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Operator: Good day, and welcome to the Snap-on Incorporated Second Quarter 2021 Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Sara Verbsky, excuse me, Vice President, Investor Relations. Please go ahead.

Sara Verbsky: Thank you, Stephanie, and good morning, everyone. Thank you for joining us today to review Snap-on's second 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 Web site, [snaon.com](http://snaon.com), under the Investors section. These slides will be archived on our Web site along with a transcript of today's call.

Any statements made during this call relative to management's expectations, estimates or beliefs or otherwise state management's or the company's outlook, plans or projections are forward-looking statements and actual results may differ materially from those made in such statements. Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

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 and 15. Both can be found on our Web site.

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

Nick Pinchuk: Thanks, Sara. Good morning, everyone. As usual, I'm going to start the call by covering the highlights of our second quarter. And along the way, I'll give you my perspective on our results. Once again, they were encouraging. On our markets, robust and promising. And on our continued progress and strength amidst the pandemic. The pandemic isn't over, but we believe we're stronger right now than when it all started. Of course, we'll also speak about what it all means. Then Aldo will move into a more detailed review of the financials.

We believe that our second quarter, again, demonstrates Snap-on's ability to continue its trajectory of positive results, overcoming a variety of ongoing headwinds, accommodating to the lingering virus environment, meeting the challenges of the day across the business world and advancing along our runways for growth and for improvement.

Our reported sales in the quarter were \$1,081.4 million, and they were up versus last year's \$357.1 million or 49.3%, including \$20.6 million of favorable foreign currency exchange and \$19.6 million in acquisition-related sales. The organic sales were up 42.5%, with significant gains in every group, our fourth straight quarter being above pre-pandemic levels, a V-shaped trajectory that defines resilience and flexible capability.

The OpCo operating income of \$217.1 million was up \$126 million from last year, which included \$4.0 million of restructuring charges. OpCo operating margin was 20.1%, up from the 2020 level

of 12.6% or 13.1% as adjusted for restructuring, representing a 700 basis point as adjusted improvement.

The Financial Services operating income of \$68.9 million increased 19.6%, higher originations, lower losses, delinquencies below pre-pandemic levels, our finance company passing the greatest stress test of our time with flying colors. And that result combined with OpCo for a consolidated operating margin of 24.5%, up 560 basis points as adjusted.

Quarterly EPS was \$3.76, up 103.2% from last year. And excluding the 2020 restructuring charges, EPS grew 96.9%. Versus the pre-pandemic levels of 2019, the EPS grew 16.8%, clearly tracing an ongoing positive trend.

I've said it before, but it bears repeating, we believe Snap-on is stronger now than when we entered this great withering, and we believe our second quarter is emphatic evidence of that fact. Compared with 2019, our sales in the past quarter grew \$130.1 million or 13.7%, that reflects \$23 million of acquisition-related sales, \$17.2 million of favorable foreign currency and \$89.9 million or -- and an \$89.9 million or 9.3% organic gain.

The 2021 OpCo operating margin of 20.1% was up 10 basis points from 2019, but that gain was achieved against 70 basis points of unfavorable currency and acquisition impacts, all while absorbing the lingering effects of the virus, it's not gone. So those are the numbers.

From a macro market perspective, it's clear that our automotive repair sector remains favorable. The technicians across the map are still at their posts, repairing cars and trucks, keeping the world running. And they are busy. And as expected after the COVID, it appears that people are leaning more toward personal transportation and are holding on to their vehicles longer every year. Auto repair is a strong and resilient market. You can hear it from our franchisees and you can see it in our numbers.

As we look forward, we see greater opportunities as vehicle techs encounter even more complex repairs, new technologies, alternative powertrains, greater proliferation of driver assistance electronics. It's all music to our ears.

And then there's the repair shop owners and managers, RS&I territory, a little more mixed, particularly in Europe, but a return to growth in repair garages and dealerships. They're starting to invest...undercar equipment and OEM programs are coming back...and RS&I is taking advantage of that trend with new equipment offerings and advanced data-based solutions, continually improving our software products and our diagnostic releases. Products like Mitchell 1 Repair Information software and shop management software and electronic parts catalogs and our Dealer-FX shop management technology and our heavy-duty and our intelligence diagnostic units, big databases and getting more powerful and easier to use, helping the shop fix it right the first time, efficiently. The repair shop is changing, rising in complexity and RS&I has the products to match.

