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Moderator: **Sara M. Verbsky**

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Operator: Good day and welcome to the Snap-on Incorporated 2020 Third Quarter Results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Sara Verbsky, VP of Investor Relations. Please go ahead, ma'am.

Sara Verbsky: Thank you Emma and good morning everyone. Thank you for joining us today to review Snap-on's Third 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 Downloads tab in the webcast viewer as well as on our website snapon.com under the Investor section. These slides will be archived on our website along with a transcript of today's call.

Any statements made during this call relative to management's expectations, estimates or beliefs or otherwise state managements 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, including a reconciliation of non-GAAP measures, is included in our earnings release and in our conference call slides on Pages 14 through 16. Both can be found on our website. With that said I'd now like to turn the call over to Nick Pinchuk. Nick?

Nicholas Pinchuk: Thanks Sara. Good morning everybody. Today I'll start with the highlights of our third quarter. I'll give you a perspective on how the virus environment is playing out and on the trends we see today and going forward. And I'll speak on our physical and financial progress. Then Aldo will provide a more detailed review of the financials.

We see the third quarter as another encouraging period. The metrics clearly confirm Snap-on's resilience, showing the ability to continue its trajectory of positive results, moving from the initial shock of the virus and the associated interruption of activity to accommodation, developing safe and effective ways to support the essential nature of our business and in some segments starting to look towards psychological recovery where customers begin regaining confidence in the future and resume a full buying participation.

The quarter's results backed that all up, demonstrating significant elements of advancement. Sales and profitability improved sequentially across our operations despite the virus. The Snap-on team continued to make progress by increasing our ability to accommodate to the threat and pursue our essential commercial opportunities safely, moving along upward trajectories consistent with our general perspective on how the days of the virus are unfolding.

Geographically the impact of the COVID continues to be varied across our operations – operating landscape. Asia Pacific remains virus challenged. Southeast Asia and India are still in deep turbulence and at the same time Europe showed some signs of recovery. For business segments, certain areas, education, oil and gas, aviation experienced greater and more prolonged difficulties.

You might expect that. In fact, the speed at which our customers are accommodating to the environment does vary by segment, but leading the way upward are our vehicle repair technicians supporting the essential mobility of our society, and our direct selling vans, our franchisees, providing extraordinary face-to-face value. Both are taking full advantage of the opportunities and the numbers show it.

And as we go forward we see considerable additional opportunities as society pivots towards suburban locations and to more individual transportation. I tell you it's music to the ears of the vehicle repair operation. We believe we do have abundant opportunities on the road ahead and because of that we're keeping our focus on Snap-on Value Creation – safety, quality, customer connection, innovation, and rapid continuous improvement or RCI. And in this area, that emphasis is – this era, that emphasis is particularly important in customer connection and innovation. We're following that focus to create a continuing stream of great new products, positioning our operation to – our operations to monetize the accommodation and the psychological recovery that outlines the path to the future. And in the third quarter, Snap-on Value Creation, customer connection and innovation drove growth in the face of the uncertainty and led to significant additions to our long line of product and innovation awards.

Snap-on was prominently represented with three Motor Magazine Top Tool Awards and we were further honored with five Professional Tool and Equipment News or PTEN Innovation Awards. But most significant of all, we were also recognized with 18 PTEN People's Choice Awards where the technicians, the actual users, make the selections. Eighteen is a big number. It ties our record that was set just a few years ago.

You see, an essential driver of our growth, with or without the pandemic, is innovative product that makes work easier. It's always been our strength and the awards, hard won, are testimony that exceptional Snap-on products just keep coming, matching the growing complexity of the tasks, and maintaining our forward progress even in turbulence. Well that's the overview, now for the results.

Third quarter as reported sales of $941.6 million were up $39.8 million or 4.4% from 2019, including a $34.6 million or a 3.8% organic increase, $4.2 million of favorable foreign currency translation, and $1.0 million of acquisition related sales. From an earnings perspective, OpCo OI for the quarter of $185.7 million, including $1.5 million of direct cost associated with the virus and a $4.5 million hit from unfavorable currency, compared to $167.7 million last year. The OpCo operating margin? It was 19.7%, up 110 basis points.

For Financial Services, operating income of $65.6 million increased from 2019's $61.0 million, all while the 60-day delinquencies improved year-over-year. And that result combined with OpCo for a consolidated operating margin of 24.5%, a 130-basis point improvement. The overall EPS was $3.28 and that compared to $2.96 last year, an increase of 10.8% in a somewhat challenged environment. Those are the overall numbers. Now the groups.

In C&I, volume in the third quarter of $308.4 million, including $2.2 million of favorable foreign currency, was down 8% as reported, 8.6% organically, reflecting the decreases– reflecting decreases in sales to our customers in critical industries -- I named a few -- and in Asia Pacific. Now our European-based hand tool business was essentially flat to last year, a positive result given the twin headwinds of COVID-19 and the economic turbulence that now inhabits that region.

From an earnings perspective C&I operating income of $43.1 million decreased $5.2 million, including $1.4 million of unfavorable foreign currency effects and $0.8 million of COVID related expenses. Now C&I sales were down 8.6%. OI was down 10.8%, a reasonable ratio highlighting that RCI and cost containment went a long way in offsetting the impact of lower volume at C&I. In addition, the group did show significant sequential progress. The decline in sales and OI both narrowed considerably compared to the second quarter, reaffirming the positive upward trend that started after April.

Regarding critical industries, military and international aviation again continued to register growth while activity in education, oil and gas, and U.S. aviation were particularly impacted. And, you know, you might expect that given the state of those particular industries. But we do remain confident in and committed to extending in the critical industries and we see growing opportunities moving forward and the principle path of that possibility is customer connection and innovation combining to create powerful new products.

Our European hand tools business showed resilience in the quarter yes and it was aided by a good dose of innovation, products like our all new line of Bahco ERGO insulated cutting and holding pliers. We've redefined the steel melt and refined our heat treat process, developing a new metallurgy that strikes the perfect balance between strength and reliability. With those special material advantages, the edges were redesigned and improved, progressive blades that cut both soft cables at the tip and hard wires close to the joint, tremendous versibility – versatility.

The new pliers have longer jaws and are aligned with more precision, better access and more accurate work. The insulation meets the IEC 60900 International Standard for working with live systems up to 1,500 volts DC, substantial protection, safety in the vehicle – in vehicle repair or in industrial environments. Strength, reliability, flexibility, accessibility, and safety. The ERGO plier is a powerful addition to the Bahco lineup of insulated tools, now numbering 250 strong, all focused on electrical work. The new pliers were launched just this quarter and I'll tell you the reception was quite enthusiastic.

