claim which seeks approximately $115 million. On January 29, CIT filed its response denying our claim and asserting certain claims against Snap-on for other matters relating to the joint venture. CIT's claim alleges damages in excess of $110 million, which does include the return of the $81.5 million retained by Snap-on as of year end. This amount is included in other accrued liabilities on our year end balance sheet.

At this early stage, no determination can be made as to the likely outcome of this dispute. With respect to this matter, cash provided by operating activities includes only $10 million in the fourth quarter, and only $20 million for the full year. Free cash flow from operations exclusive of financial services was $110 million for the quarter compared to only $14 million last year. For the year, free cash flow from operations excluding financial services was $290 million compared to $125 million last year. Free cash flow from financial services was, as expected, an outflow in the quarter of about $100 million, and $191 million for the full year. In the quarter, capital spending of $16.1 million included investments at our plant in Minsk and continued expansion of our facilities in China. In the quarter, we also completed the headquarters and R&D facility for our automotive parts and service information business in Ridgefield, Ohio.

As seen on slide 13, trade and other receivables decreased $48 million from 2008 year end, primarily due to lower sales. Day sales outstanding for trade and other receivables was 63 days at 2009 year end as compared to 58 days last year. However, adjusting for currency, last year's DSO would have been 62 days. Inventories at the end of the quarter were down $12 million from last quarter and down $85 million for the year. On a trailing 12-month basis, inventory turns were 4.1 times, but on a trailing three-month basis improved to 4.8 times. Net debt at the end of the quarter was $367 million. Our net debt to capital ratio of

22.2% compares to 25.2% at year end and 21.5% last quarter. If we exclude the $81.5 million of cash withheld from the CIT dispute, our year end net debt to capital ratio would have been 25.8%.

Cash at year end was nearly $700 million. As I already mentioned, we repaid $150 million of long-term notes in January. In addition to our cash and cash flows from operations, we continued to maintain a $500 million revolving credit facility, which does not expire until August 2012. We also have another $20 million of committed bank lines. At year end, the full $520 million of borrowing capacity was available. In addition to these facilities, our current A 2 P 2 short-term credit rating allows us to access the commercial paper market, should we choose to do so. At quarter end, no commercial paper was outstanding. Our liquidity position and access to credit continues to remain strong.

This concludes my remarks on our fourth quarter performance. Before turning the call back to Nick to provide his final thoughts, I would like to mention some considerations for our 2010 outlook, as covered in our press release. Next year, we expect to realize approximately $25 million of year-over-year savings from our 2009 cost savings program. We also expect to incur approximately 18 to $22 million of restructuring costs. We also expect next year to incur approximately $20 million of higher year-over-year pension expense. Finally, capital expenditures in 2010 are anticipated to be in a range of $55 million to $60 million, and we anticipate an effective income tax rate next year of approximately 33.5%.

With that, I will now turn the call back over to Nick. Nick?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Thanks, Marty. Well, that's our take on the quarter. We're encouraged by the results, both financially and strategically. The challenges do continue, but our Snap-on value creation processes are serving us well. Consider that OI percent for the year was 230 basis points higher than the last time our sales were below $2.5 billion, in 2006, not so long ago. That's evidence of real improvement.

We also believe we progressed and achieved strategically. Our franchisee network has been kept solid in the storm. We continue to make in roads in critical industries, taking the Snap-on brand and product lines to new places. We're gaining share in the key segment of repair garage infrastructure and we get stronger in emerging markets every quarter.

I know many of our franchisees and associates are listening around the world, so I'll close simply by observing that none of this progress would have been possible without your support. I congratulate you for your achievement and I thank you for your commitment and your contribution to our team. Now I'll turn the call over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today will come from Jim Lucas, Janney Montgomery Scott.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Good morning, all.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Good morning, Jim.

Marty Ellen - *Snap-on Incorporated - CFO*

Good morning, Jim.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Wanted to start first with just a couple of housekeeping questions. The vitality index percentage of sales from new products, where did that stand in 2009?