Finally, let's talk about critical industries, where Snap-on rolls out of the garage, solving tasks of consequence. This is where the C&I group operates. It's our most international operation where the customers have endured the longest impact of the virus and have been slower to accommodate it, recovering at what I'd call varied rates, segments like oil and gas, and aviation, to geographies like Southeast Asia and India, still down. But despite the variation, we did see growth in critical industries. Improvements in education – the students are coming back – and in power generation and heavy-duty fleet, all combining to offset that continuing turbulence. So overall, I'd describe our C&I markets as healthy and representing clear opportunity. And coupled with auto repair, we believe our markets are robust now and there's considerable opportunity ahead for us as we move along our runways for growth and improvement.

And I can't leave this section about robust progress and abundant possibilities without speaking on the engine of our advance, Snap-on Value Creation. Customer connection and innovation, developing new products and solutions, born out of insights and observations gathered right in the workplaces, and RCI, guiding the expansion of franchisee selling capacity with better processes, more effective training and a new focus on social media. It all helped drive our progress, overcoming the difficulties, accommodating the virus and enabling us to take full advantage of the opportunities and chart a continuing and positive trend forward.

That's the overview. Now let's move to the segments.

In the C&I group, sales in the quarter were up 33.8% or \$88.6 million versus 2020, including a \$71.3 million or 26.3% organic uplift with double-digit progress across all of the divisions. From an earnings perspective, C&I operating income of \$55.5 million, including \$1.1 million of unfavorable foreign currency represents a rise of \$32.6 million compared to 2020, which included \$2.0 million of restructuring. That all means an as adjusted increase of over 122.9%, and the operating margin was 15.8%, an "as reported" increase of 710 basis points, a rise of 630 basis points as adjusted, and an uplift of 120 basis points from the pre-pandemic level in 2019 despite 90 basis points of unfavorable currency. When compared with pre-pandemic 2019, sales were up 4.6%, including a 0.4% organic gain, about flat.

Now a continuing bright spot for C&I, SNA Europe did deliver yet another quarter of growth, expanding beyond pre-pandemic levels, against the wind, with the Bahco ERGO Tool Management System leading the way, tailoring products specific to customer needs. Europe is a varied market environment, but SNA Europe is defying economic gravity again, and that positive was joined by contributions from recovering areas in critical industries like heavy duty, power generation, and as I said before, education – who's come to the party just now – and from Asia Pacific geographies like China and Japan, and those gains were balanced by declines in attenuated sectors like the military, aerospace and natural resources, all still weak.

We do remain confident in and committed to extending in critical industries, and we're committed with great new products. Speaking of product, in the last quarter to help solve challenging tasks across aviation and other critical industries, we launched a new Snap-on 14.4-volt MicroLithium cordless right-angle mini drill with its 6,000 RPM making it ideal for drilling a variety of materials, plastics to aluminum to fiberglass. The unit has a compact 90-degree head, which provides easier access in confined spaces and reduces worker fatigue. It's a big factor. In addition, it also offers a higher quality chuck that achieves precise drilling with minimum runout, ensuring tight tolerances are met with considerable reliability. To top it all off, our drill also utilizes a double ball-bearing-supported spindle shaft and spiral-beveled gears. Now that's a mouthful. But it all means that the new power tool has a clear superiority and durability. The cordless right-angle mini is a great innovation with an array of advantages and the techs are noticing. So that's C&I, a promising quarter, moving down its runways for growth with strong profitability, C&I OI margin, 15.8%.

Now on to the Tools Group. Sales of \$484.1 million, up \$160.8 million, including \$154 million or 46.7% organic gain. Double-digit growth both in the U.S. and the international operations and the operating margin was 21.4%, up 930 basis points.

Compared with pre-virus 2019, sales grew \$78.3 million, including a \$70.7 million or 17.1% organic gain. And this quarter's 21.4% operating margin was up 380 basis points compared with the pre-virus numbers, coming out of the pandemic stronger indeed. Another power -- another -- I was going to say, powerful, I guess I could say that, but another positive quarter with double-digit expansions across all geographies and all products.