We also continued to introduce attractive new entries in our lineup of 14.4 volts, the compact cordless power tools. This quarter two strong additions, effective in the repair shop or on the production line, the new CGRS861 or the CGRR861 incline and right- angle grinders. High torque, longer runtime, extended motor life, all on a compact, lightweight, and easy to maneuver body. And the units both feature a dual – they both feature a dual collet system, accommodating both 1/8” and ¼” bits allowing for a wide range of accessories and a feature that, when combined with

our built-in spindle lock, makes for a very quick changeover. That's a popular time saver. The new tools also include variable speed control, a key to handling a wide variety of surfacing jobs. We launched in August, the technicians clearly have noticed, and the grinders are already two of our million dollar hit products.

C&I, demonstrating encouraging sequential progress, serving the essential. Each of the businesses generating ongoing improvement and exiting the quarter stronger than when they entered, and product investment authored a big piece of that progress.

Now on to the Tools Group. As reported sales up 16.8% to $449.8 million, including $1.8 million of favorable foreign currency and a $62.8 million or a 16% - 16.2% organic increase, same store sales, with the U.S. and international businesses all growing at double digits. The operating earnings, $87.1 million including $0.4 million of virus-related costs and $2.9 million of unfavorable foreign currency, that compared to $53 million last year.

The Tools Group operating success was a clear confirmation on our view of the COVID-19 trajectory, on the resilience of the vehicle repair business, and on the strength of our direct face-to-face van model. As we entered the quarter we saw our franchisees seeking increasingly effective ways to accommodate the pandemic, for doing this – pursuing the support of the essential. And we've helped in that effort with time-saving aids, including further automation in the customer collection process, remote diagnostic software renewals, and multi-franchisee data bundling, new technology aids aimed at making it easier to operate in the virus environment and saving scarce franchisee time under any conditions.

Also, as I'm sure many of you are aware, the third quarter is when we hold our annual Snap-on Franchisee Conference, the SFC. No surprise, this year was different than any held before. The in-person gathering was cancelled and our 100th Anniversary celebration plan for that meeting was postponed to 2021. Instead of the usual event, we came together, over the weekend ordinarily

reserved for the SFC, at a virtual conference, Live from the Forge. More than 3,800 van drivers participated, at a distance, representing nearly 98% of the North American network. Following what was I think a rousing Friday night kickoff, we had presentations on significant offerings, training on unique product advantages, and seminars on effective selling techniques. After that Friday show, 180 individual videos, featuring products, and programs, and training, were posted on-demand. And through the course of the weekend franchisees racked up over 43,000 views of the content. The Live from the Forge action was concluded on Sunday afternoon and I'll tell you it was a clear success, continuing the SFC tradition, highlighting new product, strengthening our franchisee capabilities with great training, and reinforcing our brand with a positive message and a lot of fun.

It was abundantly evident at Live from the Forge that new product is a big driver for franchisee excitement. We do have considerable confidence in the power of our product line and there are real reasons for that belief. You heard about the product awards, well beyond that, as our franchisees saw, there was a continuing stream of other great new offerings, candidates for next year's recognition, attention getters that make repair work easier and really help the technicians meet the challenges of increasing vehicle complexity as the model years roll by.

Just one example, unveiled at the conference was our new steel Titan roll cab with a new color combination, eye catching, dark titanium paint, brushed in blue trim, special details in bright blue. The Snap-on nameplate, the S wrench logo located on the cab face, and a special S wrench imprint on each interior liner. The Titan is visually striking, I can tell you, but it's also work-enabling. Three extra-wide drawers for easy access to most commonly used tools, a SpeeDrawer, improved organization for a variety of small items like drill bits, and a PowerDrawer for power tool charging – used - for power tool charging using an exclusive power strip, a Snap-on exclusive power strip, designed with five offset AC outlets and two USB ports.

Vehicle repair is moving towards psychological recovery, gaining confidence, starting to invest in longer payback items and the Steel Titan is just the ticket. It's product excitement, even in the pandemic, and it was a success. The customers love it.

Also introduced in this quarter was the new eight-piece Power Steering and Alternator Pulley Master Set, a hand tool – helping technicians to more easily remove and install pressed-on pulleys in most GM, Ford, and Chrysler engines. The unique reversible dual-yoke design that this hand tool has includes multiple adapters, allowing for quick model changeovers and increased productivity, pretty important in a garage. The master set is a necessity for smooth installation and removal of power steering pump, alternator, and vacuum pump pulleys in a large range of vehicles. It's manufactured in our Elkmont, Alabama plant right here in the USA. I was just there last week and I can tell you it's a great team. It's no wonder the initial response to the Master Set was very positive. It made our list of hit million-dollar products in just the first month. Well that's the Tools Group – accommodating the pandemic, taking advantage of the psychological recovery, furthering innovation, and strengthening for the future.

Now let's speak of RS&I. The RS&I group also posted significant sequential improvement from the second quarter, narrowing the shortfall to 1.6%. You may recall that in the second quarter the sales were down 29.8%. That's a big move. Volume in this period was – volume in this period in the third quarter was $317.5 million including $800,000 of favorable foreign currency and a million from recent acquisitions. The slightly lower activity reflected continued growth in the sales of diagnostics and repair information products to independent repair shops and flat capital spending on undercar equipment, all balanced by improved but still decreased activity in vehicle OEM projects.

RS&I operating earnings of $80.1 million decreased $3.2 million reflecting the lower volume. OI margin was 25.2%, down 60 basis points including a 10-point hit from currency. So, while the overall group was somewhat impacted, diagnostics and information-based operations continue to grow and once again new products led the way.

Among the new offerings launched in the quarter was our latest intelligent diagnostic unit, the APOLLO-D9. Ergonomically designed, the new hand-held – it's a new hand-held and it features ultra-fast, two second startup time, a larger 9-inch touch screen, and a number of pre-loaded training videos installed directly on the tool for instant use. The platform is powered by our Intelligent Diagnostic software, over one billion repair records, and over 100 billion unique diagnostic events, all organized to help technicians fix cars much faster.

Now we've been talking about shortening the selling cycle for our complex diagnostics and increasing the sales capacity of our franchisee – franchisees. Well Live from the Forge featured a detailed seminar on operating and selling the new APOLLO, and to make that distance training extra powerful, each franchisee was provided with a new demo unit to follow right along, live, hands-on with the program. In addition to the special training, the unit could also be used immediately the next week to demonstrate the new APOLLO's compelling advantages right in the field. It seems to be working. Although it was introduced at the end of the quarter, our on the street feedback says our new handheld will go a long way to advance our strategic thrust into intelligent diagnostics. We're confident in the strength of RS&I and we keep driving to expand its position with repair shop owners and managers, making work easier, with great new products, even in the days of the virus.

