FINAL TRANSCRIPT

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SNA - Q4 2008 Snap-on Incorporated Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Snap-On Incorporated 2008 fourth quarter and full-year results conference call. At this time, all participants are in a listen-only mode. At the conclusion of our remarks, we will conduct a question and answer session. (Operator Instructions) . As a reminder, today's call is being recorded. I would like to introduce your host for today's conference, Mr. Marty Ellen, Chief Financial Officer. You may begin,

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Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Thank you, Misty, and good morning, everyone. Thank you for joining us today to review Snap-On's fourth quarter 2008 results. By now, you should have seen our press release issued this morning. Snap-On reported record earnings for the fourth quarter and the full year. That said, economic headwinds clearly increased during the fourth quarter, and as we enter into 2009, business conditions are clearly more challenging than we anticipated 90 days ago. We believe our businesses are reasonably well-positioned to weather these challenges and that continued execution of our core business strategies and value-added processes will continue to strengthen Snap-On over the long-term.

Joining me is Nick Pinchuk, Snap-On's President and CEO. Nick will kick off our call this morning with his perspective on our performance. I will then provide a more detailed review of our financial results, and afterwards we'll take your questions. Consistent with past practice, we will use slides to help illustrate our discussion. You can find a copy of these slides on our website next to the audio icon for this call. The 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. This call is copyrighted material by Snap-On Incorporated. It is intended solely for the purpose of this audience. Therefore, it cannot be recorded, transcribed or rebroadcast by any means, without Snap-On's express permission.

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

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

Thanks, Marty. Good morning, everybody.

Speaking of the fourth quarter, I would say that we're encouraged by the performance, especially given the macroeconomic challenges of what I would call these very interesting times. I think I said before that Snap-On is not immune to the difficulties of the day, but we believe that our business models are quite strong, and when they're matched with our capable processes, the result is an operation which is resilient, which is positioned well, and which can limit the impact of a difficult environment and which can emerge from the difficulties with an expanded strategic advantage. I think we're seeing that play out here. I will highlight some of that as we review the fourth quarter performance. Speaking of the fourth quarter, sales were down 10.1%, more than half of that decline was from currency translation, resulting from the stronger U.S. dollar. That change was pretty rapid, was very rapid, in fact, primarily in the fourth quarter and with more than 40% of our sales outside the U.S., the impact on Snap-On was significant.

Excluding currency, though, the volume was still down, about 4.5%. I think the exact number is 4.4%, but despite lower sales, operating margins reached 14.2%. Our brand position, our product innovations, and the improved processes embedded in the Snap-On way of creating value all contributed to those profitability gains. Based on that, the earnings per share reached $1.01, up from $0.98 in the fourth quarter of 2007. The full year, for the full year, sales were over $2.8 billion. That's an increase, it's about flat, an increase of less than 1%, but operating margin was 13.2%, up 200 basis points from the 11.2 reported last year, and that corresponded to about 20% increase in operating income.

EPS for the year reached $4.07, up 26% from 2007. Both the fourth quarter and the full year for 2008 were record performances for Snap-On. I believe they were particularly extraordinary periods, given the significant headwinds, and before I go further, it is appropriate to recognize that the brand positions, the business models, the processes, the capable processes, and those records would not have been possible without the enormous contributions of our dedicated associates and our loyal franchisees. My congratulations and my thanks to all of you.

We do believe our broad business models are sound, even in these turbulent times. They're advantaged because they provide unique solutions for serious professionals that are performing critical tasks, and we're extending those models geographically, particularly into emerging markets, and when we combine that strength of model with Snap-On value creation, that has processes aimed as safety, quality, customer care, rapid continuous improvement, and innovation, the result is strong, a strong and resilient business that we believe has substantial potential over the long-term. Of course we all know times are difficult, but actually we see strategic opportunities in the situation, and we believe we're taking an advantage. We've increased share in some of our major customer segments like automotive technicians and repair shop owners, new customers and industries have been added as we keep extending our Snap-On brand out of the garage, and of course, we built in the emerging markets where growth opportunities still abound.

