



# Quarterly Financial Review

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**Fourth Quarter 2014**

# Cautionary Statement

- These slides should be read in conjunction with comments from a conference call held on February 5, 2015. The financial statement information included herein is unaudited.
- Statements made during the February 5, 2015 conference call and/or information included in this presentation may contain statements, including earnings projections, that are forward-looking in nature and, accordingly, are subject to risks and uncertainties regarding Snap-on's expected results; actual results may differ materially from those described or contemplated in these forward-looking statements. Factors that may cause actual results to differ materially from those contained in the forward-looking statements are detailed in the corresponding press release and Form 8-K and in Snap-on's recent 1934 Act SEC filings, which are incorporated herein by reference. Snap-on disclaims any responsibility to update any forward-looking statement provided during the February 5, 2015 conference call and/or included in this presentation, except as required by law.

## **Who We Are**

### **OUR MISSION**

The most valued productivity solutions in the world

#### **BELIEFS**

**We deeply believe in:**

Non-negotiable Product and Workplace Safety  
Uncompromising Quality  
Passionate Customer Care  
Fearless Innovation  
Rapid Continuous Improvement

#### **VALUES**

**Our behaviors define our success:**

We demonstrate Integrity.  
We tell the Truth.  
We respect the Individual.  
We promote Teamwork.  
We Listen.

#### **VISION**

**To be acknowledged as the:**

Brands of Choice  
Employer of Choice  
Franchisor of Choice  
Business Partner of Choice  
Investment of Choice



**Nick Pinchuk**

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**Chairman and Chief Executive Officer**



**Aldo Pagliari**

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**Senior Vice President and Chief Financial Officer**

# Consolidated Results – 4<sup>th</sup> Quarter

(\$ in millions, except per share data - unaudited)	2014		2013		Change
	\$	%	\$	%	
Net sales	\$ 857.4		\$ 797.5		7.5 %
➤ Organic sales	75.7				9.8 %
➤ Acquisitions	5.7				0.7 %
➤ Currency translation	(21.5)				(3.0)%
Gross profit	\$ 411.3	48.0 %	\$ 378.5	47.5 %	
Operating expenses	266.1	31.1 %	254.9	32.0 %	
Operating earnings before financial services	\$ 145.2	16.9 %	\$ 123.6	15.5 %	17.5 %
Financial services revenue	\$ 59.4		\$ 47.4		25.3 %
Financial services operating earnings	42.2		33.0		27.9 %
Operating earnings	\$ 187.4	20.4 %	\$ 156.6	18.5 %	19.7 %
Net earnings	\$ 116.2		\$ 94.5		23.0 %
Diluted EPS	\$ 1.97		\$ 1.60		23.1 %

- Organic sales up 9.8%; excludes \$21.5 million of unfavorable currency translation and \$5.7 million of acquisition-related sales
- Gross profit up \$32.8 million; gross margin of 48.0% increased 50 basis points (bps) primarily due to savings from ongoing Rapid Continuous Improvement (“RCI”) initiatives and benefits from higher sales, partially offset by increased restructuring and other costs
- Operating expense margin of 31.1% improved 90 bps primarily due to sales volume leverage
- Operating earnings before financial services increased \$21.6 million, or 17.5%, and the operating margin improved 140 bps to 16.9%
- Financial services operating earnings of \$42.2 million were up \$9.2 million or 27.9%

# Commercial & Industrial – 4<sup>th</sup> Quarter

(\$ in millions - unaudited)	2014	2013	Change
Segment sales	\$ 298.2	\$ 283.2	5.3 %
➤ Organic sales	26.9		9.9 %
➤ Currency translation	(11.9)		(4.6)%
Gross profit	\$ 113.4	\$ 110.3	
% of sales	38.0 %	38.9 %	
Operating expenses	\$ 72.9	\$ 73.2	
% of sales	24.4 %	25.8 %	
Operating earnings	\$ 40.5	\$ 37.1	9.2 %
% of sales	13.6 %	13.1 %	