We do believe our van network remains quite strong. Just a few weeks ago, I spent time with a dozen franchisees on our -- the dozen franchisees on our U.S. National Franchisee Advisory Council at our Algona, Iowa tool storage plant. And they were pumped and prosperous, excited

by their current positions, positive about the other vans in the regions they represent and very optimistic about the prospects for even more. Beyond the windshield surveys, we see other indications of continuing strength like the business health metrics, they remain quite favorable. Qualitative and quantitative indicators, both very positive.

And that positivity was not just internal, it was reinforced by the external view. Snap-on was recognized again this year among the top 50 in the franchise industry by Entrepreneur Magazine. And once again, we scored highest in the Tools distribution category, a place we've held for quite some time. And now this type of recognition, this kind of positivity, reflects the fundamental and contemporary strength of our franchisees and of our overall van business and it would not have been achieved without a continuous stream of unique new products.

Hand tools were up in the quarter, and part of that, torque is rising in importance as more mechanical provisions -- precision becomes necessary to support vehicle automation. And we're riding that wave with great new products like our new ATECH Micro Torque Wrench with a quick release head. The quarter-inch drive quick release has a positive locking mechanism to retain the socket solidly and securely in place. And at the same time, it offers a push button for easy tool disengagement. It holds and it ejects, both important under the hood. And it's a time saver. It's quite a time saver in close clearance applications like valve cover removals and spark plug replacements that happen every day in the garage. The tool also offers visual, audible and vibrational alerts to confirm that the proper torque has been applied, and it has a wide torque range, 12- to 240-pound inches, and the new micro also includes a 15-degree flex ratchet head for better access to fasteners, a 72-tooth one quarter inch drive ratchet, enabling efficient operations in tight areas and a plus or minus 2% accuracy. Our micro tech takes precision fastening to the next level.

Tool storage was also strong in the quarter, and part of that success was our KTL1023A3 roll cab, a wide 72-inch triple bank tool storage box. It offers three extra wide drawers for longer and

larger tools, giving the technician more organizational options, our patented Lock 'N Roll latch mechanism, which prevents drawers from drifting open, and our Iso-Ride Casters providing a smooth ride, smooth rolling and excellent weight capacity. Plus, it adds our LED-lighted power top, which spans the full width of the cabinet for better illumination and great eye appeal, and it includes 10 offset AC outlets and four USB ports for charging a large array of the tech's electronics. The KTL1023A3, storage efficiency in a box that captures sharp attention in any shop. Sales of the unit? Well, it's a sellout.

Our new products are, in fact, making a difference in the Tools Group. You can't miss it in the numbers. They also and the group also registered its fourth straight quarter above pre-pandemic levels. The Tools Group unmistakably is moving onward and upward.

Now on to the RS&I group. Sales were up 62.7% or \$153.6 million versus last year including \$135.7 million or 54.1% organic uplift with double-digit growth weighted toward our undercar equipment and our OEM project business -- project businesses. But with our diagnostics and information product business still delivering strong double-digit increases in addition to the weighting toward undercar equipment and OEM projects.

From an earnings perspective, RS&I operating income of \$86.7 million represents a rise of \$36.1 million or 71.3% compared to 2020, which included \$1.4 million of restructuring. And the operating margin was 21.8%, an increase of 110 basis points from last year, 60 basis points as adjusted, but against a 180-point impact of unfavorable currency and acquisition effects. When compared with 2019, sales were up 14.2% as reported and organic growth was \$29.7 million or 8.4%, with double-digit advances in undercar equipment, OEM projects, diagnostics and information in North America, all of that being attenuated by a general weakness in Europe.

For profitability, the OI margin was 21.8% -- the OI margin of 21.8% was down 360 basis points with a 150-point impact from unfavorable currency and acquisition effects, and with a further drag



from the higher sales of undercar equipment and OEM projects both at the lower end of RS&I margins. Having said that, RS&I has great opportunities, and we're fortifying its way forward with more new products. We just introduced our new ZEUS Mobile Workcenters, giving the technicians the ability to use the full capabilities of our top-of-the-line diagnostic and information systems, including our exclusive Fast Track Intelligent Diagnostics, from anywhere in the service bay. It is a compact footprint for great mobility, reaching all over the shop. It also incorporates a lockable tool drawer, tool storage cabinet and a large 27-inch touchscreen display. The new ZEUS workstation offers significant improvements in convenience, in security and in visibility, combined with the power of our most sophisticated databases. It's just the ticket for those shops that want to solve the most difficult repair challenges and want to visibly display their advanced capability for all the customers to see as they come in to shop. And the new workstation is making a difference, attracting attention and it's setting new volume levels for this category.