Actually, I believe we're not letting the crisis go to waste. We're making significant advances in each of these areas, and we're strengthening our competitive position. At the same time, we know we do face challenges of the economy. Every day we see that. We're working to strike the right balance, aiming to limit the damage while still making the strategic progress that will be decisive, that will be decisive for us as the positive times return. For example, given the present uncertainty, we increased our restructuring in the fourth quarter to a total of $6.7 million. That brought the full year to $14.7 million and that is higher than we had previously communicated. We project that those actions will reduce 2009 costs by about $19 million. At the same time we spent more restructuring money, however, we also accelerated capital expenditures to further expand manufacturing capacity in China and eastern Europe. We believe those investments are essential for the future.

We also continue to invest in innovation. In the fourth quarter, we completed our Snap-On innovation works here in Kenosha, advanced vehicle repair facilities, two and three-dimensional prototyping labs and whole areas specifically devoted to industrial customers in critical industries. We found out now that innovation sells, even in this environment, so we'll continue to invest. See, we believe the challenges posed by the current environment don't call for a change in strategy or direction. Rather, they require more vigilant balance between gross investments and the need for further cost reductions, and that balance is our primary task as we go forward into 2009.

Now I would like to give you my perspective on the fourth quarter performance across the operating segments. We'll start with commercial industrial. Europe did slow dramatically in the fourth quarter. Overall activity was down 13%, and the southern Europe regions were a particular challenge, volume in Spain and Italy declined by 30%, a major difficulty, and beyond the declines in end-user demand, S&A Europe was also challenged by some level of destocking among its distributors. They faced tight credit controls and reduced inventory. So we're seeing some difficult conditions in western Europe. In eastern Europe, where we targeted a number of growth initiatives, sales on a constant currency basis were actually down 3.5%, but we're not discouraged. We believe that eastern Europe is a continuing opportunity, sales were up almost 9% for the year, backing up that feeling, so we're going to keep building in that important arena. Overall S&A Europe has worked fairly hard improving its cost position, migrating manufacturing from higher cost countries, sourcing more finished products from lower cost regions, and our European brands, and our market positions remain strong, and the combined with the improved cost position, that should enable us to much better performance as the European market returns.

Now let's turn to under car equipment. That business had a decrease of almost 12.1% in the quarter on a constant currency basis. It is just difficult to sell big ticket, higher price capital goods in this environment, but while the sales declined, we believe our global share is actually improving, and in the second quarter we introduced our most advanced (technical issue) significant productivity advantage over conventional alignment systems and as a consequence sales of imaging alignment products were up double-digits in the fourth quarter. We're gaining share in what we think is a strategically decisive alignment segment, and it is based on the innovation like the Prism. We view that as important progress.

As in prior periods, our industrial business continues to extend the Snap-On brand beyond the automotive garage, focusing on the needs of professionals in a variety of critical industries. Sales for that business in the fourth quarter were up 11.2%, with solid double-digit gains across our government, aerospace, alternate energy, and educational markets. As an aside, alternate energy appears to be developing into a significant opportunity. Snap-On hosted the initial meeting of the National Wind Energy Training Consortium recently right here in Kenosha. Some at the conference were predicting 180,000 service techs will be needed for wind power over the next few years, next several years. Now, I notice today in the New York Times, there was an article that said something like "dark days for green energy", but we believe that over time alternate energy will be a significant business, and we're in on the ground floor, so we feel good about our position in alternate energy. I think the sum of this section is the extending the Snap-On brand to other industries is working well. For the full year, our industrial business grew by 13% showing long-term strength. As I said before, we believe that business has great one-way and the sales keep confirming that belief.