Marty Ellen - *Snap-on Incorporated - CFO*

The percentage of sales from new products, we don't actually track that, that carefully in terms of, in terms of our business. I am not a -- we track the general introduction of products, but we don't track it as a percent of sales because at the end, sort of when you get to the bottom of the order of new products, sometimes you have difficulty whether it's really a new product or just a new paint job or a new plastic covering. I will say, though, that we've had a pretty robust product, and I can name a litany of products from power tools to equipment to hand tools that have come out. I think a good, a good, a good barometer of this is when we had the franchisee conference in the late summer, there were 60 or 70 new products just introduced at that, at that forum. So while we don't track it, we feel that it's been growing actually, our new product profile has been growing.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay, fair enough. And then just from a geographic standpoint, could you bring us up to date of your mix of North America and Europe and where emerging market stands as a percentage of overall sales and wanted to transition from there. You alluded a little bit in your prepared remarks with regards to the progress you're making on the emerging markets side. But in addition, on the new markets, was just curious, are there any particular markets that you're doing better than others? You had mentioned on the last conference call that you had to go back and change some of the product offering to go after some of these new market opportunities and just wanted to get an update there as well.

Marty Ellen - *Snap-on Incorporated - CFO*

Well, let me talk about, let me talk about emerging markets. I mean the Asia-Pacific markets, you can tag it at about $100 million. That's roughly what we're selling in that business. This year, we have some good news and bad news out of that market. The exports, the out of the market have obviously been a little bit down, reflecting the developed markets downturn. The business in China and India to name two are up very strongly, but for us that's a smaller base in terms of the total. The businesses in Southeast Asia are down, reflecting the currency profit in Indonesia and the Philippines. Our European business, I think European business, you can say that our business outside the United States in total is about 40, 40%-plus outside the US. 42%, I think. And that's been about steady over the last several quarters. Does that answer your question for geographic?

Jim Lucas - *Janney Montgomery Scott - Analyst*

Yes, that does on the geography side.

Marty Ellen - *Snap-on Incorporated - CFO*

And the other piece of the question you're talking about individual, like critical industries, is that what you--

Jim Lucas - *Janney Montgomery Scott - Analyst*

Yes.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes. Well, you know, we continue to make some progress in, in I would say natural resources, in terms of that business. That seems to be selling fairly well around the world in places like Mexico and places like -- even in Europe. So we had some reasonably good wins in that area. Actually, aerospace we had some good wins in the past quarter, with Gulfstream and some other people. We saw some wins in the government and education, while down quarter to quarter, because third quarter is always a big one in education, it was still pretty strong.

Suffice it to say that the industrial business, which is driven by those mission critical industries these days, is up quarter to quarter sequentially. So we were pretty encouraged by that. I think what we've seen, Jim, is that the industrial business entered the recession late. It had a gang busters quarter last year in the fourth quarter. The first part of the first quarter of 2009, it was still reasonably strong. And then it dropped off some. And what we're seeing is them, them recover.

I'm mildly encouraged by what I saw in the results. I also met with about -- with several hundred of the salesmen. We had them in for their annual conference. And when you talked about people from Louisiana in oil and gas or people from Washington selling to the government or people from the West Coast in aerospace, they seem optimistic. So we're, we're looking for some mild optimism in that area.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay, and then with regards to any commentary you can give with regards to what you're seeing on the pricing front and more specific with regards to material prices, are you beginning to see any inflationary pressures?

Marty Ellen - *Snap-on Incorporated - CFO*

We don't really have any significant pricing in our numbers this year. We have some good progress in terms of material cost reduction. When we look out in the future, we do see some movement, for example, one of our big buys of steel, we buy about 70 million. I guess it's not a big buy compared to some people, and it's a mixed view. Steel rod, which, of course, is hand tools, went down, then went up slightly in the summertime. Now it seems to be going down again.

Steel plates, the equipment, which equipment uses, that's been flat and tool storage, which used coal rolls. Coal rolls is creeping up. I don't worry about this too much, as long as the gains aren't tremendously precipitous because we've -- of being able to price. So generally if material costs eke up, we can get it back in price. I'm not too worried about that being an impact for us.

Jim Lucas - *Janney Montgomery Scott - Analyst*

Okay, great. Thank you very much.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Okay.

Operator

And next we hear from David Leiker with Robert W. Baird.

Keith Schicker - *Robert W Baird - Analyst*

Hi, good morning. It's Keith Schicker on the line for David.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Keith, how are you?

Keith Schicker - *Robert W Baird - Analyst*

I'm doing well. Couple bigger picture earnings type questions here. I think in the past you've always kind of commented directionally on how you felt earnings were going to go in the next quarter. I didn't see that in the press release this morning and I was just wondering if you had anything to add about the next quarter.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

No, I don't think, I don't think there was any information in that omission actually. I think we feel about the same. I think our view of the future is that we feel we don't have good visibility in terms of the sales, in terms of volume. As I said in my remarks, we have some mild optimism and there's some mixed results. We're watching Europe very closely. It's -- it hasn't come back and that recovery had lagged.