So, to wrap up RS&I, improving position with repair shop owners and managers, strong growth across all the divisions, recovering areas of undercar equipment and OEM projects, and expanding product lines to lead the way forward.

Well, those are the highlights of the quarter. Tools Group, strong progress, everywhere. Unmistakable strength. C&I, recording a positive performance with significant profitability against variations across industry and geographies, and RS&I expanding volume in independent repair shops and OEM dealerships, gains in the U.S. overcoming weakness in Europe.

Overall, sales increasing for the corporation, up nicely, both versus last year at 42.5% up and compared with pre-pandemic levels at 9.3% up, continuing our V-shaped recovery.

OpCo operating margin, a strong 21% up again in the face of 70 basis points of unfavorable currency and acquisition effect.

EPS, \$3.76 in the quarter, for the -- up for the fourth quarter in a row, up versus last year, up versus last quarter, up versus pre-pandemic levels. It was another 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. The second quarter of 2021 exhibited solid financial performance, particularly as compared to last year's heavily pandemic impacted second quarter. Results also compared favorably with the second quarter of 2019, which being a pre-COVID-19 time period may serve to be the more meaningful baseline.

Net sales of \$1 billion, 81.4 million in the quarter increased 49.3% from 2020 levels, reflecting a 42.5% organic sales gain, \$19.6 million of acquisition-related sales and \$20.6 million of favorable foreign currency translation. Sequentially, organic sales improved by 4.5% as compared to the first quarter of 2021. Additionally, net sales in the period increased 13.7% from \$951.3 million in the second quarter of 2019, including a 9.3% organic gain, \$23.0 million of acquisition-related sales and \$17.2 million of favorable foreign currency translation.

Consolidated gross margin of 50.2% improved 310 basis points from 47.1% last year, which included 30 basis points from restructuring costs. The gross margin contributions from the higher sales volumes and benefits from the company's RCI initiatives were partially offset by 20 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of net sales of 30.1% improved 440 basis points from 34.5% last year, which included 20 basis points from restructuring costs. The improvement primarily reflects the benefits of higher sales volumes, partially offset by higher stock-based costs and 70 basis points of unfavorable acquisition effects.

Operating earnings before financial services of \$217.1 million compared to \$91.1 million in 2020, reflecting 138.3% year-over-year improvement. As a percentage of net sales, operating margin before financial services of 20.1% improved 750 basis points from 12.6% last year, which included 50 basis points for restructuring costs.

Financial services revenue of \$86.9 million in the second quarter of 2021 compared to \$84.6 million last year. While operating earnings of \$68.9 million increased \$11.3 million from 2020 levels, primarily as a result of higher revenue and lower provisions for credit losses.

Consolidated operating earnings of \$286 million increased 92.3% from \$148.7 million last year. As a percentage of revenues, the operating earnings margin of 24.5% compared to 18.4% in 2020, which included 50 basis points from restructuring costs. Excluding the restructuring costs, operating earnings margin in 2021 increased 560 basis points from last year.

Our second quarter effective income tax rate of 23.3% compared to 24.1% last year, which included a 20 basis point increase related to the prior year quarter's restructuring charges.

Net earnings of \$208 million, or \$3.76 per diluted share, increased \$106.8 million, or \$1.91 per share from last year's levels, representing a 103.2% increase in diluted earnings per share. As compared to 2020, excluding the restructuring charges of \$3.3 million after tax or \$0.06 per diluted share, diluted earnings per share increased 96.9%. Relative to the second quarter of 2019, net earnings increased \$27.6 million or \$0.54 per share, representing a 16.8% 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 \$350.5 million increased 33.8% from \$261.9 million last year, reflecting a 26.3% organic sales gain, \$7.7 million of acquisition-related sales, and \$9.6 million of favorable foreign currency translation. The organic gain reflects higher activity in all of the segment's operations and

includes mid-teen increases in sales to customers in critical industries. Within Critical Industries, robust sales gains were achieved in general industry, heavy-duty and technical education but were partially offset by year-over-year declines in sales to the military, which had remained strong in the pandemic-impacted period last year.