China and much of Asia is also experiencing a slowdown. However, many believe the China economy will still grow mid and maybe high single digits in 2009. I don't think that's bad given this depth of the global recession. So we we continue to invest in key capabilities and physicals. Earlier this year we acquired Hot Forge Hand Tool manufacturing capability in our Wanda Snap-On joint venture. We're also expanding our Kunshan Saw Plant to manufacture bandsaws, and we're building right now a third planted four tool storage units on the Kunshan site. We know Asia is important, and we haven't backed off one bit. All in all I am pleased with the progress across commercial industrial. We're capturing share, we're expanding our capabilities, and our margins are expanding.

Turning to the Snap-On tool segment, constant currency sales declined 3.1% globally in the fourth quarter. U.S. sales were down 5%. Clearly our franchisees are being challenged. Their technician customers are generally busy, but they're uncertain. They continue to buy essential tools and products, but they're increasingly reluctant to buy higher priced, more discretionary products like our tool storage units, and I think that trend is going to be with us for the near term. In our U.S. franchise system, we did again sequentially grow van count in the quarter, ending the year about flat with 2007. Franchisee turnover in the U.S. remains stable, even with the third quarter and it's lower than a year ago, so I would say our network in this situation is still solid and strong.

The big ticket drought, however, is a worry -- is a challenge. We continue to help our franchisees navigate the difficulties of course, and so we're encouraging them to lower inventory levels, and we believe they did in the quarter improving break even in cash flow. That's going to strengthen them going forward. On the cost side, fuel prices are down and we successfully negotiated network wide credit card processing, office supplies and shipping programs that further reduced our franchise costs.

Recently, I think it is worth while to relate that Marty and I and other senior managers attended some of our 2009 regional franchisee kick off meetings that are held across the country. Franchise attendance in general was good. A number of products and promotional programs were introduced, and considerable time was spent on business planning, sales, and cost management techniques. The most important thing, though, was the attitudes of the franchisees were positive. They said that times were difficult, but the corporation's cost management programs are really helping. They also feel, I think, significantly, that they're gaining on the competition. In fact, our coverage of the U.S. technician market increased throughout 2008, and we believe that our market share rose in the fourth quarter, so Snap-On competitive position is improving.

We continue to believe in the longer term fundamentals of vehicle repair. It is positive. The overall part continues to age with more than 40% of the cars over ten years old, and while some discretionary repairs may be postponed, in the short-term, and we believe this could be happening, this will only lead to even more repairs in the long-term, and our network will be there to take advantage holding a larger share. One final note on the franchisee network. Recently, Entrepreneur magazine recognized Snap-On tools as number five in home based franchises. And 37th overall amongst the 3500 franchise businesses that they cover. Two years ago, we were ranked 61st, and more importantly, we're now ranked as the number one mobile tool franchise. That recognition is important, because it helps us attract capable people to Snap-On franchises, and it further confirms the strength of our van model.

In diagnostics information, constant currency sales were down 5 to 6%, mostly driven by the timing of OEM programs. Earlier this year, I think I talked about this already, we introduced our new VERUS handheld diagnostic platform, that's a powerful piece of equipment, and not only contains all of our diagnostic software, but it integrates with Mitchell One service information. Even at its higher price point, it's sold well, and that further provides evidence that innovation sells even in tough times. Now, if you think about diagnostics, I think you will recognize that Snap-On business solutions and our OEM facilitation group are both directly affected by the auto dealership segment. While consolidation of U.S. dealerships will have some impact, we do have new business opportunities.

We recently signed agreements to develop new electronic parts catalogs for Australia and Brazil. We also have expansion opportunities with a number of European OEs, and there are OEs who provide their own inhouse electronic parts catalogs that are now looking to outsource their programs to Snap-On. Finally, in the time of lower new car sales, dealerships are looking to expand their back office revenue, to expand parts revenue. Snap-On has just launched a new product that greatly improves their ability to sell those genuine parts in the aftermarket. It is called More. We see it as a strong opportunity and so do our dealer customers. The auto industry environment is a challenge. But we see long-term opportunities in the repair side of that industry, and we're investing accordingly. So I characterize the fourth quarter as encouraging, and the year as well. It is record financial performance, and significant strategic progress on a number of fronts, even in the face of stiffening economic headwinds.