Well that's our third quarter. Absorbing the shock, following the accommodation, moving on to psychological recovery, keeping our people safe while we serve the essential, continuing to improve sequentially on a positive trend, a successful SFC at a distance, confirming the power of our direct selling van model. Results, above last year, sales up 4.4%, OI margin 19.7%, 110 basis points higher, Financial Services navigating the virus era with strength, and an EPS of $3.28, all achieved while maintaining and investing in our strengths of product, brands and people. 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 $941.6 million in the quarter compared to $901.8 million last year, reflecting a 3.8% organic sales gain, $4.2 million of favorable foreign currency translation, and $1.0 million of acquisition-related sales. The organic increase reflected sequential improvements in year-over-year performance in all three operating segments, led by the Tools Group segment, with a double-digit sales gain in the third quarter as compared to last year. While sales in the Commercial & Industrial and Repair Systems & Information segments were lower than the third quarter of 2019, they did increase significantly from 2020 second quarter levels. During the quarter, the COVID-19 pandemic remained a headwind in certain geographies and within certain industries. But overall the momentum experienced in the month of June continued into the full third quarter for all of our businesses.

Similar to last year, we identified -- last quarter -- we identified $1.5 million of direct costs associated with COVID-19. These costs include direct labor and under absorption associated with temporary factory closures, wages for quarantined associates, event cancellation fees, as well as other costs to accommodate the current enhanced health and safety environment.

Consolidated gross margin of 49.9% compared to 49.7% last year. The 20 basis point improvement primarily reflects the higher sales volumes and benefits from RCI initiatives, partially offset by 50 basis points of unfavorable foreign currency effects.

The operating expense margin of 30.2% improved 90 basis points from 31.1% last year, largely reflecting the impact of higher sales and savings from cost containment actions in accommodating the impact that COVID-19 has had on the overall business environment.

Operating earnings before financial services of $185.7 million, including $1.5 million of direct costs associated with COVID-19, and $4.5 million of unfavorable foreign currency effects, compared to $167.7 million in 2019, reflecting a 10.7% year-over-year improvement. As a percentage of net

sales, operating margin before financial services of 19.7%, including 20 basis points of direct costs related to the COVID-19 pandemic, and 60 basis points of unfavorable foreign currency effects, improved 110 basis points from 18.6% last year.

Financial services revenue of $85.8 million in the third quarter of 2020 compared to $84.1 million last year, while operating earnings of $65.6 million compared to $61.0 million in 2019, principally reflecting growth in the financial services portfolio, as well as lower provisions for credit losses.

Consolidated operating earnings of $251.3 million, including $1.5 million of direct COVID related costs and $4.3 million of unfavorable foreign currency effects, compared to $228.7 million last year. As a percentage of revenues, the operating earnings margin of 24.5% compared to 23.2% in 2019.

Our third quarter effective income tax rate of 23.4% compared to 23.5% last year.

Finally, net earnings of $179.7 million, or $3.28 per diluted share, increased $15.1 million, or $0.32 per share, from 2019 levels, representing a 10.8% 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 $308.4 million compared to $335.3 million last year, reflecting an 8.6% organic sales decline and $2.2 million of favorable foreign currency translation. The organic decrease primarily reflects a low teen decline in both sales to customers in critical industries and in our Asia Pacific operations, while sales in the segment’s European-based hand tools business were essentially flat. Across the critical industries, gains in international aviation and in sales to the U.S. military were more than offset by declines in natural resources, including oil and gas, as well as continued lower technical education sales. Within Asia, sales to customers in India and Southeast Asia continue to lag behind some recovery experienced in other areas of the region.

Gross margin of 37.3% declined 60 basis points year-over-year mostly due to the impact of lower volumes and 50 basis points of unfavorable foreign currency effects. These decreases were partially offset by material cost savings and benefits from the company's RCI initiatives. The operating expense margin of 23.3% improved 20 basis points as compared to last year. Operating earnings for the C&I segment of $43.1 million, including $1.4 million of unfavorable foreign currency effects, compared to $48.3 million last year. The operating margin of 14.0% compared to 14.4% a year ago.

Turning now to Slide Eight. Sales in the Snap-on Tools group of $449.8 million compared to $385.2 million in 2019, reflecting a 16.2% organic sales gain and $1.8 million of favorable foreign currency translation. The organic sales increase reflects a mid-teen gain in our U.S. franchise operations and approximately a 20% increase in the segment's international operations.

Gross margin of 45.5% in the quarter improved 210 basis points primarily due to the higher sales volumes and benefits from RCI initiatives, partially offset by 70 basis points of unfavorable foreign currency effects. The operating expense margin of 26.1% improved from 29.6% last year, primarily due to the impact of higher sales volumes and savings from cost containment actions, including lower travel and meeting related expenses. Operating earnings for the Snap-on Tools Group of $87.1 million, including $2.9 million of unfavorable foreign currency effects, compared to $53.0 million last year. The operating margin of 19.4% compared to 13.8% a year ago.

Turning to the RS&I group shown on Slide Nine. Sales of $317.5 million compared to $322.7 million a year ago, reflecting a 2.2% organic sales decline, as well as $800,000 of favorable foreign currency translation and $1.0 million of acquisition-related sales. The organic decrease includes a high single digit decline in sales to OEM dealerships, partially offset by a low single digit increase in sales of diagnostic and repair information products to independent repair shop owners and managers. Gross margin of 47.3%, including 10 basis points of unfavorable foreign currency effects, declined 40 basis points from last year.

The operating expense margin of 22.1% increased 20 basis points from 21.9% last year. Operating earnings for the RS&I group of $80.1 million compared to $83.3 million last year. The operating margin of 25.2% compared to 25.8% a year ago, including the effects of 20 basis points of unfavorable currency and 10 basis points of direct costs associated with COVID-19.

Now turning to Slide Ten. Revenue from Financial Services of $85.8 million compared to $84.1 million last year. Financial Services operating earnings of $65.6 million compared to $61 million in 2019. Financial services expenses of $20.2 million decreased $2.9 million from last year's levels, primarily due to lower provisions for credit losses reflecting a year-over-year decline in net charge-offs. As a percentage of the average portfolio, financial services expenses were nine-tenths of 1% and 1.1% in the third quarters of 2020 and 2019, respectively.

In the third quarter, the average yield on finance receivables of 17.8% in 2020 compared to 17.7% in 2019. The respective average yield on contract receivables was 8.4% and 9.2%. The lower yield on contract receivables in 2020 includes the impact of lower interest business operation support loans for our franchisees. These loans were offered during the second quarter to help accommodate franchisee operations in dealing with the COVID-19 environments. As of the end of the third quarter, approximately $16 million of these business operating support loans remain outstanding. Total loan originations of $252.8 million in the third quarter of 2020 compared to $253.5 million last year. Originations of both finance receivables and contract receivables were essentially flat to last year's levels.

