



# Quarterly Financial Review

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Third Quarter 2014

# Cautionary Statement

- These slides should be read in conjunction with comments from a conference call held on October 16, 2014. The financial statement information included herein is unaudited.
- Statements made during the October 16, 2014 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 October 16, 2014 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 – 3<sup>rd</sup> Quarter

(\$ in millions, except per share data - unaudited)	2014		2013		Change
	\$	%	\$	%	
Net sales	\$ 806.3		\$ 753.2		7.0 %
➤ Organic sales	46.8				6.2 %
➤ Acquisitions	5.6				0.7 %
➤ Currency translation	0.7				0.1 %
Gross profit	\$ 393.9	48.9 %	\$ 364.3	48.4 %	
Operating expenses	263.3	32.7 %	253.0	33.6 %	
Operating earnings before financial services	\$ 130.6	16.2 %	\$ 111.3	14.8 %	17.3 %
Financial services revenue	\$ 53.6		\$ 45.1		18.8 %
Financial services operating earnings	37.7		31.6		19.3 %
Operating earnings	\$ 168.3	19.6 %	\$ 142.9	17.9 %	17.8 %
Net earnings	\$ 103.7		\$ 84.6		22.6 %
Diluted EPS	\$ 1.76		\$ 1.43		23.1 %

- Organic sales (excluding \$5.6 million of acquisition-related sales and \$0.7 million of favorable currency) up 6.2%
- Gross profit up \$29.6 million; gross margin of 48.9% increased 50 basis points (bps) primarily due to benefits from higher sales and savings from ongoing Rapid Continuous Improvement (“RCI”) initiatives
- Operating expenses up \$10.3 million; operating expense margin of 32.7% improved 90 bps
- Operating earnings before financial services increased \$19.3 million, or 17.3%, and the operating margin improved 140 bps to 16.2%
- Financial services operating earnings of \$37.7 million were up \$6.1 million or 19.3%

# Commercial & Industrial – 3<sup>rd</sup> Quarter

(\$ in millions - unaudited)	2014	2013	Change
Segment sales	\$ 298.8	\$ 275.2	8.6 %
➤ Organic sales	25.6		9.4 %
➤ Currency translation	(2.0)		(0.8)%
Gross profit	\$ 111.8	\$ 104.8	
% of sales	37.4 %	38.1 %	
Operating expenses	\$ 71.0	\$ 68.8	
% of sales	23.7 %	25.0 %	
Operating earnings	\$ 40.8	\$ 36.0	13.3 %
% of sales	13.7 %	13.1 %	

- Organic sales up \$25.6 million or 9.4%
  - Sales increase primarily reflects gains in sales to customers in critical industries and in the segment's European-based hand tools business
- Gross profit increased \$7.0 million; gross margin of 37.4% down 70 bps primarily due to a shift in sales that included higher sales to the military as well as increased restructuring and other costs, partially offset by savings from ongoing RCI initiatives
- Operating expense margin of 23.7% improved 130 bps primarily due to sales volume leverage, including benefits from the higher military sales
- Operating earnings of \$40.8 million increased \$4.8 million and the operating margin of 13.7% improved 60 bps

# Snap-on Tools – 3<sup>rd</sup> Quarter

(\$ in millions - unaudited)	2014	2013	Change
Segment sales	\$ 355.0	\$ 333.8	6.4 %
➤ Organic sales	20.0		6.0 %
➤ Currency translation	1.2		0.4 %
Gross profit	\$ 154.8	\$ 142.8	
% of sales	43.6 %	42.8 %	
Operating expenses	\$ 105.3	\$ 100.9	
% of sales	29.7 %	30.2 %	
Operating earnings	\$ 49.5	\$ 41.9	18.1 %
% of sales	13.9 %	12.6 %	

- Organic sales up \$20.0 million, or 6.0%, reflecting sales increases in both the company's U.S. and international franchise operations
- Gross profit of \$154.8 million up \$12.0 million; gross margin of 43.6% increased 80 bps primarily due to benefits from higher sales and savings from RCI initiatives
- Operating expenses increased \$4.4 million primarily due to higher volume-related expenses; the operating expense margin of 29.7% improved 50 bps primarily due to sales volume leverage
- Operating earnings of \$49.5 million increased \$7.6 million and the operating margin of 13.9% improved 130 bps



# Repair Systems & Information – 3<sup>rd</sup> Quarter

(\$ in millions - unaudited)	2014	2013	Change
Segment sales	\$ 271.2	\$ 252.7	7.3 %
➤ Organic sales	11.3		4.4 %
➤ Acquisitions	5.6		2.2 %
➤ Currency translation	1.6		0.7 %
Gross profit	\$ 127.3	\$ 116.7	
% of sales	46.9 %	46.2 %	
Operating expenses	\$ 64.0	\$ 58.8	
% of sales	23.6 %	23.3 %	
Operating earnings	\$ 63.3	\$ 57.9	9.3 %
% of sales	23.3 %	22.9 %	