Now Marty will take us through the financials, and when he is done I would like to share some closing thoughts with you as we enter 2009. Marty?

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Thanks, Nick. I will begin on slide six. Net sales of $668 million declined 10.1% from last year. However, excluding currency translation, sales were down 4.4%. The U.S. dollar rapidly strengthened during the fourth quarter against our key currencies. While it strengthened by only 3% against the euro, the dollar strengthened against the pound, the Canadian dollar, and Australian dollar by 15% or more just since September. In the balance of my remarks, any references to percentage changes in sale will be on a currency neutral basis.

Looking at sales performance geographically, in the United States, sales declined 1% with sales in our U.S. franchisee business down 5%. This business comprised 27% of this quarter's global sales. Sales in our U.S. industrial business, however, grew significantly, double digits, up 14.5% in the quarter. The declining economic conditions in western Europe contributed to our 11% sales decline in this geography. Western Europe comprised about 25% of this quarter's global sales. Sales in our European tools and under car equipment businesses faced increasing headwinds due to the slowing European economies. In our equipment business, which sells more expensive capital equipment, was again confronted with the challenges of the economic slowdown, as well as tight credit conditions.

Consolidated gross profit of $300 million in the quarter was down $33.4 million. The reported gross profit margin of 44.9% was flat with last year. However, if we strip out the effects of LIFO inventory valuation, which produced a $6 million gain last year, versus $300,000 of expense this year, gross margins on a FIFO basis improved to 45% this year compared to 44.1% last year. This 90 basis points improvement resulted primarily from a combination of higher pricing, improved productivity and cost savings from RCI, and lower year-over-year restructuring. These improvements were partially offset by $9.5 million of higher commodity and certain other cost increases. Additionally, fourth quarter manufacturing production slowdowns reduced gross margin in the quarter.

Operating expenses of $211.4 million in the quarter decreased $33.7 million from 2007, including benefits of $12.6 million from rapid continuous improvement savings, $10.9 million from currency translation, and $9.3 million of lower incentive compensation expense. Operating expenses in 2008 were also reduced by a $5.4 million adjustment of a contingent liability related to Snap-On business solutions. In this comparison, you should note that operating expenses in 2007 benefited from a $4 million gain on the sale of a building in Europe. Financial services contributed $8.9 million of operating income in the quarter as compared with $8 million last year. I will cover financial services in a later slide.

Operating earnings of $97.5 million for the quarter were up 1.2% over last year. As a percent of total revenues, operating earnings improved to 14.2%, up 160 basis points from the 12.6% earned last year. Before I move beyond operating earnings, let me summarize some of the important items affecting the fourth quarter year-over-year operating income comparison. In 2008, our reported operating income included $9.3 million of lower incentive compensation expense, and the $5.4 million favorable contingent liability adjustment I just mentioned. Partially offsetting these increases was $6.4 million of unfavorable currency translation. These three items caused a net improvement in operating earnings of $8.3 million. In 2007, however, our reported operating income included $6 million of LIFO benefits and the $4 million gain on the sale of the facility in Europe, for a net improvement last year of $10 million in the fourth quarter.

Moving on, interest expense in the quarter was down $2.8 million from 2007, primarily as a result of lower interest rates on our floating rate debt, and lower average debt levels in the quarter. Our effective income tax rate on earnings before equity earnings and minority interests was 31.9% in the fourth quarter, as compared to 31.2% last year. Diluted earnings per share of $1.01 in the quarter were up from the $0.98 earned last year.

With that I will now turn to our segment results. Starting with the commercial and industrial group on slide seven, segment sales of $326.8 million declined 4.9%. Year-over-year before currency. We continued to experience lower sales of professional tools in Europe and lower overall equipment sales worldwide, despite strong double-digit increases in sales of our new imaging aligner products. We also experienced higher sales to industrial customers worldwide, and to a lesser extent, increased sales of power tools. Gross margin of 37.8% improved 190 basis points from last year, as contributions from higher pricing, lower restructuring, and rapid continuous improvements more than offset 4.8 million of commodity and other cost inflation.