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. Our worldwide gross financial services portfolio increased $25 million in the third quarter. Collections of finance receivables in the quarter of $185.2 million compared to collections of $181.6 million during the third quarter of 2019. As we mentioned last quarter, as a result of the COVID-19 pandemic, we did provide short

term payment relief or forbearance to some of our franchisees qualifying customers. As of the end of September, those accounts having forbearance terms were back to more typical levels and were below 1% of the finance receivable portfolio, as compared to about 2.5% as of the end of the second quarter. Trailing 12-month net losses on extended credit, or finance receivables, of $46.7 million represented 2.7% of outstandings at quarter-end, down 23 basis points sequentially. The 60 day plus delinquency rate of 1.5% for U.S. extended credit compared to 1.7% last year. On a sequential basis the rate is up 50 basis points, mostly reflecting the typical seasonal increase of 20 to 30 basis points we experience between the second and third quarters, as well as the 20 to 30 basis point benefit to the rate reflected in the second quarter of 2020 that was associated with the deferred payment programs that were offered through June.

Now turning to Slide 12. Cash provided by operating activities of $224.0 million in the quarter increased at $92.9 million from comparable 2019 levels, primarily reflecting the higher net earnings and net changes and operating assets to liabilities including a $57.0 million decrease in working capital, largely driven by lower year-over-year changes in inventories. Net cash used by investing activities of $18.8 million included net additions to finance receivables of $11.7 million and capital expenditures of $10.1 million.

Net cash used by financing activities of $105.1 million included cash dividends of $58.8 million and the repurchase of 300,000 shares of common stock for $45.1 million under our existing share repurchase programs. As of the end of September, we have remaining availability to repurchase up to an additional $294.5 million of common stock under existing authorizations.

Turning to Slide 13. Trade and other accounts receivable decreased $75.7 million from 2019 year end. Day sales outstanding of 64 days compared to 67 days at 2019 year end. Inventories increased $4.0 million from 2019 year end. On a trailing 12-month basis, inventory turns of 2.4, although slightly improved as compared to 2.3 times at the end of the second quarter, compared

to 2.6 at year end 2019. Our quarter end cash position of $787.5 million compared to $184.5 million at year end 2019.

Our net debt to capital ratio of 15.5% compared to 22.1% at year end 2019. In addition to cash and expected cash flow from operations, we have more than $800 million in available 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 third quarter performance. I'll now turn the call back to Nick for his closing thoughts. Nick.

Nicholas Pinchuk: Thanks Aldo. We are encouraged by the quarter. Our operations, all of the groups – C&I, RS&I, and Tools – improving sequentially. Shock to accommodation to psychological recovery, tracing a clear and continuing upward trend. A significant rise in the Tools Group, up 16.2% organically, same store sales, confirming the opportunities in vehicle repair and showing the power of our van network. Financial Services performing well in the turbulence, demonstrating clearly the robust nature of its processes and its portfolio.

And the positive overall results. Sales up 4.4%, 3.8% organically. OI margin 19.7%, strong, representing a rise of 110 basis points. EPS $3.28, up 10.8% from last year, significant gains against the turbulence. All achieved while consciously continuing to fortify our strength and advantage in product, a range of new offerings; in brand, a successful SFC despite the distance; and in people, we're keeping our team intact.

You see, we are confident in our belief that we have ongoing upward momentum in the near term and we recognize that we have expanded opportunity in changing technologies and with the greater use of personal vehicles in the long term. And we're maintaining our advantages through the virus

so that Snap-on will be at full strength, taking advantage of these abundant opportunities, driving continuous progress through this period of challenge and well beyond.

Now I'll speak directly to our franchisees and associates. I know many of you are listening. This was an encouraging quarter and we do have a bright future. And I know none of it would be possible without your energy, your capability, and your dedication. For your essential effort in supporting our society, you have my admiration. For your extraordinary achievement in driving us forward, you have my congratulations. And for your continuing commitment to our team, you have my thanks.

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

Operator: Thank you. If you would like to ask a question please signal by pressing Star 1 on your telephone keypad. If you are using a speakerphone, please make sure your Mute function is turned off to allow your signal to reach our equipment. Again, press Star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

We'll take our first question from Christopher Glynn with Oppenheimer.

Christopher Glynn: Good morning, and congratulations on a strong quarter.

Nick Pinchuk: Thank you, Chris.

Christopher Glynn: Just curious as to the Tools Group, how to contextualize the growth, which really had no foreshadow or precedent the last few years, other than maybe is it wiser to look at 2Q to 3Q combined year-over-year growth, or in terms of, you know, how…

Nick Pinchuk: You know, I think - look, I think the thing is, I think we said when we went into the first quarter - in the first quarter, we said we got hammered in March, but things were looking pretty good before that. So, I think we had made investments in products and processes that were helping us mine the franchisees' capability more effectively, and we started to see that toward the end of the fourth quarter last year and in the first quarter. And then, you know, Katie bar the door on the virus and so things go down. But we started to see people recover. That's why we say shock, accommodation. They started to accommodate. And then we said, June was coming back, tracing an upward trend.

So when you look at the third quarter, I think you think of it in, okay, there is some makeup. I assume when things are going down so badly, particularly in April, there's some catch up there. But here's the thing that makes sense to us, when you look at the sales off the van, the sales off the van have been strong for a long time. They were better in the second quarter than our sales. And in the third quarter, they were every bit as strong, deep into – you know, clear, well into double digits every month. And then when you look back at it after the third quarter, the sales off the van are up year-over-year by a clear amount. And so they're up by a clear amount.

So I think that's the data point. It says to me, we're going back to kind of like that upward trend. Now, what happens going forward? Hard to say. I guess that's the $64,000 question, you know. But I like what I see in this kind of situation. Sort of - Tools Group seems to be hitting on all cylinders.

Now, the wildcard could be Europe. And in the quarter, one of the cool things about the quarter was the UK. It turned around quite well. I don't know if you caught the international operations, up double digits, and that hadn't been a situation. And so there's a lot of ups and downs there, and that could be an uncertainty going forward over those geographies and so on, but I'll tell you what. There's a lot of momentum, and a lot of good - we see a lot of good reasons for this, in the franchisees becoming more effective, in the way we knew how to get over this because of the -

now, this wasn't our first rodeo associated with the downward trends, and we knew how to get our franchisees through it. And we got them through it and it paid off.