- Sales up \$18.5 million or 7.3%
  - Higher sales to OEM dealerships and increased sales of diagnostic and repair information products to independent repair shop owners and managers were partially offset by a decline in undercar equipment sales, largely reflecting weakness in Eastern Europe
  - Excluding \$5.6 million of acquisition-related sales and \$1.6 million of favorable currency effects, organic sales up 4.4%
- Gross profit increased \$10.6 million; gross margin of 46.9% increased 70 bps as savings from ongoing 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
- Operating expenses of \$64.0 million increased \$5.2 million primarily due to higher volume-related and other expenses, including operating expenses for Pro-Cut, partially offset by savings from ongoing RCI initiatives
- Operating earnings of \$63.3 million increased \$5.4 million or 9.3%; the operating margin of 23.3% improved 40 bps

# Financial Services – 3<sup>rd</sup> Quarter

<i>(\$ in millions - unaudited)</i>	<b>2014</b>	<b>2013</b>	<b>Change</b>
Segment revenue	\$ 53.6	\$ 45.1	18.8 %
Operating earnings	\$ 37.7	\$ 31.6	19.3 %
Originations	\$ 221.6	\$ 205.1	8.0 %

- Operating earnings up \$6.1 million, or 19.3%, primarily due to continued growth of the financial services portfolio
  - Originations increased \$16.5 million or 8.0%
  - Average yield on finance receivables of 17.6% compared to 17.4% in 2013
  - Average yield on contract receivables of 9.5% compared to 9.6% in 2013

# 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	\$ 928.7	\$ 1,167.8	\$ 139.0	\$ 196.3
Portfolio net losses (TTM)	\$ 20.3	\$ 21.5	\$ 1.3	\$ 1.7
60+ Delinquency:				
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 %
As of 3/31/14	1.2 %	1.0 %	0.5 %	0.4 %

- Gross on-book finance portfolio of \$1,364.1 million up \$39.1 million and \$131.7 million in Q3 and YTD, respectively
- TTM – Trailing twelve months

# Cash Flows

(\$ in millions - unaudited)	3rd Quarter		September YTD	
	2014	2013	2014	2013
<b>Net cash provided by operating activities</b>	<b>\$ 88.0</b>	<b>\$ 84.3</b>	<b>\$ 300.7</b>	<b>\$ 270.1</b>
➤ Net earnings	106.4	87.0	313.4	262.8
➤ Depreciation and amortization	19.7	19.4	59.0	57.7
➤ Changes in deferred income taxes	(0.3)	(8.1)	(3.1)	2.8
➤ Changes in working investment	(56.6)	(32.2)	(102.6)	(46.6)
➤ Changes in all other operating activities	18.8	18.2	34.0	(6.6)
Net increase in finance receivables	\$ (35.8)	\$ (34.3)	\$ (124.1)	\$ (108.7)
Capital expenditures	\$ (22.3)	\$ (19.3)	\$ (63.3)	\$ (50.7)
Free cash flow	\$ 29.9	\$ 30.7	\$ 113.3	\$ 110.7
<b>Free cash flow from Operations</b>	<b>\$ 46.9</b>	<b>\$ 58.1</b>	<b>\$ 175.6</b>	<b>\$ 198.2</b>
<b>Free cash flow from Financial Services</b>	<b>\$ (17.0)</b>	<b>\$ (27.4)</b>	<b>\$ (62.3)</b>	<b>\$ (87.5)</b>
Acquisitions of businesses	\$ 0.3	\$ —	\$ (41.3)	\$ (38.2)
Repayment of long-term debt	\$ —	\$ —	\$ (100.0)	\$ —
Increase/(decrease) in cash	\$ 8.9	\$ 7.8	\$ (92.9)	\$ (32.0)

- 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>September 27, 2014</b>	<b>December 28, 2013</b>
Trade & Other Accounts Receivable - net	\$ 574.4	\$ 531.6
Days Sales Outstanding	64	62
Finance Receivables - net	\$ 1,036.4	\$ 935.2
Contract Receivables - net	\$ 313.9	\$ 285.5
Inventory - net	\$ 484.6	\$ 434.4
Inventory turns - TTM	3.6	3.8
Cash	\$ 124.7	\$ 217.6
Total debt	\$ 919.2	\$ 972.0
Net debt	\$ 794.5	\$ 754.4
Net debt to capital ratio	25.9 %	26.3 %

- Total debt as of September 27, 2014, includes \$36.7 million of commercial paper borrowings
- In March 2014, Snap-on repaid \$100 million of debt at maturity