As a further comparison, net sales in the period increased 4.6% from 2019 levels, reflecting \$1.4 million of organic sales gain, \$7.7 million of acquisition-related sales and \$6.4 million of favorable foreign currency translation. As compared to 2019, sales in our European-based hand tools business were up high single digits. With respect to critical industry sales activity in that period, our military, international aerospace and natural resources segments were below 2019 levels. All other critical industry segments are at or above the second quarter of 2019.

Gross margin of 39.5% improved 510 basis points from 34.4% in the second quarter of 2020, which included 80 basis points from restructuring charges. Contributions from the higher sales volumes and the improvements resulting from the lower restructuring costs were partially offset by 60 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of sales of 23.7% improved 200 basis points compared to last year, primarily as a result of the improved volumes. Operating earnings for the C&I segment of \$55.5 million, including \$1.1 million of unfavorable foreign currency effects compared to \$22.9 million last year. The operating margin of 15.8% compared to 8.7% a year ago.

Turning now to slide eight. Sales in the Snap-on Tools Group of \$484.1 million increased 49.7% from \$323.3 million in 2020, reflecting a 46.7% organic sales gain and \$6.7 million of favorable foreign currency translation. The organic sales increase reflects a gain of approximately 40% in our U.S. business and a gain of approximately 80% in our international operations with strong growth across all product lines.

Net sales in the period increased 19.3% from \$405.8 million in the second quarter of 2019, reflecting a 17.1% organic sales gain and \$7.6 million of favorable foreign currency translation. Additionally, sales in the U.S. operation were up 18.8% in that period, while franchisee sales off the van versus 2019 were up 21%.

Gross margin of 46.8% in the quarter improved 510 basis points from last year, primarily due to the higher sales volumes, benefits from RCI initiatives, and 50 basis points from favorable foreign currency effects.

Operating expenses as a percentage of sales of 25.4% improved from 29.8% last year, primarily due to the higher sales volumes. Operating earnings for the Snap-on Tools Group of \$103.5 million compared to \$38.4 million last year. The operating margin of 21.4% compared to 11.9% a year ago, an improvement of 950 basis points.

Turning to the RS&I Group shown on slide nine. Sales of \$398.6 million compared to \$245.0 million a year ago, reflecting a 54.1% organic sales gain, \$11.9 million of acquisition-related sales and \$6.0 million of favorable foreign currency translation. The organic increase reflects a rise of approximately 80% in sales of undercar equipment as well as a gain of approximately 50% in sales to OEM dealerships, and an increase of approximately 30% in sales of diagnostics and repair information products to independent repair shop owners and managers.

As compared to 2019 levels, net sales increased \$49.7 million from \$348.9 million, reflecting an 8.4% organic sales gain, \$15.3 million of acquisition-related sales and \$4.7 million of favorable foreign currency translation.

Gross margin of 44.7% declined from 47.4% last year, primarily due to the impact of higher sales and lower gross margin businesses and 40 basis points of unfavorable foreign currency effects, partially offset by 70 basis points of benefits from acquisitions. As a reminder, undercar

equipment, as well as facilitation program related activity, both of which had healthy sales increases in the quarter, typically have a gross margin rate that is below the RS&I segment average.

Operating expenses as a percentage of sales of 22.9% improved 380 basis points from 26.7% last year, which included 50 basis points of restructuring costs. Contributions from the higher sales volumes and benefits from lower costs related to restructuring were partially offset by 190 basis points of unfavorable acquisition effects.

Operating earnings for the RS&I group of \$86.7 million compared to \$50.6 million last year. The operating margin of 21.8% compared to 20.7% a year ago.

Now turning to slide 10. Revenue from financial services of \$86.9 million compared to \$84.6 million last year. Financial services operating earnings of \$68.9 million compared to \$57.6 million in 2020. Financial services expenses of \$18.0 million decreased \$9.0 million from 2020 levels, primarily due to lower provisions for credit losses resulting from \$2.8 million of lower year-over-year net loan charge-offs as well as favorable loan portfolio trends which support lower expected reserve requirements.