So I think you kind of look at it, okay, 16.2% organically is a big number, but we really mined the profits. And I think if you think about off the van, it shows that there's an appetite out there. And vehicle repair is back. It's approaching psychological - what we call in our construct, psychological recovery, and the vans are taking advantage of it.

What we like about this is, regardless of the arithmetic, it shows the resiliency of vehicle repair in turbulence, and the positivity and the strength of the face-to-face van model when we enable it with these technologies we've been helping it- helping them with.

Christopher Glynn: Thanks. And just to follow up, I was curious what degree you guys contemplate a upshift in the payout ratio, given that organic reinvestment and bolt-ons and share purchase are, you know, very much covered in your kind of pay-as-you-go rates there. I think, you know, some feel there's a strong case for a 50 to 60% payout ratio. Curious your thoughts around that.

Aldo Pagliari: Well, Chris, you probably know that we have, in recent history, usually revisit the dividend rate in the fourth quarter. That's coming up upon us. And like every meeting we have with the Board of Directors, we'll have that discussion and we'll try to take a step forward in what we think is affordable, realizing that Snap-on's approach is to treat the dividend increase kind of like a perpetuity. Again, that's been our historic pattern and I'll kind of leave it at that.

Nick Pinchuk: Yes. I mean, our governing policy on dividend is perpetuity. We think it's a cornerstone and a hallmark of the resilience and power of our model. So we believe in that strongly.

Christopher Glynn: Thanks, guys.

Operator: We'll take our next question from Luke Junk with Baird.

Luke Junk: Everyone, thanks for taking the question. So, two questions on the Tools Group. First, wondering if you could comment on growth rates from a product line standpoint. It seems like diagnostic sales are likely up moderately, based on your RS&I commentary and tool storage, I guess, if we just look at originations, feels fairly stable. Should we read that hand tool sales were the big driver of the strength, or is there something else that should be taken into account?

Nick Pinchuk: You know, sort of yes with qualifications to those questions, I guess. I don't know. Look, here is - first of all, looking at it - look, I'll just say this as a disclaimer upfront. Looking at the quarterly by product numbers doesn't really tell you that much, because it's heavily dependent on what's introduced. What are the products and programs that break on the mind, on the - with the franchisees and then onto the technicians in the quarter. That really heavily influences it.

So one quarter can't give you any real information on this, but it can - it's better than a poke in the eye with a sharp stick when you look at these things sometimes. So, look, here's the thing. Big ticket items, were up in the quarter. Our sales to the franchisees were up in the quarter. And they were up okay, you know.

Tool storage had a nice quarter actually and - but there is a timing difference between originations and sales, our sales to the vans. Remember, what you're seeing from us is, we sell to the vans and then they got - first of all, okay, they've got to get there. You know they get there and then the guys get them up and they find a buyer and then they get credit, and so on. So there can be some sort of disconnection between the timing. But generally, I'd say, that's right. They were up in the quarter.

Hand tools were very strong in the quarter, very strong. And they led the way, but power tools were nicely up too. So I mean, there are a number of different products that were up. The hand tools, of course, and a lot depends on what you feature and what the new products are, which is why I talked

about the master set, because hand tools was a star in the quarter, but it wasn't to the exclusion of say like tool storage and the others.

Luke Junk: Okay. That's…

Nick Pinchuk: One of the things I think you would - one of the things I think you would conclude out of this, I think, is that when you see originations… in effect, what are they down? 0.3% or something like that, or, you know, maybe a little bit bigger in the U.S. …you know, and you see me say that tool storage is up for the franchisees and big ticket is up for the franchisees, you would say that it's not the amount of the product, it's that the fact that being flat, even flat or up a little bit year-over-year, means that they're going to psychological recovery.

In other words, the garages and the franchises and the technicians and the franchisees themselves, are starting to believe in the future and have confidence to invest in longer payback items. This is kind of a watershed event in terms of the state of mind throughout the industry. One of the snapbacks - and if you think about it, boy, if you just step back and you look at the news about the auto industry in general, but also you kind of look around, you know, vehicle repair is pretty robust actually, and wages were up for technicians in August, according to the rolling 12, were up. So, I mean, I think that's a positive.

And when I go out, when I went to the factory in Elkmont, Alabama, I also went to franchisees. I just talked to several franchises across the country, and they're all talking about robust garages. When I went to a garage recently out around here, you couldn't get in the parking lot. There were too many cars. So, I think this is going pretty well.

Luke Junk: Okay. And then, Aldo, was there any impact from those plans in the quarter from a sales standpoint in the Tools Group? And then from a credit standpoint, Aldo, you mentioned the sort of 20 to 30 basis point influence sequentially in the U.S. extended credit delinquency rates. Should

we assume that that fully washes out in the third quarter effectively versus the noise, if you want to call it, in 2Q?

Aldo Pagliari: In Q3, there was no sales benefit derived from the deferred programs because there were no deferred programs. I say that our Elite franchisees, people that we strip in the Platinum program called Elite, always have the privilege of being able to offer a 60-day deferred program as a normal course of business. So I will call that just normal activity. So there is nothing unique in Q3 that benefited the sales line.

When it comes to impact on delinquency rates and collections and charge-offs, we factor all of that in based on our history, which is considerable, because again, while we don't have in-depth COVID-19 experience, this our first experience at that, we do have a lot of experience with catastrophic events, which are usually more local. And we do provide, in our provisioning, for what would be the anticipated losses when you have people that take advantage of deferred programs versus not deferred programs. So having said all that, I guess, I don't want to use the word ‘it washes out’ but it's already kind of reflected in our results.

And going forward, whether we offer more deferred programs will remains to be seen. We look at the opportunities and if they're accretive, we'll think about it and see if it creates a reason to buy now.

Nick Pinchuk: You know, what's interesting from our perspective is, if it weren’t for the COVID, everybody wouldn't be on the edge of their seat with this. I recognize that everybody wants to see if there's going to be problems with the credit company on collections and delinquencies and so on, because of the COVID.

But in reality, the deferral is just an everyday thing for us. We do it from time to time. It happens on a regular - not regular, not periodic basis, but it happens quite often. We just mix it up so we give

customers a reason to buy now, and a franchisee a reason to change up a sales pitch, to have something to talk about to his customers.

Luke Junk: Okay, great. Appreciate the color on both those questions, and I'll leave it there. Thanks, guys.

Operator: We'll take our next question from Bret Jordan with Jefferies.

Bret Jordan: Hey. Good morning, guys.

Nick Pinchuk: Good morning. How are you doing?

Bret Jordan: Good. Hey, when you think about the impact of, I guess, the mix, it sounded like the hand tools were very strong. Do you think stimulus played a role? I mean, obviously, the garages are seeing business as people are putting their personal cars back on the road, having used ...