We also had higher costs associated with manufacturing production slowdowns in the quarter. Notwithstanding the weakened sales environment, fourth quarter operating earnings of $39.1 million for the segment increased 2.4% from last year. This includes $9.8 million of savings from RCI, along with contributions from higher pricing, and $7.3 million of lower restructuring costs. The year-over-year comparison was also affected by the 2007 $4 million building gain already mentioned. As a percentage of sales operating earnings in the C&I segment improved 170 basis points in the quarter to 12%.

Turning now to slide eight, on a worldwide basis, the Snap-On Tools Group reported sales of $252.4 million, down 3.1% without currency. In the US, sales were down 5%. Our international franchise businesses including Canada grew slightly, about 1%, and van count in the U.S. was up slightly from the third quarter and flat with year end 2007. After factoring out the effects of restructuring costs, which were $1 million higher this year, and the LIFO effects in both years, the gross margin was 42.2% in 2008, and 43.7% in 2007. We gained about 150 basis points of margin improvement through pricing, which did offset commodity and other cost inflation. However, mix shift and higher costs associated with slowing production in our plants lowered the overall gross margin. With respect to operating margin, and again factoring out the effects of LIFO and restructuring costs in both periods, the operating margin in 2008 was 9.6% compared to 11.3% last year. The effects of mix and higher costs due to production slowdowns were the principle reasons for the margin decline.

Turning to the diagnostics and information group, which is shown on slide nine, fourth quarter sales of $152.9 million declined 5.6% before currency. The largest portion of this decline occurred in our OEM group, due principally to lower program sales in Europe. As we have said in the past, revenue comparisons for the OEM business are influenced by the timing of these programs. In our worldwide diagnostics business, sales were down less than 1%. However, sales in North America were up 2%, and sales of Mitchell shop management and repair information products were up about 1%. A large portion of the 3.8% decline in sales at business solutions resulted from our exit earlier in the year of certain non-core product lines.

Operating earnings for the diagnostics and information group of $34.3 million increased $6.9 million from 2007 levels including the $5.4 million contingent liability adjustment. Excluding this adjustment, operating earnings in the quarter were up 5.5% year-over-year despite the lower sales, primarily due to $3 million of savings from ongoing rapid continuous improvement initiatives. As a percentage of sales, and again excluding the $5.4 million adjustment, operating earnings for the D&I group improved 270 basis points year-over-year, from 16.2% last year to 18.9% this year.

Moving to slide ten, financial services operating income improved $900,000. Originations of about $122 million were $18 million lower than last year, due to lower sales of big ticket items sold by our franchisees, as these are the products which tend to get financed through Snap-On Credit. While origination volume was down, lower discount rates on contracts sold led to the improved earnings. Many of you continue to ask about the credit quality of the portfolio of Snap-On credit loans to technicians. Accounts, 60 plus days delinquent at the end of December were about 2.3%. At the end of September they were 1.9%. At the end of 2007 and 2006 they were about 2%. The high water mark was actually about 3% at the end of 2005, and was mostly due to the consolidation of Snap-On Credit steel organization.

For years prior to 2005, and going all the way back to 2001, the highest level experience was about 2.2%. So the recent quarter trend is up, although not unexpected in this environment. This trend also reflects the regional differences we're seeing in our U.S. franchise business. The southeast, and southwest re regions of the country where economic conditions are generally worse are having the biggest impact on this trend. Both Snap-On Credit and our franchisees have always worked diligently to control delinquencies and have heightened their efforts given the current environment.

Now let me turn to a brief discussion of balance sheet and cash flow. As seen on slide 11, our accounts receivable decreased $64.8 million from year end levels with $38.6 million of the reported decrease coming from currency translation. Day sales outstanding decreased to 64 days, down from 73 days at the end of the third quarter. All of our businesses are being extra vigilant in managing and monitoring customer accounts and credit risk in this environment. Inventory turns declined from 4.9 times at last year end to 4.6 times currently. They were 4.5 times at the end of last quarter. We did extract $10 million of cash out of inventories in the fourth quarter. The combination of inventory increases to support targeted growth opportunities, including inventories acquired with our acquisition of Wanda in China, the effects of higher steel and other costs, and lower than expected fourth quarter sales all contributed to our inventory build. Our 2009 plans include inventory reductions.

