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Conference Title: **Snap-on Incorporated 2022 First Quarter Results Conference Call**

Moderator: **Sara Verbsky**

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Operator: Good day and welcome to the Snap-on Incorporated First Quarter 2022 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Sara Verbsky, Vice President of Investor Relations. Please go ahead, ma'am.

Sara Verbsky: Thank you, Operator. And good morning, everyone. Thank you for joining us today to review Snap-on's first quarter results, which are detailed in our press release issued earlier this morning. We have on the call today, Nick Pinchuk, Snap-on's Chief Executive Officer, and Aldo Pagliari, Snap-on's Chief Financial Officer. Nick will kick off our call this morning with his perspective on our performance. Aldo will then provide a more detailed review of our financial results. After Nick provides some closing thoughts, we'll take your questions.

As usual, we have provided slides to supplement our discussion. These slides can be accessed under the download tab in the webcast viewer, as well as on our website, snapon.com, under the Investors section. These slides will be archived on our website, along with the transcript of today's call. Any statements made during this call relative to management's expectations, estimates, or beliefs, or otherwise state management's or the company's outlook, plans or projections are forward-looking statements and actual results may differ materially from those made in such statements. Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

Finally, this presentation includes non-GAAP measures of financial performance, which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding those measures is included in our earnings release issued today, which can be found on our website.

With that said, I'd now like to turn the call over to Nick Pinchuk, Nick.

Nick Pinchuk: Thanks Sara. Good morning, everybody. As usual, I'll start the call by covering the highlights of our first quarter and along the way I'll give you my perspective on our results, they are encouraging, on our markets, they're looking positive, and on our progress, we believe we're stronger than ever. We also speak about what it all means. We believe it means that we're positioned for more, much more. Then Aldo will move into a more detailed review of the financials.

These are interesting times filled with multiple axes of turbulence, but you know, this isn't our first rodeo. We know it's always something and it's our job to confront and to overcome, with the resilience of our markets, the strength of our strategic and tactical advantages, and the insight and energy of our consistent and capable team. And we've done just that. Here are the numbers that support that view.

Our reported sales in the quarter of $1,097.8 million were up 7.1%, including $8.5 million in acquisition-related activity, and $15.7 million of unfavorable foreign exchange. Organic sales growth was 8%, with gains in every group. And compared to the pre-pandemic levels of 2019, our clear upward drive shines were right through. Versus 2019, sales in this past quarter rose 19.1% as reported and 16.9% organically. In fact, it's our seventh straight quarter being above the pre-virus levels. We believe we're continuing an ongoing trend of accelerating expansion, momentum, increasing higher and higher, demonstrating that we're only getting stronger every day. And contributions from our Snap-on value creation processes, safety, quality, customer

connection, innovation, and Rapid Continuous Improvement or RCI, all combined to drive that progress, and progress there was.

OpCo operating income of $223.1 million increased $22.2 million from last year. The operating margin, it was 20.3%, up 70 basis points from last year and 120 basis points from 2019, as adjusted for the favorable legal settlement in that period. For Financial Services, operating income of $70.4 million increased 7.8%, and credit losses were down, continuing the positive trends, despite the lingering effects of the pandemic. And that result combined with OpCo for a consolidated operating margin of 24.8%, a 90-basis improvement from last year and 120 basis points from the as adjusted 2019 result.

First quarter EPS, it was $4.00, up 14.3% from last year's $3.50, and 32.9% above the as adjusted $3.01 recorded in 2019. To risk repeating myself, we believe Snap-on is stronger now than when we entered this great withering and our first quarter results are solid testimony.

Now let's talk about our markets. Auto repair remains quite resilient, I think we'd say. Spending on vehicle maintenance and repair is up and technicians are earning more than ever. They've been working, performing essential tasks, making a nice living. They're undaunted by the turbulence and they are optimistic about the future of their profession, about the outlook of individual transportation, and about the greater need for their skills as the vehicle parc changes with new technology. And all of that, all of that has led to an expansion in the ranks with the automotive repair technician count moving upward, at its highest point for, I think at least three decades. And as shop owners and managers will tell you, there's a need for many more. Vehicle repair is a strong and resilient market. You can hear it in our franchisees' voices. You can feel it in the technician's wallets, and you can see it written across our numbers.

Also in Auto Repair, standing right next to the techs, there are shop owners and managers where repair systems – where our Repair Systems and Information Group, RS&I, plies its trade.

Demand for new and used cars is high, despite the limited supply, despite the limited supply. Dealership repair, maintenance and warranty is rebounding, and dealers are starting to invest again. New vehicles are being released with a greater variety of drive trains, with a greater variety of drive trains than ever, from internal combustion engines – from internal combustion to hybrid, to plug-in electric to full electric. And the range of options is growing. More driver assists, more vehicle automation, increasing vehicle complexity. I tell you, it's all music to our ears. And we've been able to take advantage with our lineup of intelligent diagnostic products, including the Zeus, the Triton, and the Apollo handheld units, with our celebrated Mitchell 1 ProDemand repair information, our award-winning Tru-Point Advanced Driver-Assistance Calibration System, and our 3D alignment systems like the new Hofmann geoliner, all representing new technologies and big data deployed to make work easier right in the shop. Vehicle repair looks more promising than ever, and Snap-on is poised to capitalize.

Finally, let's talk about critical industries, where Snap-on rolls out of the garage, solving tasks of consequence. This is where C&I operates, the most international of our operations. And these are the customers that continue to be impacted hardest by the lingering virus, but they've been recovering. And in the quarter, our results showed that trend, despite some significant headwinds like supply chain disruption, commodity cost increases, some challenged business sectors like the military and international aviation or aerospace, and troubled geographies, conflict-impacted countries, and those more prone to business interruptions as a means to control the virus. Well, C&I had it all. Despite the variation though, we did see growth, improvement in a number of geographies, Asia and Europe, and in a range of sectors like general industry, education and natural resources. They all combined to author organic growth against the continuing turbulence.