Nick Pinchuk: Hey, look, I think - I don't know. Look, I think, my guess, first of all, our guys are employed mostly. You can look at the thing - things dipped. I think the number of hours went down 5% or something like that in April, and then it snapped right back. And generally what we see, what I'm hearing from my franchisees, and I talk to a lot of them, the garages are pretty much employed.

So I don't think unemployment is a big deal, you know what I mean? The unemployment deal or the PPI - you could have argued that whatever people got in the beginning, like 1,200 bucks or something, that might have helped. I'm reading that people put that in the bank. I don't know, but I think it would have been over in the second quarter.

We kind of thought that might have helped us in the second quarter. That was one of the questions for us when we saw the Tools Group go up and hit the 3%, or I guess it was 2.4% in the United States and that kind of thing. We thought maybe that might have been helping us. But I - my sense

of it is, it was probably either banked or spent before - I don't think it was driving the third quarter. I don't think. And I don't think those - I don't think our guys are sitting on the edge of their seat waiting for Congress to approve another one. Now, if they do…

Bret Jordan: So the mix of cash versus credit buyer, I mean, it sort of seems like you had a very strong tools number, but not as much growth on the credit books. So was there a real shift here to cash purchase in the third quarter?

Nick Pinchuk: Well, there was a shift toward smaller - not shift, but in the quarter, we had nice hand tools and they tend to be RA, not long-term credit. Remember, when you say credit, when you're talking credit, everything is sold off the vans on credit.

Bret Jordan: Right.

Nick Pinchuk: Everything, right? And so, okay, you're only talking about whether it's 12 to 15 week credit or three year or four year credit, really. So, everything's sold on credit. So I don't think, if you put that in a pot and say everything was sold, so I don't see people paying cash so much. I haven't heard people paying cash. And our RA book is up some, because hand tools were strong. Anytime hand tools are strong, you see that happen, and the longer-term credit tends to be a little bit less. But actually, we thought longer term credit, given the environment, was pretty robust in the quarter.

Now, as I said, I think it's a sign of things getting better in the general milieu of the repair shop. Now, if somehow a miracle happens and the people in Washington get together and they decide to send everybody 1,200 bucks, I think that would be - might be cherry on the top. I don't know. I don't think we got much in the third quarter, though. I really don't.

Bret Jordan: Did you talk about the cadence of the third quarter? I mean, obviously the timing, you didn't have the franchise event, so maybe people were spending more money early or, you know, how does the third quarter stack up against…

(Crosstalk)

Nick Pinchuk: Yes, right. I mean, the cadence in the third - Bret, the cadence in the third quarter isn't as clear as in the second quarter because we're coming off some - April was godawful. So, I mean, the thing is, you're coming off of that and you kind of roll up. But generally, if you look at - I mean, if you want to talk the Tools Group, if you look at the sales off the van, which is not really subject to too much SFC impact, it was - each month was into the double-digit range clearly.

So, I think the cadence was pretty solid off the van. You get up and down depending on where the SFC is, I think here. Sometimes, like for example, when you have the live SFC, people tend to keep their powder dry because they want to get there and spend. It's almost like a Disney World. We were - it's almost like a fun experience when they get there. They run around and they buy all this stuff and so on. This was a little more measured because it was at a distance, and so not quite as exciting. And so they spent a little earlier than they would have, and I think then up. So, that's a fair view. But if you look at the stuff off the van, it seems to be solid.

Bret Jordan: Okay, great. Thank you.

Nick Pinchuk: Sure.

Operator: We'll take our next question from Curtis Nagle with Bank of America.

Curtis Nagle: Good morning. Thanks very much.

Nick Pinchuk: Curt, how are you doing?

Curtis Nagle: Great. Nick, Aldo, how are you guys doing?

Nick Pinchuk: We're doing okay.

Curtis Nagle: Terrific. Glad to hear. So, maybe just a first one on inventory. I think - it looks like there was a nice work down. Could you talk to a little bit about which segments you saw, I guess, the largest declines or I guess the biggest movement year-over-year?

Nick Pinchuk: Well, we saw - I think we didn't see much of a downtick in the Tools Group inventory, but that - you have to look at it through the lens of seasonality. Tools Group inventory always rises in the third quarter in anticipation of the sales, and in anticipation of having to make good the order burst that comes out of an SFC.

So, fundamentally, inventory flat in the quarter, meant that Tools Groups seasonally looked pretty good really compared to what you might expect if it had been a normal year. The other groups I think came down. I think our overall inventory was down a reasonable amount. So, that I think was - as you might expect in this kind of era.

Aldo Pagliari: Yes. The inventory, in constant dollars, Curt, was down about $28, $29 million. As Nick mentioned, Tools Group relatively flat in terms of their inventory move, and the other was shared kind of equally between the Commercial & Industrial Group, RS&I. Both had contributions to lower inventory, which you'd expected because their sales were not as robust as last year.

Nick Pinchuk: But I want - what I wanted to emphasize in the call though, hey, one of the things that - I tell you what, both were sequentially improved. I mean C&I was down, what, 20%, 19.7% I think. It's about 20% in the quarter - second quarter, 8.6%. That's a nice improvement. And then the one that

really came from behind was RS&I. We thought, I think, I'll share with you, we thought RS&I, the garages themselves, based on the atmosphere in the OEMs, would have been harder to come back, would take longer to come back. But they moved from - they were down, like I said in my script, 29.8% last quarter, and they knocked us to I think 2.2% organically, and 1 down or 1.6% as reported. So, a pretty big move.

So I think what you're seeing in those businesses is, even though they aren't - they don't have the starry numbers that the Tools Group has, because their industries are still going through accommodation and aren't even approaching psychological recovery, they’re showing some pretty good movement.

Curtis Nagle: Understood. Great. And then maybe just a quick clarification in terms of, I guess, the sequential trend in sale out on the vans to the Tools Group in 2Q to 3Q, did it improve or how did that trend? I just didn't quite get that.

Nick Pinchuk: Yes. Sure, it improved. It improved, but it was - I would say this. It was - in Q2, it was running ahead of the sales to the van, I think. Sales, it was kind of - if you want to think of it this way, Curt, you can think of it this way, and I would think that Q2 meant inventory was being pushed out a little bit. The inventories were going down because the sales off the van were a little bit more robust, not great, but they were more robust than - and they started to spike up in June, which is why we started to talk about the Tools Group in June. We could see that. In fact, we said that on a call, I think.

And then in the third quarter, more or less equal, the van, the sales to the van were about equal to the - you know, for government work, were about equal to the sales off the van. That's how it happens. So I think just the sales to the van kind of caught up. Doesn't look like they're building inventory though in the third quarter. It just looks like they kind of stay stable.

Curtis Nagle: Okay, very good. Thanks very much and good luck with the rest of the quarter. Thanks.