As a percentage of the average portfolio, financial services expenses were 0.8% and 1.3% in the second quarters of 2021 and 2020, respectively. In the second quarter, the average yield on finance receivables of 17.5% in 2021 compared to 17.6% in 2020. The respective average yield on contract receivables was 8.5% and 8.2%. 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 of 2020 to help accommodate franchisee operations in dealing with the COVID-19 environment. As of the end of the current quarter, approximately \$8 million of these business operation support loans remain outstanding.

Total loan originations of \$285.8 million in the second quarter increased \$30.0 million, or 11.7%, from 2020 levels, reflecting a 17.9% increase in originations of finance receivables, while originations of contract receivables were down 11.5%. Last year's contract receivable originations included the aforementioned offering of business operation support loans to qualifying franchisees during the second quarter of 2020.

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 \$13.2 million in the second quarter, primarily due to the higher originations.

The 60-day plus delinquency rate of 1.2% for the United States extended credit is up 20 basis points from the rate of 1.0% in the second quarter of 2020. As we commented during our second quarter 2020 earnings call, we estimated in the quarter, the 60-day plus delinquency rate was favorably affected by 20 to 30 basis points as a result of forbearance and deferred payment programs in place during that period last year.

As it relates to extended credit, or finance receivables, trailing 12-month net losses of \$41.6 million, representing 2.4% of outstandings at quarter end, is down 15 basis points sequentially and down 53 basis points compared to the same period last year.

Now turning to slide 12. Cash provided by operating activities of \$238.2 million in the quarter decreased \$15.4 million from comparable 2020 levels, primarily reflecting the higher net earnings more than offset by net changes in operating assets and liabilities, including \$98.4 million of higher income tax payments. The increase in cash paid for income taxes reflects both higher levels of taxable profitability, as well as the IRS no longer allowing companies to defer estimated tax payments, as compared to the IRS accommodation offered during the second quarter of 2020.

Net cash used by investing activities in the \$29.7 million included net additions of finance receivables of \$18.7 million. Net cash used by financing activities of \$147.9 million included cash dividends of \$66.7 million and the repurchase of 566,900 shares of common stock for \$137.4 million under our existing share repurchase programs, partially offset by proceeds from stock purchase and option plans of \$61.8 million. As of quarter end, we had remaining availability to repurchase up to an additional \$251.6 million of common stock under existing authorizations.

Turning to slide 13. Trade and other accounts receivable increased \$4.7 million from 2020 year-end. Days sales outstanding of 56 days compared to 64 days at 2020 year-end. Inventories increased \$14.4 million from 2020 year-end, but on a trailing 12-month basis, inventory turns of 2.7 compared to 2.4 at year-end 2020.

Our quarter end cash position of \$965.9 million compared to \$923.4 million at year-end 2020. Our net debt-to-capital ratio of 10.8% compared to 12.1% at year-end 2020. In addition to cash and expected cash flow from operations, we have more than \$800 million in available credit facilities. At quarter end, there were no amounts outstanding under the credit facility, and there are no commercial paper borrowings outstanding.

That concludes my remarks on our second quarter performance. I'll now briefly review a few outlook items for 2021. We anticipate that capital expenditures will be in the range of \$90 million to \$100 million. We currently anticipate, absent any changes to U.S. tax legislation, that our full year 2021 effective income tax rate will be in a range of 23% to 24%.

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

Nick Pinchuk: Thanks, Aldo. Well, at the beginning, I said I would speak on what this all means. I'm going to try. First, it means that Snap-on and its markets are resilient. The virus, probably the



greatest threat to our society and business in many decades. It was a great shock. Miles driven down big. Dealerships, many furloughed. No travelers -- aviation, no travelers. Oil and gas in free fall and education, virtually little need for equipment. Nobody is in the classrooms. And yet, we weathered the shock without trauma.

The Credit Company stepped in with just the right bridging at just the right places for customers and franchisees and our direct selling vans kept rolling, quickly accommodating to the environment. Snap-on kept investing in our product, our brands and our people, and we accommodated and recovered to post four straight quarters of above pre-pandemic results. Tracing a V-shaped recovery and emerging from the height of the storm stronger than we entered, resilience against the greatest business threat in memory, but it's more than resilience. More than bounce back. It also demonstrates great flexibility.