- Organic sales up \$26.9 million or 9.9%
  - Higher sales to customers in critical industries and in the company's Asia/Pacific operations, as well as in the segment's European-based hand tools business
- Gross profit increased \$3.1 million; gross margin of 38.0% down 90 bps primarily due to higher restructuring costs and a shift in sales that included higher sales to the military and increased sales in the company's Asia/Pacific operations, partially offset by savings from RCI initiatives
- Operating expense margin of 24.4% improved 140 bps primarily due to sales volume leverage, including benefits from the sales shift noted above
- Operating earnings of \$40.5 million increased \$3.4 million and the operating margin of 13.6% improved 50 bps

# Snap-on Tools – 4<sup>th</sup> Quarter

(\$ in millions - unaudited)	2014	2013	Change
Segment sales	\$ 387.5	\$ 351.1	10.4 %
➤ Organic sales	40.9		11.8 %
➤ Currency translation	(4.5)		(1.4)%
Gross profit	\$ 166.4	\$ 146.2	
% of sales	42.9 %	41.6 %	
Operating expenses	\$ 102.5	\$ 95.2	
% of sales	26.4 %	27.1 %	
Operating earnings	\$ 63.9	\$ 51.0	25.3 %
% of sales	16.5 %	14.5 %	

- Organic sales up \$40.9 million, or 11.8%, reflecting sales increases in both the company's U.S. and international franchise operations
- Gross profit of \$166.4 million up \$20.2 million; gross margin of 42.9% increased 130 bps primarily due to benefits from higher sales and savings from RCI initiatives
- Operating expenses increased \$7.3 million primarily due to higher volume-related and other expenses; the operating expense margin of 26.4% improved 70 bps primarily due to sales volume leverage
- Operating earnings of \$63.9 million increased \$12.9 million and the operating margin of 16.5% improved 200 bps



# Repair Systems & Information – 4<sup>th</sup> Quarter

(\$ in millions - unaudited)	2014	2013	Change
Segment sales	\$ 282.8	\$ 264.6	6.9 %
➤ Organic sales	18.0		6.9 %
➤ Acquisitions	5.7		2.2 %
➤ Currency translation	(5.5)		(2.2)%
Gross profit	\$ 131.5	\$ 122.0	
% of sales	46.5 %	46.1 %	
Operating expenses	\$ 66.3	\$ 61.2	
% of sales	23.4 %	23.1 %	
Operating earnings	\$ 65.2	\$ 60.8	7.2 %
% of sales	23.1 %	23.0 %	

- Sales up \$18.2 million or 6.9%
  - Higher sales to OEM dealerships, increased sales of undercar equipment and higher sales of diagnostic and repair information products to independent repair shop owners and managers
- Gross profit increased \$9.5 million; gross margin of 46.5% increased 40 bps as savings from RCI and other cost reduction initiatives were partially offset by a shift in sales that included higher volumes of lower gross margin products, including increased essential tool and facilitation sales to OEM dealerships, and increased restructuring costs
- Operating expenses of \$66.3 million increased \$5.1 million primarily due to higher volume-related and other expenses, including operating expenses for Pro-Cut, partially offset by savings from RCI initiatives
- Operating earnings of \$65.2 million increased \$4.4 million or 7.2%; the operating margin of 23.1% improved 10 bps

# Financial Services – 4<sup>th</sup> Quarter

(\$ in millions - unaudited)	2014	2013	Change
Segment revenue	\$ 59.4	\$ 47.4	25.3 %
Operating earnings	\$ 42.2	\$ 33.0	27.9 %
Originations	\$ 232.2	\$ 197.6	17.5 %

- Originations increased \$34.6 million or 17.5%
- Average yield on finance receivables of 17.6% compared to 17.4% in 2013
- Average yield on contract receivables of 9.5% in both periods