Nick Pinchuk: Thanks.

Operator: We'll take our next question from Gary Prestopino with Barrington Research.

Gary Prestopino: Hey, good morning, everyone.

Nick Pinchuk: Good morning Gary.

Gary Prestopino: Most of my questions have been answered, but just one in terms of, you had a little bit of a tailwind from FX on the sales side. What kind of impact does that have on the adjusted EPS for the quarter, Aldo?

Aldo Pagliari: Well, we actually had negative $0.06 of EPS driven by currency, because while the sales line benefited, there was currency transaction losses, principally driven by sales of U.S. manufactured product in Canada and the United Kingdom, but also the Commercial and Industrial Group, it has to do with flows between Euro-based customers versus Swedish-based sources of supply. That's what drove the transaction.

Nick Pinchuk: What happens, Gary, is that the transaction where its translations tend to be current, transactions tends to look back because you set the cost of product when it gets shipped, and it doesn't get sold till sometimes later. And that's what drives that difference. So in effect, transaction kind of trails the situation.

Aldo Pagliari: So we would expect less negative impact certainly in Q4.

Nick Pinchuk: Right. You get bigger sales, good news, and lower profit, bad news.

Gary Prestopino: Okay, great. And then just early on in the quarter here, particularly we're hearing a resurgence of this COVID, and I think the U.K. has put in some more stringent lockdowns. Can you maybe talk about what you're seeing early stage in Q4 with various regions of the world?

Nick Pinchuk: We don't really give guidance, but look, I can tell you my broad view is that, boy, you know, if you look at the United States, I don't know, I think vehicle repair particularly won't get shocked again. You know, they're not - in fact, everywhere won't get shocked again. Whatever happens, I think our people will accommodate better than they did in the April and March area.

So I think that's kind of a broader view. I think - look, I think the United States kind of continues to march - you know, nobody knows what's going to happen exactly. But I think the accommodation continues in the United States in all our areas. Europe's got twin problems with economics and so on. So it's hard to see across all those geographies, what's going to happen there. Again, though, I don't think they get shocked again.

So I think, you know, they manage it, but it could be slowed down, or it could be accelerated. Asia-Pacific, I think China of course is okay. Japan should be okay, I think. I don't know what the heck's happening in India and Southeast Asia, but they seem to be completely flat on their back in terms of their ability to deal with this situation.

So, we'll see how those - that's how I see it playing out. And I think, you know, we see upward trends, like we said last time, I believe in the shock accommodation psychological model, but the value of that slope upward will change depending on how conditions occur. I do think though we’re fortified against the really bad news. And really, I'm not telling you anything. We could have just as good a quarter or a better quarter next time.

Gary Prestopino: Okay. Thanks. Appreciate it.

Operator: We'll take our next question from Scott Stember with C.L. King.

Scott Stember: Good morning, guys.

Nick Pinchuk: Scott, how are you doing?

Scott Stember: Good. Most of my questions have been answered also, but just going back to the U.K. in the Tools Group, I know that obviously things have been tough there for the past year, year and a half and got worse in the second quarter, but that was a pretty eye-popping improvement that we saw in tools in the U.K. Could you just talk, was there anything else going on there? Were there new products introduced? And just trying to get a sense of the sustainability of the recovery.

Nick Pinchuk: There's a couple of things. Look, I think we believe the U.K. came a long way. And in fact, their acceleration upward had already begun in June. It just wasn't the level of the U.S. But if you go back, they were deeper in April. And if you looked at the slope of the curve upwards in June, you said wait, something's going on there.

And I think part of it was, is that okay, you have people suffering through the shock and they were really shocked, and you had the economics on top of it, in my own personal opinion, were three things. One is, they started to accommodate. Two, the virus kind of got people's minds off of Brexit. They didn't pay attention, you know, so much. So it wasn't weighing on people in terms of economics or coming out of the - at least getting a little better than the virus they started to figure out. And three, we made changes to our network to try to make it - try to get training. The new product there is every bit as robust as here. It just follows a little bit later. So we're introducing some of the diagnostics that had already been introduced here and wasn't there and other new products. So there’s a constant stream of new products. It wasn't different than the U.S., but I mean, we kept

pounding the new product in there. I think those are the three factors. Now, it was up - as you say, it was up quite nicely. We'll see how it plays out. I don't think it will get shocked again though.

Scott Stember: Got it. Thank you.

Nick Pinchuk: Sure.

Operator: We'll take our last question from David MacGregor with Longbow Research.

David MacGregor: Yes, good morning, everyone. Nick, congratulations on a good - yes, congratulations on a good quarter.

Nick Pinchuk: Thank you.

David MacGregor: I guess the question has been asked earlier about some of the spending patterns and technicians that came off that 90-day deferrals, and I just wonder if we could go back to that, to start off with here. And just, the guys that qualified for that program and benefited from that program, as they came off that program, what kind of spending patterns did you see from them? Or were they pretty much removed from the market and the strength that you've achieved this quarter is off the balance of the base?

Aldo Pagliari: Look, David, I think people will keep spending. We don't isolate on whether you have just an EC loan. Remember, they have two-thirds of their business activity are with the franchisee on a revolving account type basis. I think they remain generally active. I'm sure you get all kinds of examples. Some people might not buy for a while. Other people keep buying each and every week. You get all kinds of patterns. But the fact that there was a deferred program I don't think really radically changes the flow of activity, because again, we've had programs like this more was done in Q2, certainly given the unusual nature of it, but I think the customer is pretty consistent.

The thing you have to always remember - people asked Nick earlier on the call about stimulus. Remember, everybody who has a job, and I think we said that most of our customer base still has a job, has more discretionary money in their pocket simply because a lot of other venues to spend your money are not available, whether it be going to dinner, the movies, a sports game. So, the people have more money beyond just stimulus checks coming in the mail. And technicians like to buy tools. That has been demonstrated over the tunnel of time.

David MacGregor: One would think, though, that if somebody's coming off a 90-day deferral because they were strapped for credit, that they might not be very aggressive buyers.

Nick Pinchuk: He didn’t say - wait a minute. That's an assumption that's untrue.

David MacGregor: Is it?

Nick Pinchuk: They're not strapped for credit. Look, here's the thing. We didn't just give 90-day credit to the people who were strapped for credit. We offered 90-day credit as a reason to buy now. It's like a car loan. So the point is - I think the point is, is those people - here you are. You're going to buy a Steel Titan, David. Okay, I can get it 90-day deferral or not.

David MacGregor: Take it.

Nick Pinchuk: I might take it, right? You might take it. With all the money that you have, you might take it.