So, overall I'd describe our C&I markets as challenged, but improving, and looking forward we believe they represent clear opportunity. Viewing the overall picture, we believe there's been substantial progress along our runways for growth, enhancing the van network, expanding with repair shop owners and managers, extending to critical industries, and building in emerging

markets, leveraging our broadening product lines, wielding our strong brand and deploying the increasing understanding of the work that is the hallmark of Snap-on people, even in the throes of the pandemic shock. Two years ago, as we entered the virus, you all remember this, two years ago, when we entered the virus, we recognized the resilience of our market and the strength of our model and projected a V-shape recovery. And that's how it played out. You can see it in the trends.

Now, let's turn to the segments. In the C&I group, first quarter sales, were $340.1 million, down $5.6 million due to $9.2 million of unfavorable currency and $3.6 million, or 1.1% – and a $3.6 million or 1.1% organic growth. As we said, across C&I results were mixed, but the period did see gains in Asia, with Japan, India, South Korea, Thailand, Indonesia rising. And Europe was also up with Sweden, Belgium, Poland and France leading the way. C&I's operating income was $45.7 million, down $5 million, reflecting $2.2 million of unfavorable foreign currency with the organic volume gains more than offset by supply chain inefficiencies.

And when compared with the pre-pandemic levels of 2019, sales were up 5.5%, including a 3.6% organic gain. And the OI margin of 13.4% was down 100 basis points, but against 150 basis points impact of acquisitions and unfavorable currency. C&I has simply been more affected by the difficulties – macroeconomic challenges, geopolitical uncertainty, varying COVID conditions. It makes sense. The operation has spread over more countries and more industries. It's challenging, but we are making some headway and we're enthusiastic about the possibilities going forward. As part of that view, we remain committed to extending in critical industries and we'll keep strengthening our positions to capture opportunities as they arise. And enabling that intent is our expanding line of innovative new products, designed to match the demands of the industries that we serve and to make critical work easier.

One example is our family of micro-electronic torque wrenches. I've been talking about Snap-on electronic torque products for some time, but these smaller versions of our flagship offerings are

gaining particular strength in the critical markets. Our latest, a connected Bluetooth model, offers customers a solution when they need torque certification data in real time. The Snap-on Control Teck micro-Bluetooth wrench fills that requirement and combines it with the benefits of reduced size and lower weight – shorter than 12 inches and less than a pound, better accessibility and reduced operator fatigue, all while allowing users to interface with a Snap-on app or directly with customers, so with a customer's operating system. The Control Tech micro-Bluetooth offers a wide range of torque, five to 240-inch pounds, an all steel-body construction, progressive LEDs for enhanced user guidance, and a 72 inch, quarter inch drive enabling efficient operation in tight areas, all with a plus or minus 2% accuracy. It's a package well suited to critical sectors like aviation and in the first quarter, our customers' orders confirm that belief emphatically.

Well, that's C&I, hard won progress against the turbulence. Now on to the Tools Group.

Sales of $512.1 million, up $33.8 million, including $3.0 million of unfavorable currency, and $36.8 million, or 7.7% organic gain, double-digit growth in the U.S. being partially offset by challenges in the international operations. The operating margin was 22.7%, up 200 basis points from last year's historically high 20.7%. And compared with the pre-virus levels, sales grew 24.8%. And this year's 22.7% operating margin was up 630 basis points compared with 2019. The Tools Group is responding to the challenges of the day, taking advantage of increasing vehicle complexity, increasing its product advantage, fortifying its brands and further enabling its franchisees. And the results show it. I keep saying that, but that's what's written across our performance this quarter.

We do believe our runway for coherent growth, enhancing the franchise network, represents a resilient and expanding opportunity. And we're realizing some of that potential across the van channel. The evidence is unmistakable in our franchisee metrics. Again this quarter, they remain clearly favorable and based on those measurements, we believe the franchisees have never been stronger. And they say so themselves, emphatically, pumped and primed for more. That's

what they are. And in our direct interactions, at events like this past January's kickoff, back again this year in person, it was a great affair, well attended. Strong orders, visible commitment to our brand. Our franchisees, entrepreneurs and professionals all are enabled by their increased selling capabilities, broadly and deeply confident in their prospects and the company's prospects and eager to reach higher. That's an important factor.

And there's a number of reasons for that optimism, but a big one is rooted in Snap-on value creation, customer connection and innovation, authoring new products, clearly making work easier. Born out of observing changing work, in shops, on an everyday basis, just like the franchisees.

And that's the reason our tool storage sales were up nicely in the quarter, driven in part by our – they were driven in part by our exciting new line of mobile carts. Over the last several years, we've been enhancing our carts. One example is our KRSC range of mobile storage solutions, the only professional grade carts in the market. Built in – they're built in our Algona, Iowa plant. I just saw them running down the – I was just there, seeing those units roll down the line. The KRSCs are designed for maximum strength and durability. They're constructed with a heavy gauge steel to form a one piece, fully welded body with reinforced corners. And that's a significant and unique benefit in the mobile storage arena. These sturdy carts make it easy to move even the heaviest tools from bay to bay. They come in an attractive range of colors and trims, just like their full-size, big brother boxes. And they're offered in either a sliding split top, providing a usable work surface, while allowing substantial access to the top drawer, or a single piece flip top, allowing quicker and broader access to the most frequently used tools. Our new cart also features full wide drawers for maximum flexibility and offers power options for charging cordless tools. The KRSC, you can say it in these three words: durability, versatility, and functionality. They're great for meeting – they're great for newer mechanics as an affordable way to own some serious Snap-on tool storage. And at the same time, they're attractive for veterans, they're attractive for veterans, giving them the opportunity to improve productivity by expanding

their mobility around the shop. This quarter, as repair work and tech wages are on the rise, we received record orders for proving that when innovation meets a resilient market, demand follows.