Pre-tax return on invested capital continued to improve in 2008. For the year it was 22.3%, up from 20% last year. Net debt at the end of the quarter of $400 million was down $25 million from the $425 million last year. Our net debt to total capital ratio of 25.2% increased slightly from 24.9% last year. This slight increase occurred as shareholders equity at year end 2008 was reduced by $130 million due to foreign currency translation, and by $118 million to record an increase in the unfunded liability of our pension and post retirement plan. In 2009, we expect to make pension contributions of only approximately $9.5 million, and that primarily relates to our foreign plans.

Our liquidity position continues to remain strong. Besides the cash flow generated from operations, we currently maintain a $500 million revolving credit facility provided by a strong diversified group of international banks, which does not expire until August 2012. We also have another $20 million of committed bank lines. At year end, the entire $520 million of borrowing capacity was available. In addition to these facilities, our current A2 P2 short-term credit rating allows to us access the commercial paper market, should we need to do so. We presently have no commercial paper outstanding.

Turning to slide 12, cash provided from operating activities was $46.3 million in the quarter, and free cash flow was $20.7 million. For the year, Snap-On generated $215 million of cash flow from operating activities, and $141 million of free cash flow. Capital spending in the fourth quarter of $25.6 million was about $10 million higher than our previous estimate. Major expenditures in the fourth quarter included an acceleration of our strategic growth spending, including the relocation and expansion of our plant in Belarus, and the expansion of the plant in Kunshan China. In the fourth quarter, we also spend $2 million to begin construction of an office and development facility to consolidate our North America Snap-On Business Solutions operations. The economics to build this building are attractive, given a number of local tax incentives, and consolidating these groups will lower future operating expenses. We expect this project will be completed in 2009. Our current plans call for 2009 capital spending to be in a range of $75 million to $80 million, but we are not financially committed at this level of expenditure. Should circumstances dictate, we will adjust our capital plans.

This concludes my remarks our fourth quarter performance. Before opening the call for questions, Nick would like to provide some closing thoughts. Nick?

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

Thanks, Marty. Clearly the economic challenges have increased. They appear to be spreading geographically and reaching more industries. I believe we said in the press release that as a result of the macroeconomic conditions and the financial headwinds of pensions and foreign exchange, we expect earnings to be down from last year in the first quarter, probably not a surprise. But we do enter 2009 in full throttle against those difficulties. Our RCI initiatives enabled us to offset rampant rises in commodity costs last year, and we see more opportunity for improvements in 2009. We're confident in the strength of those processes. We're confident that they can help us limit the impact of the environment. So we do see challenges going forward, but we also see opportunity, opportunity for strategic progress, just as we have made in recent quarters, so in 2009, we'll continue to maintain and strengthen our dealer network and we believe gain share with technicians.

We'll continue to roll the Snap-On brand out of the garage, reaching more new customers in critical industries. We'll use our imaging technology and electronic parts catalogs and diagnostics products to gain share in automotive repair garages around the world. We'll become stronger in emerging markets of Asia Pacific and eastern Europe, and I think most importantly, we're going to continue to build our innovation capabilities because we have learned that sells in any market. Going forward, we know we have challenges, but we also believe that our extraordinary business models models, our brands, and our capable processes will allow to us strike an effective balance, a balance between the long and the short-term and allow to us emerge from these difficulties with an even stronger operation and stronger strategic positions than we enjoy today.

Now we'll turn the call over to the operator. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We'll take our first question from David Leiker . Please go ahead,

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Keith Schicker - *Robert W Baird - Analyst*

It is actually Keith on the line for David. I just wanted to start off by diving into the CapEx number. If you do decide to eventually dial back on some of the things that you have identified, how much could that number fall versus the $75 million to $80 million guidance?