But, looking out in the future, I'm confident that of our strategic investments, and we did say in a, in prior call before the downturn hit that we expect to grow at mid single digits, 5 to 6% organically, and I am pleased with the progress we made in the strategic areas, that is maintaining our network, penetrating critical industries, which I just talked about. We are gaining share in garage infrastructure and the emerging markets. But I think as the markets rebound, whenever that is, and I think it's going to happen for us just like everybody else, I think we're going to see that mid single-digit sales growth. On the other hand, on the other side of this is absent that growth, we still feel pretty good as we did prior quarter in the fourth quarter, in prior calls, about our Snap-on value creation processes and their ability to wring improvement out of the same levels of volume. So as we go forward, given the same volume, we believe we can improve. We have opportunity to do that.

Keith Schicker - *Robert W Baird - Analyst*

Okay, thanks. And if I think about revenue in 2010, versus 2009, would I be right to conclude that in sort of a flat final demand situation, your sales might be up because we don't need -- is that the right way to think about that?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Well, arithmetically, of course, if destocking ends say in Europe, Europe is where -- S&A Europe is where mostly we sell through distributors. That's our big distributor play and there are other places, but that's just in terms of volume. Arithmetically of course -- we will see an uptick. The caveat I would give you there is there can be some minor destocking in end customers where you're selling to a factory and they have a tool crib and that factory has been at half capacity a long time and they come back, so they have a little bit. That's a minor effect, but it is an effect. And then the other effect for us is the mix among markets. We, we looked at this carefully. We're seeing some unfreezing in Europe, in the UK, in Sweden, in Germany, but Spain is still very weak. So it's possible for those markets to be going in different directions in terms of demand and I'm not sure where the balance will be. But arithmetically, you're correct. If the distributors stop restocking and the markets remain equal, we'll see an uptick.

Keith Schicker - *Robert W Baird - Analyst*

Okay, great great. And then lastly, could you comment on the pace of business which you saw through the fourth quarter and we're a month into 2010, granted it's January, but how things have gone so far in the early part of the year.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Well, I think as I said in the, in the -- I think we, we believe the fourth quarter was up sequentially. There was some mild optimism in there, and that played out through December. Some of the areas in December were fairly positive for us. I think it's best to say -- my crystal ball is not that good, because when I compare to third quarter, I'm comparing to a damaged third quarter again, even though we're equal seasonality wise. Now, I will say, we were pleased with the industrial business. I just talked to the industrial guys and I must have talked to more than a hundred of them from all over the country, actually all over the world, and they all seemed optimistic. But I'm still from Missouri regarding volume. So we'll figure out what goes on. I think we entered the year reasonably okay, but nothing to say, boy, it's an indication of an upswing.

Keith Schicker - *Robert W Baird - Analyst*

Okay. That's great. Thank you very much.

Operator

And our next question comes from Gary Prestopino Barrington Research.

Gary Prestopino - *Barrington Research - Analyst*

Good morning, everyone.

Marty Ellen - *Snap-on Incorporated - CFO*

Hi, Gary.

Gary Prestopino - *Barrington Research - Analyst*

Marty, I think you may have done this directionally. You kind of gave us some guidance on where you think the financial services operating income will be in prior quarters as we exit 2010, or am I incorrect in that assessment?

Marty Ellen - *Snap-on Incorporated - CFO*

No, that's correct.

Gary Prestopino - *Barrington Research - Analyst*

Is it still where you said -- where you think it was going to be, somewhere 30 to $40 million, is that right?

Marty Ellen - *Snap-on Incorporated - CFO*

Well, I think what I've said in the past was we -- looking at one or two quarters out, that first of all, in the fourth quarter, we have a loss of 3 to $5 million. We reported $3.8 million, so we are right within that range.

Gary Prestopino - *Barrington Research - Analyst*

Right.

Marty Ellen - *Snap-on Incorporated - CFO*

I also had said that rolling forward another quarter into Q1, probably break-even, we may be $1 million under that number, but the trajectory I've talked about in terms of essentially taking the growth in the portfolio and looking at the interest yield on that, given more or less most other expenses being fixed should give you the sort of trajectory, so if you think about Q3 to Q4, and I'll remind everybody that the earnings we had in Q3 included some gains in the first part of July, up until the termination, stripped those gains out. You saw more or less about a $5 million improvement sequentially, and if you sort of do the math on the portfolio growth at roughly a 15 to 16% yield, you pretty much get there.