We said that vehicle repair was growing, and it is. Complexity would accelerate the market upward and it has. And we're working hard to position our franchisees to take advantage, and you can see it in the Tools Group results, seven straight above pre-pandemic, gangbusters quarters.

Now let's speak of RS&I. First quarter sales rose 50.6% – $50.6 million or 14.6% with gains across the board. Organic growth was 13.3%, driven by undercar equipment and OEM dealership activity delivering double-digit expansion, and by the diagnostic and information products, independent shops advancing low single digits. Compared with 2019 sales – compared with 2019, sales grew $70.3 million, 21.4%, including 56.9% – including a $56.9 million or 17.4% organic gain, $15.2 million from acquisitions, and $1.8 million of unfavorable foreign currency. Operating earnings of 91.6% increased $10.2 million from 2021. And the OI margin was 23%, down 40 basis points, but primarily due to acquisitions and the rise of lower margin undercar equipment.

We clearly see the potential of our runways for growth in the RS&I group, expanding Snap-on's presence in the garage, with coherent acquisitions and a growing line of powerful products. The organic growth in the quarter was broad based, but once again, undercar equipment expanded at double digits and progress in one of our newest product groups, Collision Repair, helped author that positive. And we're doubling down on the potential in that arena by utilizing the same broad database with deep content as used in our ProDemand vehicle repair solutions. Big data aimed specifically at the body shop, vehicle measurements to guide body work, repair information to aid in standard shop work, and calibrations to restore the sensor networks that support ADAS or advanced driver assistance systems. It's a combination that's increasingly essential for every collision shop, and we believe it's going to be a big seller.

RS&I also got a nice boost from winning a number of significant essential tools and equipment programs for OEM dealerships. As we expected, we started to see new launches for both electric power and for internal combustion vehicles and RS&I is right at the front. So we're quite positive of about RS&I's expanding position with vehicle repair shop owners and managers and are very confident in the opportunities as the vehicle industry evolves.

So that's the highlights of our quarter, progress in the turbulence. C&I, growing despite the headwinds, the Tools Group, strong and competent, RS&I, solid. Overall organic sales rising 8%. OpCo operating margin 20.3% and EPS $4.00, up significantly. And most importantly, more testimony that Snap-on has emerged from the turbulence much stronger than when it entered. It was an encouraging quarter.

Now I'll turn the call over to Aldo. Aldo.

Aldo Pagliari: Thanks, Nick. Our consolidated operating results are summarized on slide six. Net sales of $1,097.8 million in the quarter increased 7.1% from 2021 levels, reflecting an 8% organic sales gain and $8.5 million of acquisition-related sales, partially offset by $15.7 million of unfavorable foreign currency translation. The organic sales gain this quarter principally reflected double-digit growth of the Repair Systems and Information Group and high single-digit growth in the Snap-on Tools Group. Consolidated gross margin of 48.7% declined 140 basis points from 50.1% last year. Higher material and other costs were partially offset by contributions from the higher sales volumes, pricing actions, benefits from the company's RCI initiatives and 30 basis points of favorable currency effects. In the quarter, we believe the corporation, through pricing and RCI actions, continued to navigate effectively the cost and other supply chain dynamics of the current environment.

Operating expenses as a percentage of net sales of 28.4% improved 210 basis points from 30.5% last year. The improvement is primarily due to higher sales volumes, savings from RCI initiatives, and lower costs associated with stock-based expenses. These improvements were partially offset by 40 basis points of unfavorable acquisition effects. Operating earnings before financial services of $223.1 million in the quarter compared to $200.9 million in 2021. As a percentage of net sales, operating margin before financial services of 20.3% improved 70 basis points from last year.

Financial services revenue of $87.7 million in the first quarter of 2022 compared to $88.6 million last year. Operating earnings of $70.4 million increased $5.1 million from 2021 levels, primarily reflecting continued favorable portfolio performance, which resulted in lower provisions for credit losses.

Consolidated operating earnings of $293.5 million compared to $266.2 million last year. As a percentage of revenues, the operating earnings margin of 24.8% improved 90 basis points from 23.9% in 2021. Our first quarter effective income tax rate of 23.7% compared to 23.5% last year. Net earnings of $217.4 million, or $4.00 per diluted share, increased $24.8 million, or $0.50 per share, from last year's levels, representing a 14.3% increase in diluted earnings per share.

Now let's turn to our segment results. Starting with the C&I group on slide seven, sales of $340.1 million decreased from $345.7 million last year, reflecting a $3.6 million or 1.1% organic sales gain, which was more than offset by $9.2 million of unfavorable foreign currency translation. The organic growth primarily reflects a double-digit increase in sales in the segment’s Asia-Pacific operations, partially offset by a mid-single-digit decline in sales to customers in critical industries. Within critical industries, lower sales to the military more than offset solid gains in general industry and technical education. Gross margin of 36.4% declined 230 basis points from 38.7% in the first quarter of 2021, primarily due to the higher material and other input cost, partially offset by benefits from pricing actions and the segment’s RCI initiatives. Operating expenses as a

percentage of sales of 23% in the quarter improved 100 basis points from 24% in 2021, primarily reflecting savings from cost efficiencies. Operating earnings for the C&I segment of $45.7 million compared to $50.7 million last year. The operating margin of 13.4% compared to 14.7% a year ago.