As the world passed through the shock, through accommodation to psychological recovery, change was the order of the day and Snap-on adjusted, fueled by our fortified advantages in product, brand, and people we accommodated. The pandemic limited face-to-face interaction. We expanded virtual contact and came away with some long-term social media tools that will enable our franchisees for some time.

When technicians focused on shorter payback items, we gave them hand tools and power tools and torque. When repair leaned away from maintenance to complex repairs in the shock, we provided ADAS calibration tools and intelligent diagnostics and helped franchisees expand their selling capacity to manage those more complicated offerings efficiently.

When some critical industries weakened, we developed offerings for those that maintained. When the virus attenuated the distributors in Europe, we focused on customization and more direct interactions. All of that achievement in a time of change demonstrates Snap-on's flexibility

and confirms we can prosper amid future change going forward as we've always done, by observing work and solving whatever the new problems are.

Snap-on second quarter. Tools Group, up in all geographies and in all product lines. Sales up 17.1% compared with 2019, and OI margins of 21.4%. C&I, gains offsetting the challenges of the lingering COVID, rising profitability to 15.8%, up 120 basis points from the pre-pandemic level, even with a 90 basis point impact from unfavorable currency. RS&I, sales up 8.5% versus 2019, undercar equipment and OEM projects recovering, and an OI of 21.8%, down from the pre-pandemic but still strong. And Snap-on overall, sales up 9.3% organically versus 2019, an OI margin of 20.1% and an EPS of \$3.76, up meaningfully versus every comparison. It was an encouraging period again, demonstrating resilience and flexibility, encouraging for the now and we're confident, encouraging for the prospects of growth and improvement for the future on through 2021 and well beyond.

Before I turn the call over to the operator, I'll speak directly to our franchisees and associates. Your support is the fundamental element in driving our continuing positive trend. For your role in helping our society and our company to navigate the pandemic, you have my admiration. For your contributions in authoring this quarter's strong results, you have my congratulations. And for your continued commitment to the Snap-on team, you have my thanks.

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

Operator: Thank you. If you like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one if you'd like to ask a question.

Our first question comes from Bret Jordan with Jefferies.

Bret Jordan: Hey, good morning, guys.

Nick Pinchuk: Good morning.

Bret Jordan: When you think about the mechanic in the tools segment, I guess demand has been very strong. We're hearing a lot about labor rate inflation. Are you seeing a real change in their buying patterns that they are more liquid than they have historically been and more biased to pay cash for higher ticket items, I guess?

Nick Pinchuk: I think there's a combination of that. I think they are. I think they are and our franchisees are more flush, and therefore, they are able to underwrite the shorter payback even for bigger -- even for medium ticket items, which might have gone on EC before, the franchisees are willing to underwrite it and let them pay RA.

I do think the technicians are kind of -- have good cash because the business has been going well for quite a long period of time. And they are interested in continually investing in tools, so you see that as a factor. I mean that's certainly a factor in the business.

And one of the things we see is that you'll notice that RA is very strong versus EC in this quarter. And we see that as the technicians are buying and still have capacity to buy more in the future because they have borrowing capacity under our EC.

Bret Jordan: When you think about the technicians as they relate to this next round of stimulus on the child tax credits, do you give any demographic color as to whether they are more or less likely to have kids that are going to give them a stimulus check?

Nick Pinchuk: You know, I don't know. The technician population is pretty spread. I wouldn't say they're more or less. In fact, I think they're -- yes, I think they're kind of the average, every man, there

are old technicians and young technicians, so I don't think there's any particular concentration. You don't go into a garage and see all young people. You don't go see all old people either. So, I don't think there's any particular position in that. They have some kids but not different than the regular population. By the way, Bret, Aldo, I have to apologize for his voice. He was at the Deer District overnight at the Bucks game, so he's a little under the weather.

Bret Jordan: Thanks, guys.

Nick Pinchuk: Sure.

Operator: Thank you. Our next question comes from Curtis Nagle with Bank of America.