# Financial Services Portfolio Data

(\$ in millions - unaudited)	Snap-on Credit (SOC) (United States)		International Finance Subsidiaries	
	Extended Credit	Total	Extended Credit	Total
Gross on-book finance portfolio	\$ 954.3	\$ 1,195.7	\$ 131.2	\$ 188.9
Portfolio net losses (TTM)	\$ 21.1	\$ 22.3	\$ 1.3	\$ 1.8
60+ Delinquency:				
As of 12/31/14	1.3 %	1.1 %	0.6 %	0.5 %
As of 9/30/14	1.2 %	1.0 %	0.6 %	0.6 %
As of 6/30/14	1.1 %	0.9 %	0.5 %	0.4 %

- Gross on-book finance portfolio of \$1,384.6 million as of 2014 year end
  - Fourth quarter 2014 portfolio growth of \$20.5 million
  - YTD 2014 portfolio growth of \$152.2 million
- TTM – Trailing twelve months

# Cash Flows

(\$ in millions - unaudited)	4th Quarter		Full Year	
	2014	2013	2014	2013
<b>Net cash provided by operating activities</b>	<b>\$ 97.2</b>	<b>\$ 122.5</b>	<b>\$ 397.9</b>	<b>\$ 392.6</b>
➤ Net earnings	118.7	96.9	432.1	359.7
➤ Depreciation and amortization	20.5	19.0	79.5	76.7
➤ Changes in deferred income taxes	6.3	6.7	3.2	9.5
➤ Changes in working investment	(22.9)	(19.0)	(125.5)	(65.6)
➤ Changes in all other operating activities	(25.4)	18.9	8.6	12.3
Net increase in finance receivables	\$ (30.7)	\$ (33.8)	\$ (154.8)	\$ (142.5)
Capital expenditures	\$ (17.3)	\$ (19.9)	\$ (80.6)	\$ (70.6)
Free cash flow	\$ 49.2	\$ 68.8	\$ 162.5	\$ 179.5
<b>Free cash flow from Operations</b>	<b>\$ 96.5</b>	<b>\$ 109.3</b>	<b>\$ 272.1</b>	<b>\$ 307.5</b>
<b>Free cash flow from Financial Services</b>	<b>\$ (47.3)</b>	<b>\$ (40.5)</b>	<b>\$ (109.6)</b>	<b>\$ (128.0)</b>
Acquisitions of businesses	\$ —	\$ —	\$ (41.3)	\$ (38.2)
Repayment of long-term debt	\$ —	\$ —	\$ (100.0)	\$ —
Increase/(decrease) in cash	\$ 8.2	\$ 35.1	\$ (84.7)	\$ 3.1

- Changes in working investment – Net changes in trade and other accounts receivable, inventory and accounts payable
- Free cash flow – Net cash provided by operating activities less net change in finance receivables and capital expenditures
- Free cash flow from operations – Net cash provided by operating activities, exclusive of financial services, less capital expenditures
- Free cash flow from financial services – Net cash provided by financial services operating activities, less net change in finance receivables and capital expenditures

# Balance Sheet

<i>(\$ in millions - unaudited)</i>	<b>January 3, 2015</b>	<b>December 28, 2013</b>
Trade & Other Accounts Receivable - net	\$ 550.8	\$ 531.6
Days Sales Outstanding	61	62
Finance Receivables - net	\$ 1,052.9	\$ 935.2
Contract Receivables - net	\$ 316.5	\$ 285.5
Inventory - net	\$ 475.5	\$ 434.4
Inventory turns - TTM	3.7	3.8
Cash	\$ 132.9	\$ 217.6
Total debt	\$ 919.3	\$ 972.0
Net debt	\$ 786.4	\$ 754.4
Net debt to capital ratio	26.3 %	26.3 %

- Total debt as of January 3, 2015, includes \$37.0 million of commercial paper borrowings
- In March 2014, Snap-on repaid \$100 million of debt at maturity