Turning to slide eight, sales in the Snap-on Tools Group of $512.1 million increased 7.1% from $478.3 million in 2021, reflecting a 7.7% organic sales gain, partially offset by $3.0 million of unfavorable foreign currency translation. The organic sales increase reflects a double-digit gain in our U.S. business, partially offset by a low single-digit decline in our international operations. Sales in the United States were up over Q4 2021 as well, reflecting strong sequential performance in Power Tools and Tool Storage. Gross margin of 45.5% in quarter declined 40 basis points from last year, primarily due to higher material and other costs, which were mostly offset by the higher sales volumes, pricing actions, and 30 basis points from favorable foreign currency effects.

Operating expenses as a percentage of sales of 22.8% improved 240 basis points from 5.2% last year, primarily reflecting the higher sales, savings from RCI initiatives, and lower stock-based expenses related to the company's franchisee stock plan. Operating earnings for the Snap-on tools group of $116 million compared to $98.9 million last year. The operating margin of 22.7% improved 200 basis points from 20.7% last year.

Turning to the RS&I group shown on slide nine, sales of $398.2 million compared to $347.6 million a year ago, reflecting a 13.3% organic sales gain and $8.5 million of acquisition-related sales, partially offset by $3.6 million of unfavorable foreign currency translation. The organic gain is comprised of double-digit increases in sales of under-car equipment and in sales to OEM dealerships, as well as low single-digit gains in sales of diagnostics and repair information products to independent shop owners and managers.

Gross margin of 44.6% declined 140 basis points from 46.0% last year. This was primarily due to increased sales and lower gross margin businesses and higher material and other input costs, partially offset by benefits from pricing actions and 50 basis points from acquisitions, as well as from 30 basis points of favorable foreign currency effects and savings from RCI initiatives. Operating expenses as a percentage of sales of 21.6% improved 100 basis points from 22.6% last year, primarily due to the benefits from sales volume leverage, including higher volumes in lower expense businesses, and savings from RCI initiatives. These improvements were partially offset by 110 basis points of unfavorable acquisition effects. Operating earnings for the RS&I group of $91.6 million compared to $81.4 million last year. The operating margin of 23.0% compared to 23.4% a year ago.

Now turning to slide 10. Revenue from Financial Services of $87.7 million decreased $900,000 from $88.6 million last year, primarily due to a decline in the size of the average financial services portfolio during the quarter as compared to last year. Financial Services operating earnings of $70.4 million compared to $65.3 million in 2021. Financial Services expenses of $17.3 million were down $6.0 million from 2021 levels, primarily due to $5.6 million of decreased provisions for credit losses resulting from favorable loan portfolio trends, including reduced year-over-year net charge-offs, which support lower forward-looking estimated reserve requirements. As a percentage of the average portfolio, financial services expenses were 0.8% and 1.1% in the first quarter of 2022 and 2021 respectively.

In the first quarters of 2022 and 2021, the average yield on finance receivables was 17.6% in both years, while the average yield on contract receivables was 8.5% and 8.4% respectively. Total loan originations of $245.6 million in the first quarter decreased $16.2 million or 6.2% from 2021 levels, reflecting a 5.1% decrease in originations of finance receivables and an 11.5% decrease in originations of contract receivables. In the United States, finance receivable, or extended credit, originations were down low single digits.

Moving to slide 11. Our quarter-end balance sheet includes approximately $2.2 billion of gross financing receivables, including $1.9 billion from our U.S. operation. The 60 day plus delinquency rate of 1.6% for U.S. extended credit remains the same as both the fourth quarter of 2021 and as in the first quarter of 2021. As it relates to extended credit, or finance receivables, trailing 12-month net losses of $39.9 million represented 2.34% of outstandings at quarter end, down 21 basis points as compared to the same period last year.

Now turning to slide 12. Cash provided by operating activities of $193.9 million in the quarter compared to $319.3 million last year. The decrease from the first quarter of 2021 primarily reflects a $106.7 million increase in working investment and higher payments for variable compensation, partially offset by increased net earnings. The change in working investment dollars is largely driven by greater demand, resulting in increased receivables and higher levels of inventory this year as compared to a reduction of inventory in 2021. In addition to demand-based requirements, the increase also reflects higher in-transit inventory amounts, as well as incremental buffer stocks associated with the supply chain dynamics in the current macro environment. Inventory turns at the end of the first quarter of 2022 are unchanged sequentially.

Net cash used by investing activities of $6.6 million included $20.2 million of capital expenditures and net collections of finance receivables of $10.1 million. Net cash used by financing activities of $106.3 million included cash dividends of $75.7 million and repurchase of 136,000 shares of common stock for $28.8 million under our existing share repurchase programs. As of yearend, we had remaining availability to repurchase up to an additional $442.2 million of common stock under existing authorizations.

Turn to slide 13, trade and other accounts receivable increased $49.0 million from 2021 year-end. Day sales outstanding of 61 days compared to 58 days at 2021 year end. Inventories increased $60.3 million from 2021 yearend. On a trailing 12-month basis, inventory turns of 2.8 were the same as yearend 2021, and compared to 2.6 at the end of the first quarter in 2021. Our quarter-

end cash position of $861.1 million compared to $270 million at yearend 2021. Our net debt to capital ratio of 7.4% compared to 9.1% at yearend 2021. In addition to cash and expected cash flow from operations, we have more than $800 million under our credit facilities. As of quarter end, there were no amounts outstanding under the credit facility and there were no commercial paper borrowings outstanding.