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Keith, that number could fall in the 20 to $30 million range. We're not considering dialing back at this point. I want to emphasize that.

Keith Schicker - *Robert W Baird - Analyst*

Can you just elaborate some more on some of the expenses in China and eastern Europe that are driving the year-over-year increase?

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Keith, let's just in the quarter we spent about $25 million. If you look at our growth investments as I said in Belarus and Kunshan, they alone were $6 million to $7 million of the $25 million, and that of the somewhat accelerated from our original plan. The balance, we've got still manufacturing improvements and capacity expansions going on in other plants, both in Europe and the US, and those were another $4 million to $5 million in the quarter. Then of course have you a base level of normal maintenance CapEx.

Keith Schicker - *Robert W Baird - Analyst*

If we look at the SG&A or the operating expenses line at a pretty sizable year-over-year decline in the fourth quarter, obviously a portion of that related to currency isn't always going to be the same magnitude, and we're not going to get the contingency adjustment again, but any reason to believe that base pace of decline can't continue or accelerate through 2009?

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

No. I mean, you said the word decline. We'll continue to remind you that again our business model as we sort of march towards the mid-single digit operating profitability target for the entire Corporation always included a structure that had us at mid-40s gross margins about where we are, and in low 30s, SG&A, which is where in recent periods we have been making the improvement, and we're going to continue to try to hold to that even though the top line is going to be more challenged.

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

I think what we said, this is Nick, I think if you look at our results over the past several years, I don't think -- I don't want to tie to any percentage decrease because that's associated with where the sales goes, of course, and that impacts somewhat, but we've been able to drive down our SG&A cost pretty effectively from quarter to quarter to quarter because we believe strongly in the rapid continuous improvement process, and as I said on calls before, one of the great things about Snap-On is it is a strong company, but everywhere Marty and I go, we see things that can be improved, even today, after we have taken quite a few points out of SG&A, so we see opportunity in the next quarter and for the foreseeable future in that line.

Keith Schicker - *Robert W Baird - Analyst*

Okay. And if we look at just the year-over-year contribution margin across the businesses, and we normalize for the restructuring and LIFO variances year-over-year, was there anything in the quarter that was unusual or can you quantify the impact from a manufacturing slowdowns?

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Keith, our best estimate looks to be about $5 million of additional costs in the quarter due to production slowdowns. Obviously, you know our business. As you think about modeling going forward, obviously the margin contribution, the variable contribution effects really depend on the business unit, because obviously they have different margin structures.

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

You see a lot of different things. This is Nick again. You see quite a few different things across the businesses. Our big ticket items are down substantially. Tool storage boxes are down almost 30%. However, I would like to point out that just recently in the Journal, they talked about, there was an article about sole revival, about the shoe makers having a boom, and at the same time the shoe makers in repairing shoes are having a boom, new shoe companies are laying off people. We're in automotive repair. And our hand tools that are supporting that basic automotive repair are doing pretty well, pretty much flat year-over-year. Even in the fourth quarter. It is the big ticket items that are hurting us. When we talk about production and absorption impacts, it is a relatively complex question.

Keith Schicker - *Robert W Baird - Analyst*

If we look across each of the three business units how have things trended so far in January versus the reported numbers that we saw, organic growth numbers that we saw in the fourth quarter?

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

The January numbers are about consistent with December actually on an overall basis. December was a little squeezed compared to the overall fourth quarter, but we didn't see a dramatic drop off in volume in January. However, I will hasten to say that for Snap-On, January is a very narrow month historically. We never make judgments based on January, positive or negative.

Keith Schicker - *Robert W Baird - Analyst*

That's great. Thank you very much.

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Thanks, Keith.

Operator

We'll take our next question from [Steve Irwin with Utendahl Capital.]

Steve Irwin - *Utendahl Capital - Analyst*

Good morning.

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

Good morning.