David MacGregor: Yes, right. All right. Thank you for that clarification. I appreciate that. I wanted to just explore as well the divergence between kind of the growth that you achieved in C&I and RS&I versus what you're seeing in the Tools Group. And I appreciate directionally, both C&I and RS&I are moving positively versus what you printed in the second quarter, but still high single-digit

declines in C&I, high single-digit declines in OEM dealership business, and RS&I. It seems a little in contrast to up mid-teens in the Tools Group. And so, I guess, your thoughts on that divergence. And then secondly, do we see those other businesses catch up here in the fourth quarter? Could you have that much ((inaudible))?

Nick Pinchuk: So I don't - I think this. I think we have the potential to catch up. I think - I'll tell you what. I think you can write this in black letter law on your shorts about this. In general, what we see is, when you have anything like this in terms of a macro, what we see is the smaller businesses, if they have - if they continue in the business, which vehicle repair has been continuing in the business, they don't think so - they're like making money. They're spending it. They're kind of rolling.

I do think, the bigger the business, the more it tends to look at, what's going to happen in the future? I'm not sure. They get a little bit more reticent there. They have a little bit more, I guess, forward outlook that troubles them in the day, that weighs on their decision-making in the day. I think this has happened through my entire time here. We've seen this, as macroeconomic expectations go up and down.

So, if you look at C&I, you see certain other segments particularly troubled. Other segments like military and international aviation are up, and you see a little bit of heavy truck, a little bit better. And so you can see that, but eventually we see them recovering. That's the difference. It's actually the milieu, the industry, the environment, and also the fact that the garages are smaller and therefore, closer to that cash action and the actual action, and therefore, more confident as they see it continuing. I think this is psychological.

And then if you go to RS&I, I think you're looking at a two-pronged effort. You have the independents, which tend to get a little better, but you also have the dealers who were pretty shook up at the beginning. They were rolling - they were coming in to the virus, as you probably know, with probably a negative view, hey, the SAAR is going to be down for next year. It doesn't look

good, huh? Maybe we're going to - so the thing is, they sort of entered this with kind of a downward look and maybe even extra inventory.

So, then they got through it and then they start to come up. But I think those guys get a little bit more reticent going forward in terms of investing. Remember, C&I and RS&I, tend to be more capital-based type actions, right? They're good business, but they're more capital, and you would see them being more, I guess, cautious. I think they come out of it, though. I think we're loving the RS&I look this quarter, really.

David MacGregor: So, let me just ask you as well because we're top of the hour here and we'd like to wrap this up, I'm sure. But it seems like software sales may have been a stronger contributor this quarter as well. You talked about the Apollo D9, but there were some other introductions as well.

Nick Pinchuk: Yes. They were - look, software is about a third of RS&I. The Mitchell 1 Software business, which is repair shop information and running the repair shops in both cars and trucks, that was up …

David MacGregor: Within the Tools Group.

Nick Pinchuk: Oh, you're talking about the Tools Group?

David MacGregor: Yes.

Nick Pinchuk: I'm talking about RS&I. I thought - you’re talking about Tools Group?

David MacGregor: I'm talking about the Tools Group here.

Nick Pinchuk: Sorry. The Tools Group, the software business was pretty good. But I wouldn't say it was an extraordinary contributor, an outsized contributor. It didn't stand out really in any way to us so much in this quarter. It was okay, but not - you wouldn't have called it a variance driver.

David MacGregor: Right. And then last question for me. If the franchisees are taking big ticket again, it sounds like your storage business was good. It sounds like diagnostics was okay. We should see some pretty good originations numbers in the fourth quarter, shouldn't we? So what would be …?

Nick Pinchuk: Well, okay. Assuming it sells, right, or it can …

David MacGregor: Well, so that - right.

Nick Pinchuk: Right?

David MacGregor: I’m sort of enjoying this, I guess, is, if …

Nick Pinchuk: It seems okay. Yes, that's a reasonable assumption.

David MacGregor: Right. So if we see …

Aldo Pagliari: David, they always have a choice to make. Remember that Snap-on does benefit by having what I would say is the industry's leading residual values. So, when they take trade-ins, particularly in diagnostics, it becomes a factor. That’s why the penetration rate on diagnostics for one reason is lower. There's a good chance that the finance can be handled through the RA account. If you take in, as an example, a $2,000 trading unit on a $3,000 item, you don't have to necessarily finance the EC. So, that's why you get a little bit of a different blend. And I think in this low interest rate environment, some franchisees feel they have the wherewithal to stretch a bit or borrow locally, if they don't borrow from Snap-on Credit. And I think they have some versatility, given the low interest

rate environment. So that's why you don't necessarily have the same predictability as to what falls on to the EC program. Again, remember, the franchisee decides that. Snap-on doesn't decide that.

David MacGregor: No, no, but I would think at this point, the franchisee would consider, I've got 100% risk on the RA versus 25% risk on EC, and I'm probably better put …

Nick Pinchuk: That's not necessarily true.

Aldo Pagliari: Yes. But David, but take a step back. You can look over the long tunnel of time, our default rates - and the franchisees see this. Remember, our franchisees are pretty long in the tooth. They have, on average, 14 years of experience. They see that the defaults, while never guaranteed, are pretty predictable to some extent, and through good and bad times, kind of steady. -o they don't rush to outboard. At least, again, always on the fringes, you get a little bit of everything, but they don't rush to panic and say, well, let's give it to Snap-on credit because they only have 25% exposure versus 100%. Of course, there's some that might consider that, but the great population does not.

Nick Pinchuk: Yes. David, the franchisees have an internal calculus that says, I want to have a certain amount of short-term RA and a certain amount of longer-term stuff. They try to maintain it in that way. So, to the extent they have a, what I would call a borderline event in a sale, that might push them one way or another. I believe that to be pretty true.

And so the thing is, yes, it's 100%, but it's shorter term. If they think the guy can pay it, they like it, they'll get in, liquidate it, and on to something else.

Aldo Pagliari: A lot of times what people use is a metric, David, RA flips, which we don't look at it that way, but some people say, oh, RA flips if they're up, that must mean bad things are coming. RA flips are

actually down from the historic levels. Again, we don't read a lot into that, but okay. It doesn't seem like the franchisees are trying to offload credit riskiness in any dramatic way.

Nick Pinchuk: Not to mention, the franchisees seem flush. I mean, they're kind of pretty low in terms of on hold. So I think as a network, I think the franchisees are probably in a better place than they've been in a long time.

David MacGregor: Well, thanks for taking the questions. Congrats on the results and good luck this quarter.

Nick Pinchuk: All right. Thanks.

Operator: Thank you. That concludes today's question-and-answer session. Ms. Verbsky, at this time, I will turn the conference back to you for any additional remarks.

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, and good day.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.