That concludes my remarks on our first quarter performance. I'll now briefly review a few outlook items for 2022. We anticipate that capital expenditures will be in a range of $90-100 million. In addition, we currently anticipate, absent any changes to U.S. tax legislation, that our full year 2022 effective income tax rate will be in the range of 23 to 24%.

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

Nick Pinchuk: Thanks Aldo. That's our first quarter. At some level, we could summarize the environment by, these are interesting times, and the hits they just keep on coming. But despite the challenges, the quarters are pretty much playing out as we said they would. The Snap-on team is prevailing against multiple axes of turbulence. Our markets are resilient with their essential nature shining through. Repair spending is up, tech numbers growing, wages rising, and the increasing complexity, electric vehicles, plug-in hybrids, improved internal combustion power plants, and ADAS, it's all driving demand. And our continuing investments in product and brand and people all through the pandemic is paying off. Our franchisees are selling more effectively and are prospering, and we've come out of this great withering stronger than when we entered.

C&I, seeing the most turbulence, born out of the multiple geographies, a range of industries and a wide product footprint. Serious challenges, but still progress, up 1.1% organically in the quarter. The Tools Group, prospering, sales up 7.7% versus last year, rising 24.1% over 2019. OI margin, 22.7%, up 200 basis points from last year. RS&I, 13.3% growth. OI margin, 23%, down 40 basis

points, but more than explained by acquisitions and business mix. The Credit Company, profits up, losses down, and it all came together for an overall organic growth of 8.0%. And OpCo OI margins of 20.3%, up 70 basis points year over year and rising 120 basis points compared with before the pandemic as adjusted. And an EPS of $4.00, up versus every comparison.

It was an encouraging quarter. We have momentum and looking forward we are optimistic and confident. Confident in the special resilience and potential of our markets, confident in the power of our strategic and tactical advantages. And confident in the capability of our people, an experienced team that sees progress against turbulence as fundamental to their expectations. And we believe that unique combination, turbulence tested, will propel us to a consistent and ongoing positive trend throughout 2022 and well beyond that.

Before I turn the call over to the operator, I'll speak directly to our franchisees and associates. Many of you I know are listening. When we say we are encouraged, optimistic and confident, it's deeply rooted in your extraordinary capability and energy. For the part you've played in our success, you have my congratulations; for the skills you bring to our enterprise, you have my admiration; and for the commitment you unfailingly display to our team, you have my thanks.

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

Operator: Thank you, sir. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, it's star one to ask a question. We'll move to our first question comes from Gary Prestopino at Barrington Research. Gary, please go ahead.

Gary Prestopino: Good morning everyone.

Nick Pinchuk: Morning, Gary.

Gary Prestopino: Nick, could I just get, or from Aldo, a couple of – I couldn't write down fast enough – on both the C&I and the RS&I business, what was the growth in organic sales versus Q1 '19 pre-pandemic levels?

Nick Pinchuk: For C&I, it was 3.6%. And I think in RS&I, I believe 17.4%. By 17.4%, I think.

Gary Prestopino: Okay. Okay. Thank you. Could you maybe just talk about how the cadence of your business trended on Continental Europe and the UK throughout the quarter? Did it start off strong and start to wane because of the impacts of what was going on in Ukraine and the Russia sanctions?

Nick Pinchuk: No, I don't think the Ukraine reached that far for us. We didn't see the conflict in Eastern Europe reaching that far. UK was soft in this quarter in pretty much a lot of different places. And what we see happening I think is, our opinion is the problems or the turbulence associated with the Brexit problems weren't solved during the pandemic. And they're starting to emerge a little bit more in that place. So I don't know, we don't really see that. It was pretty much off throughout the quarter and it was down, I think it was weaker last quarter, too. I think the international business had some issues last quarter, particularly in the Tools Group. So we really didn't see any, I would say landscaping by calendarization in this quarter.

Gary Prestopino: Okay. And then a couple more questions here. In the Tools Group itself, or really a across all of your automotive-related segments, what kind of demand are you seeing for specialized tools? And if you could cite some things that deal with EVs, plug-in EVs, hybrids, things like that. I think they made up about 9% of all new car sales last year. So they're starting to get to a bigger percentage of what's at least being produced.

Nick Pinchuk: They are, those are new car sales, but they are a relatively micro percentage of the car parc itself. Our world reacts, they are – new car sales remember are like, what I think they were 14 and change last year, 15 and change this year and 9% of that. That's versus $283 million of total vehicle parc. But where we see them is – where we see the most, Gary, is in – we're getting a lot of business in what I would call the early warning where the OEMs are seeing the idiosyncrasies associated with the electric vehicles, asking us to provide different kinds of tools for dealerships that aren't normally there to accommodate them as they come in when they come in. And so that's what I mentioned in RS&I, that business actually was up strong – that particular business, the project business was off strong double digits in the quarter. And it led the way for RS&I, is one of the things that drove it, and a portion of that was electric vehicles. Like I said, we have things, some people will ask us to do things, hand tools and particular types of products to deal with the battery and other things that tend to be, as I said, specifically to electric vehicles. And the OEMs figure that they wouldn't be available in the dealership so they ask us to facilitize the dealership in those ways.

Gary Prestopino: Is there anything on the diagnostic side that you're seeing there's demand or need for that you supply to that segment of the market?