Steve Irwin - *Utendahl Capital - Analyst*

Hi. You said on the call I think, Nick, that you encouraged the franchisees to lower inventory. Just because you thought it was prudent. So I guess what would be the catalyst for them to kind of have their inventory back at regular levels, just to being more comfortable with the outlook of the environment or what would it be?

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

I think that's it. I think the situation here of course, the U.S. sales are down 5%. We would like to see them feel a little more comfortable in that situation. I think they're sitting like any independent business man, and saying we believe in our business model. They're feeling instinctively the same thing the Wall Street Journal is reporting with the shoe maker repair, that repair keeps going on. We're not in automotive manufacturing. We're in repair, but they get up every morning and eat bad news for breakfast when they see CNN, and start worrying about things, so they try to to reduce their nut a little bit because they worry perhaps it could get worse. I think what we'll see is when people believe when generally, and when I say people, I think the environment says the recession has bottomed out. We have measured the bottom, and we now feel confident we can start to build our inventories back up. I think that will be the signal point.

Steve Irwin - *Utendahl Capital - Analyst*

And can you tell us kind of the magnitude, it was down maybe 10%, did you have a suggestion of 10% or 20% or an idea of what they reduced their inventories by?

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

I think it is probably I would say you could say between somewhere approaching $10 million.

Steve Irwin - *Utendahl Capital - Analyst*

Okay.

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

Something like that.

Steve Irwin - *Utendahl Capital - Analyst*

All right. And then just a quick question on acquisitions. Your CapEx, kind of keeping it at that mid-70 to $80 million level, and I guess if nothing changes, is the acquisition strategy still the same or do you think the activity will increase?

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

Well, I think it is still the same. We remain alert for opportunities in critical areas where we think there might be acquisitions available that would further our strategic intent in places like critical industries, in places like the automotive repair garage, in emerging markets, things like that. I think I said it in my call. Actually, of course we're concerned, and we're vigilant about the balance, but we see in this situation, we still see opportunities for share gain and perhaps acquisition. I am not saying we're going to go on an acquisition binge, but we haven't changed our profile.

Steve Irwin - *Utendahl Capital - Analyst*

Okay. Thank you.

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Steve, it is Marty. Let me just add on CapEx as well because our guidance is $75 million to $80 million which is larger than we have historically run at. Because we're building this facility in Ohio for business solutions, that project completes in '09. Had it not been for that project, our guidance probably would have been in the $65 million, maybe $70 million range, so it is really a one-time expenditures and completes in 2009.

Steve Irwin - *Utendahl Capital - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). We'll take our next question from Sarah Hunt with Alpine.

Sarah Hunt - *Alpine - Analyst*

Good morning, gentlemen.

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

Good morning, Sarah.

Sarah Hunt - *Alpine - Analyst*

My question is more of a larger one. Given what's going on in the macro world and the political world and how much outsourcing you as well as a lot of other folks have done, if we start to get some trade legislation that looks like we've got U.S. content laws or something along those lines, what does that do to the basic philosophy of outsourcing in lower cost countries? Is that something you have been talking about yet or is that something we're hoping doesn't happen?

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

Well, no. I think, look, I think there aren't many companies. There aren't many manufacturing companies today in industries like ours that is are sourcing as much in the United States. I believe if they pass legislation that requires U.S. sourcing, we'll be advantaged, not disadvantaged. That doesn't mean we're not alert from a micro economic sense, opportunities to outsource in Asia and so on, but Snap-On product, Snap-On brand, is still by and large sourced in the United States. I would say we're among the most foremost in that situation, so bring it on.

Sarah Hunt - *Alpine - Analyst*

Okay. Thank you.

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

Sure.

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Thank you, Sarah.

Operator

With no further questions in queue, I would like to turn it back over to Mr. Ellen for additional comments and closing remarks.

Marty Ellen - *Snap-on Incorporated - CFO, SVP of Finance*

Thank you, Misty, and thank you, everyone, for joining us this morning and thank you for your interest in Snap-On. Good day.

Operator

This concludes today's conference. Thank you for joining us, and have a wonderful day.