But you have to remember, too, going forward, Gary, that that sort of $4 million to $5 million improvement can't -- it's not linear sort of indefinitely. There is going to be at some point here an increase and a little bit of a decreasing rate. There are some longer term contracts beyond the term of the extended credit contracts, it will take a longer time to roll from their portfolio, our portfolio, but at least for the next few quarters I would tell you maybe we'll be off $1 million or so in Q1 from break-even. Expect the kind of trajectory that I talked about for the next few quarters to hold.

Gary Prestopino - *Barrington Research - Analyst*

Okay, that's helpful. And then if I hear you right overall, US markets are somewhat more stable than they had been the prior couple of quarters. Europe, certain countries in Europe are still an issue overall, but you are seeing some stability in the US, is that correct?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Correct.

Gary Prestopino - *Barrington Research - Analyst*

Okay. Now, in terms of Europe, you cited a couple of countries, UK, Germany, I couldn't write down the last one--

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Sweden.

Gary Prestopino - *Barrington Research - Analyst*

-- Showing maybe some of the stability that the US is showing.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes, right.

Gary Prestopino - *Barrington Research - Analyst*

Right, okay. So then you still have issues in Spain. I mean do you have a big representation of European business in places like Portugal, Italy, Greece, all of these areas where there's big worries within -- countries overall?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Gary, the big issue for us is Spain. We have ballpark 20% of our business in Spain, and our European business is in Spain. So we are overrepresented there I think and so that's part of our difficulty.

Gary Prestopino - *Barrington Research - Analyst*

Okay, so really in Spain is mainly the key issue there?

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Yes, I mean we have business in Greece and Italy and places like that, and so you can talk about that. But your ballpark, you're talking in that range. And so we have -- we watch that carefully and if Spain has a problem, it affects us maybe more than you might expect in other places.

Gary Prestopino - *Barrington Research - Analyst*

Okay, thank you.

Operator

(Operator Instructions) And next we will hear from [Holly Sankar] with Wolf Baker Investments.

Holly Sankar - *Wolf Baker Investments - Analyst*

Hi, good morning. I have a quick question on financial services. So when I look at the guidance you have on slide 11 for 2010, are you talking about $300 million of anticipated portfolio increase. So how should I think about that, when given in the past you've grown your portfolio somewhere between 120 and 130 and it looks like it -- up to 132 in the last quarter. Is this 300 just what rolls off from CAB, or how do you get to this number?

Marty Ellen - *Snap-on Incorporated - CFO*

It's no, but it's the net portfolio increase, so remember, as we're building our portfolio, we're not only originating new contracts. We're beginning to collect payments on the prior contracts we funded. So you're really looking at our additions, if you will, net of our collections, and that's what we're trying to help people with, is understanding sort of the cash flow requirements that we need to fund over that timeframe.

Holly Sankar - *Wolf Baker Investments - Analyst*

So how did that map of originations?

Marty Ellen - *Snap-on Incorporated - CFO*

Well, we provided you with origination data for the quarter and if you look historically, we're in that 120 to 130 range globally. Remember, that's a global number, not just a Snap-on Credit number. And actually that number was up a little bit. We're actually seeing some increased penetration in the Snap-on Credit business as a result really of our end customers having fewer financing choices and therefore actually benefits our business. But that more or less, that number hasn't changed much. If you go back and look at their annual originations, not a lot of change, pretty flat, so that's not going to change much, but we begin to collect cash from customers whose loans were originate order our books.

Holly Sankar - *Wolf Baker Investments - Analyst*

Got it, okay. And one last question on that subject, which is on the yields. In the past you've talked about 15% yields. Are you seeing any changes in the yields, higher or lower from credit, or that yields on treasuries?

Marty Ellen - *Snap-on Incorporated - CFO*

No.

Holly Sankar - *Wolf Baker Investments - Analyst*

Okay. Thank you.

Operator

We currently have no questions in the queue. I would now turn the conference back over to Nick Pinchuk for any closing or additional remarks.

Nick Pinchuk - *Snap-on Incorporated - President, CEO*

Well, I don't think we have any, any closing remarks. We'll just thank everybody for joining the call and I'll end the call. Thank you.

Marty Ellen - *Snap-on Incorporated - CFO*

Thank you.

Operator

And that does conclude our conference call. Thank you for joining us today and for your participation.