Nick Pinchuk: Well, look, the diagnostic system, although the category of diagnostic systems, electric vehicles rolls right in that naturally. There isn't anything particularly about electric vehicles that are different for our diagnostic systems except for the data you load on the diagnostics. And so those things are happening for us but the same kind of bodies and so on will work. The same kind of approach in terms of diagnostics, it’s just that you have to expand that…what do we have, like 2.5 billion repair records and 240-250 billion data points...and that just keeps growing to include electric vehicles, including plug-in hybrids. If you look at the plug-in hybrid volume and the hybrid volume, they exploded last year too in Europe. [Inaudible] –

Gary Prestopino: OK. And then – yeah, go ahead. I'm sorry, Nick. I didn't mean to interrupt you. No, just last question. Last question. I'll jump off. In terms of tool storage, years ago, when tool storage was really driving the boat in the tool segment, has that come down as a percentage of sales overall, and, it's become a little bit more diversified on the growth side?

Nick Pinchuk: Actually. Well, every quarter is a new story and you can't get excited about any quarter, but I would say, the word to describe tool storage sales for us in this quarter is boomshakalaka. The thing is it was up strong. It was one of our stronger categories. So big ticket was up. The thing is you might ask why weren't originations up and part of the reason is that, what I was talking about, tool carts are lower in terms of their per-unit sales price. That's why they sweep in all these new technicians. So, via the carts, we're getting new customers, as well as selling some and raising our sales to old customers because they're veterans and they want more mobility. But the new guys couldn't afford – thought maybe I can't afford a Snap-on box, I'm going to get a Snap-on quality professional cart that passes for a Snap-on box. That's partially why our tool storages went great in a quarter.

Gary Prestopino: Okay. Thank you very much.

Operator: I'll take our next question from Christopher Glynn with Oppenheimer. Your line is open. Please go ahead.

Christopher Glynn: Yeah. Thanks. Good morning. So focusing on SOT and this kind of growth that's been enabled here, seeing some of the administrative processes in driving front end production, and ease to the franchisees is part of the story, curious your response to that, and if there's any specific color and sense of headroom on that curve.

Nick Pinchuk: Well, the franchisees are telling me demand is off the charts. They're telling me they want more. I was just on a van down in Arkansas, and this guy tells me, he says, 'At the SFC, I

order 45 full size boxes,' 45 boxes. And he already – he ordered them at the SFC and they get delivered over the fall. He's out of them, and he wants more because his guys are asking him. So I'm telling you, I think – this is why we try to emphasize this. People are driving after the pandemic. And the new technology is driving demand, focusing on – driving a need for people who can handle the complexity, focusing on the importance of technicians and their wallets are burgeoning with higher wages and more work. And they're looking for more of this stuff. So our task is to be able to get our franchisees to deal with the higher sales, to be more efficient, and it seems like that's working. And to crank up the capacity to match that situation. That's what we're doing.

Of course, you have to have new products. One of the great advantages. That's why I talked about the carts because we had that old segment that we were getting to but we wanted to get to more, and the carts hit it right in the bullseye. And that worked pretty well for us. So those are the kinds of things that are happening there.

I think we could have – I think – look, the Tools Group is, is leaving pre-pandemic levels behind. If you think about their numbers, look, I think they are – if you think about the last five quarters, they were 10, 15, 20, 21 and 24 versus pre-pandemic levels. They're just expanding and expanding their lead. The second derivative is growing in the Tools Group. So, and that's driven by this resilient market and our new ability to expand the franchisees' capabilities and our new products. We're running to try to keep up.

Christopher Glynn: Great. Thank you for that color. Just a couple on price and the 8.0% organic, any sense of what the mix split of volume and price was there. And –

Nick Pinchuk: Go ahead.

Christopher Glynn: Yeah. Oh, okay. So yeah, just any comment there, and also curious if you're seeing any pockets within that where you're seeing divergence where this area is elastic to price, this area looks completely inelastic, we'll price more?

Nick Pinchuk: We don't see that at all. Snap-on sets the price. One of the things is we control the customer interface. So fundamentally we're the price leader. And so we can do that. I mean, we have to keep in – there is a point of irritation, I suppose, but we're not seeing that in this situation, but the thing about it, Chris, is we have three mechanisms for pricing and they aren't all so straightforward to the customer, or even easy to measure.

First, we do have list price increases, which we do do. Then we have the idea, we roll out new products, like these new products associated with new carts and newly enhanced carts. Well, I assure you in an inflationary time, we get our value for those new carts. And so that tends to give us nice margin. And then there's the idea of every week on a van there are a couple promotions and those promotions can be rich or lean.

Now the problem is the list price, there can be variations that discounts off the list price that happen. There can be take-up on promotions that are high or low, depending on the individual promotion. And there can be variations around the margins. And what do you call it, whether you say that price comes out of the fact that I've got the new power tool power – power ops, power bank option on a tool storage, or just because I've pushed up the pricing – it's hard to measure those things. But what I will offer is whatever happened, we like it because the margins in the Tools Group were 22.7%, all-time high.

Christopher Glynn: Great. Thank you.

Operator: Well, move next to David McGregor with Longbow Research. Your line is open, please go ahead.

David McGregor: Yes. Good morning, everyone. Nice quarter Nick. Yeah, nice quarter. Remarkable given the 25% year ago growth, and then the system's outage during the quarter. How much of this growth was due to the timing of shipments? I mean, in responding to the previous question you were talking about your guy down in Arkansas waiting for his boxes. I mean, how much of the growth was due to the timing of shipments that were delayed for 4Q when you reported [inaudible]?

Nick Pinchuk: Actually, you could ask that question in the same way. I mean, the point is that I would say our calendarization of shipments were – because of the interruption, were pushed a little bit deeper into the quarter. So we might – you might have argued, we could have shipped more if we didn't have – I think that the way the interruption occurred, we pretty much kept selling, in variety of ways. But I would call it non-standard work in the terms of Kaizen and it could cause a little inefficiency and our factories kept rolling pretty much, but the shipping was a little bit up and down in this period. So there was a little bit of back-end loading in this so it didn't come out of the fourth quarter. It wasn't an overrun from the fourth quarter and diminishing; if anything, things are getting higher. I think probably if you ask the franchisees, the franchisees I talked to were all screaming, telling me, 'Can you give me more? Do you have any influence in the factories, Nick Pinchuk,' you know? And so those kinds of things are – those questions – yeah, Aldo says no, but that's really – I don't think there's anything – I don't think there's any story there actually in that situation. Okay.

David McGregor: Hey Nick, how much were off-the-truck sales up?

Nick Pinchuk: Off-the-truck sales were up not as high as our own sales, they go up and down in situations, but a lot of that – some of that had to do with the late – the calendarization of deliveries that came off over there, but inventories are – I think inventories are at a nice level. The inventory turnovers are up nicely from pre-pandemic levels. So we feel pretty good about that

situation. You could argue whether we want large inventories on the truck or not, I'm more for a large inventory guy and it's a little bit lower than I'd like it to be. But still I think sales off-the-truck were moving along, not as high as the Tools Group though in this quarter. But if you look back, every year, it always evens out. Every quarter there's some little story around it, but it always generally evens out. We wouldn't let it get out of whack.

David McGregor: Okay. And can you just talk about the systems outage during the quarter and the impact that might have had on growth or profitability, and did that outage result in maybe a little bit of push forward into 2Q?

Nick Pinchuk: David, I don't know, you get one of these things and it's like red alert. I remember I stayed up all night on this situation, watching the effect, and we were – credit to our team, they were really professional. We were back up able to do stuff up right away. Now in a non-standard way. But part of it is it didn't really interrupt us very much. The big interruption, I think, was the calendarization of the shipping and I would say, well, non-standard work is less efficient. That's why we call it standard work in terms of continuous improvement. So it's inefficient but you still accomplish your goal. We said the number one priority was to deliver to our customers. And we generally did. Maybe we could have done a little more. I don't know, but the point is – so I don't think – if you step back in and look at the numbers, you say, boy, it doesn't look like I can see a lot of effect there, but I assure you there's extra cost in those numbers associated with this. I don't know if we dimensioned it all because it's hard to capture it all. When franchisees have to be serviced by the field because their approach is non-standard, they're still servicing, they're still selling, but it's non-standard, then what's that cost. It's hard to capture it. But we don't really spin our wheels thinking about that because 20.7% OI margin.

David McGregor: Right. And just on those costs, I mean, your operating expenses in tools at 22.8%, you're down 240 basis points, which is pretty remarkable. But despite the systems outage and all the incremental costs you just referenced, you're saying it would've actually been better.

Nick Pinchuk: Well, yeah. I think there might have been some of that. I don't know. I don't want to comment on that and we're not giving guidance on what the OE margins will be. I may decide to spend a little – we may decide to have a big party or something at some point, I don't know, but for the franchisees. But look, I think we certainly, in the quarter – we don't manage – David, we don't manage the gross margin or the OE. We manage the OI. That's how we measure it. Because when you're in inflationary times, the price goes up. There's no real cost. Usually when you have commodity price that goes up, there's no real cost increase in your support. On top of that, we have, as you said, the interruption, which would've cost us something. So there's a complex cocktail there. So we look at, and our divisions look at, give me OE, give me OI.

David McGregor: Okay, good. That's all I've got. Thanks very much for taking my questions.

Operator: Our next question comes from Luke Junk at Baird. Your line is open. Please go ahead.

Luke Junk: Good morning.

Nick Pinchuk: Good morning.

Luke Junk: I wanted to start this morning with the market turbulence you're going through right now. And what I'm wondering is to what extent is the fact that inflation is obviously very highly visible right now, help you to manage through the current environment. And specifically, are there ways that you change your approach to price cost in an environment where inflation is as top of mind as it is right now for franchisees and your customers?

Nick Pinchuk: Well, it makes a lot easier. We've always said for a dog's age that we can price for visible inflation. And so it helps if everybody's getting up and looking at the paper or watching TV or looking at their iPhone and getting it – hearing, hey, that costs are going through the roof,

inflation is going wild. So people tend to be more receptive to those kinds of things. And they tend to realize that that's still a bargain even at a higher price. So we do that.

The other thing is, as I said, this isn't our first rodeo, and one of the things I learned back in the Carter era, which I hate to say that even that I was sentient during that period, it's about urgency. It's about riding to the sound of guns and we get right on – when we see costs going up, we're out there working on it right away, either there's a continuous improvement, either redesigning. For example, we've done a lot of effort redesigning our products around chips that are available.

It's not even the cost. Steel is starting to peak a little bit but you can't get stuff so you're out buying it on a stop market. So it's not the base cost of things, but it's how you have to buy it. We tend to make sure we can deliver so we're buying on the stock market. So for example, I just reviewed a bunch of new air conditioning units where we redesigned them all and redesigned particularly three or three or four – all the electronics inside to get chips that we could use. We're doing the same kind of thing in diagnostics and in our undercar equipment. So those are the kinds of things you got to do, but you got to do it with alacrity.

Luke Junk: Okay. Thanks for that, Nick. Maybe a related question for Aldo. And I'm wondering if we look at outside of the Tools Group, to what extent does your ability to manage price costs differ by segment, you know if I look at some of the key considerations in C&I and RS&I relative to the dynamics in the Tools Group, are there any key differences that we should be thinking through either tactically or structurally?

Aldo Pagliari: Well, yeah. I'd say broadly speaking, Luke, is that RS&I and C&I, when they do have to entertain pricing actions, there is a lag basis. And the reason for that is unless you're going to invoke force majeure, which you don't want to if you don't have to, sometimes you have one-year contracts in place with certain key customers, so national accounts or certain large industrial customers. Oftentimes, you have distribution relationships who have a requirement of 60, 90-day

advanced notice. So you have to be more measured and because they don't use as exclusively the Snap-on brand – the Snap-on brand is a very powerful brand which the Tools Group does enjoy, you can make the case that C&I and RS&I are a little bit more mortal. When they walk around the immortality of the Tools Group, they have to be cognizant of what's happening in and around them, because they don't operate in a vacuum. There are some big competitors in and around them. So they cannot make pricing decisions in a vacuum so to speak. As Nick mentioned earlier, you can argue Snap-on and the Tools Group is the price leader and it sets the umbrella for others. In the case of C&I and RS&I, I think they have to be cognizant that they're a major player and they are an influencer, but they do not walk alone.

Luke Junk: I really appreciate that. Aldo super helpful color. Last question, I just want to ask something a little bigger picture. Nick, you mentioned last quarter that you were taking a more refined approach to data mining as an area of emphasis right now. And just wondering if there's any color you can share there on specific areas where you see the opportunity to be, I guess I call it smarter, in the tools business. Or alternatively, any areas where you're already seeing traction ultimately. Just trying to get a feel for where you're leaning in with this initiative.

Nick Pinchuk: The whole purpose of that is to try to model the individual customer by individual to try to call in the airstrikes of the selling approach for the van driver so that his selling will be more efficient and therefore he can call on – spend more times with tougher customers, reach more customers. And that is the principle focus of that. That's what I can share to you. And we're making progress in that regard, but I don't really have any palpable things to report. We've been a little busy this quarter. But still we're working on that, but I don't have anything to lay out just about the principal focus and we're optimistic that it will work, because if anybody's got a database about people, about technicians, if anybody knows technicians, it's Snap-on.

Luke Junk: Okay, great. Well, interesting stuff. We will stay tuned. Thanks for that, Nick.

Nick Pinchuk: Okay, sure.

Operator: We'll go next to Bret Jordan from Jefferies, your line is open. Please go ahead.

Bret Jordan: Hey, good morning guys.

Nick Pinchuk: Hi Bret.

Bret Jordan: One more question I guess on pricing, trying to distill it down some. Obviously lots of labor and material and supply chain expenses. And I get your point about mix can change or you throw in a free – an extra charger to enhance the value proposition, but is there any sort of base way to look at, a like-for-like screwdriver versus a screwdriver in the prior year period on price, to just sorta try to get a feeling for what that contribution was to organic?

Nick Pinchuk: We've thought about that. I don't think I can help you. You know what I mean? It's just too complex. I mean, we raised the list price, but even the list price raise doesn't necessarily make it through. It tends to move it up in varying places depending on the product line. So it's hard to measure really. And the point about the individual promotions, they just vary all over the place. We simply manage in a macro basis because when you've got trucks that have 4,000 SKUs on the truck and have a catalog of 40,000 SKUs, it's kind of a fool's errand to try to figure all this out, try to get macro out of the individual. We simply try to measure how we're doing and try to see what worked before and try to make sure that we get pricing along all those corridors, list, promotions and new products, and believe that it's going to get us in the right situation. And generally so far, it has. Our own sales, if you look at the sales for Snap-on in terms of growth, I think our five quarters were 9, 10, 11, 13, and now 16.9% above pre-pandemic levels. So somehow it's expanding growth and not all of that is pricing because you can see the margins go up right in tune with it.

Brett Jordan: Okay. And then one big picture question, I guess, as you talk about the increasing vehicle complexity and the shortage of technicians and the aging demographic, are you seeing any sort of change in total shop rooftops and are big groups getting bigger as they've got access to the diagnostics and the technology, or is it pretty even?

Nick Pinchuk: I would've said that maybe before the pandemic, but I'm not seeing it now so much. I don't know it. You might say – I do think – I will say to you, I think service doesn't scale so easily. It has – that's been a problem in many industries, so I'm not so sure. Collision scales because it's almost like manufacturing in a lot of ways, but the service is a little tougher to scale I think. So I don't know how much of that we'll see, unless you see like a specialized group. Now, maybe we will. And we have those as our customers too. We do see multiple shops, but they don't seem to be very, let's say, nationwide or anything like that. Sometimes we're seeing some opportunities in what I would call localized multi-location situations. Mitchell 1 has made a meal out of that with their ProDemand and those things have worked there. But in terms of the franchisees, I don't think they report that so much.

Brett Jordan: Okay, great. Thank you. Sure.

Operator: We'll take our final question from Sarah Park with Bank of America. Sarah, your line is open. Please go ahead.

Sarah Park: Hi. This is Sarah Park on for Liz Suzuki. I think you had mentioned this a little bit earlier, but I had just been wondering if you could speak to any kind of material disruption in March from the security breach and network shut down. If you have any more color on that, that would be helpful.

Nick Pinchuk: Well, no, actually I don't think – there were what I would call non-standard ways of operating and serving our customers for a matter of days, not weeks. And as I said before, it

principally set back the shipping processes whereby the calendarization of the quarter's shipments tended to coagulate around the rear – at the rear end. But generally we did not – we didn't have any – we didn't really have real disruption and there's been a lot of speculation, but we were hacked, a ransomware company. We didn't pay ransom – we didn't have to pay ransom in this situation and so we felt we got out of this and managed it pretty well. So that's really the story there, inefficiencies more than disruption and re-calendarization.

Sarah Park: Thank you.

Operator: With no other questions holding, I will now turn the conference back to Ms. Verbsky for any additional or closing comments.

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

Operator: Ladies and gentlemen, that will conclude today's call. We thank you for participation. You may disconnect.