Curtis Nagle: Thanks very much. Just quick one. You just -- I got to ask this because you brought it up a couple of times in the prepared remarks about new social media tools. Could you expand on what you're talking about, what these tools. Are they targeting new customers, existing you know trying to get them to buy more ...

Nick Pinchuk: They're not so much -- sure they target new customers. But what I'm really referring to here without -- I didn't want to get into it in the remarks because I had a lot to say, and I didn't want to... It really, what this is, is we used social media before, but in the pandemic we realized the more effective way to use them was to pre-brief customers. In other words, to contact them, first, we started out by saying, okay, we want to stay in touch with our customers via social media or any electronic means that could -- that do it at a distance. But then we realized, boy, it's a powerful tool for making for sales efficiency when you're actually in front of them. Because what you can do is contact them on the social media, you have a relationship with them. You can pre-brief them about how a great new -- what the elements of a particular new product is, like the 14.4 volt power tool I talked about, or the Techwrench I talked about. And you can also pre-brief them

on any promotions we might have. And so, then when you're actually spending the time in front of the technician, you can spend your time closing the deal.

This is -- this kind of shrinks the time. And so, it takes some of the pre-sell out of the face time and makes it more efficient. That's what we're talking about here. We learned how to do that very well in the pandemic. And that's going to serve us well. And it's part of the idea.

Remember, I always said that the pacing element for sales to the Tools Group has been the franchisees' time, well, they're hitting new limits, up 17% versus pre-pandemic levels, and it's because we've expanded their capacity.

Curtis Nagle: Got it. Okay. And just a follow-up, just any general comments in the U.S. Tools Group in terms of the competition with your -- well, your close competitors, Matco, anything -- any notable changes relative to, say, last quarter?

Nick Pinchuk: Geez, I don't know. I can tell you, I just spent -- Aldo and I were just in California talking to a franchisee. We were out there visiting plants, and we visit franchisees. And I was at the NFAC at our Algona plant, and those guys think they're crushing it. So, I don't know what that means in terms of market share, but it sounds good to me.

Curtis Nagle: Got it, okay. Fair enough, thanks very much.

Operator: Thank you. Our next question comes from Scott Stember with C.L. King.

Scott Stember: Good morning, guys. And congrats on The Bucks win.

Nick Pinchuk: The Bucks. Yes, this is NBA championship headquarters right here.

Scott Stember: Just talking about, in Tools, you guys said that everything was up pretty much. It sounds like Tools led the way, hand tools. Can you talk about diagnostic ...

Nick Pinchuk: We didn't say that. No, sorry, excuse me, Scott, I didn't actually say that. Hand tools did not lead the way this quarter. It was up big, but actually, the best year-over-year number was tool storage.

Scott Stember: Oh, okay.

Nick Pinchuk: Yes. But they were all big. I mean when you compare it, Scott, when you compare to 2020, everything looks great. I mean it's all great. That was the nadir of the downturn. But there's no doubt. What I tried to say with that, all products, all geographies, just our way of saying that the Tools Group had a gangbusters quarter.

Scott Stember: Got it. And any comments on Tools, I mean on the sales off of the van versus sell-in, Last couple of quarters, you sounded like it was pretty much in line?

Nick Pinchuk: Yes. I think Aldo said, yes, they're generally holding in line and then I think Aldo said it was what, we were up 17% versus pre-pandemic levels and sales off the van were up 21%, I think, or something like that. So, I think it's going pretty well, just rolling through the van.

Scott Stember: Got it. And lastly, on Europe, European within Snap-on Tools, tremendous growth there. Maybe just speak to what's driving the recovery there? And did you give for Europe, at least, are we back to pre-pandemic levels?

Nick Pinchuk: Yes. Europe is above pre-pandemic levels. And now, okay, to be fair, Europe wasn't all that hot in 2019. But it was -- it's still clearly above the pre-pandemic levels. In other words, it's offset whatever the impact of the pre-pandemic was. Tools Group is pretty much across all

geographies, which is kind of interesting because there isn't any stimulus in the U.K. and Australia and Canada.

Scott Stember: Got it. Thanks again for taking my questions.

Nick Pinchuk: Sure.

Operator: Thank you. Our next question comes from Luke Junk with Baird.

Luke Junk: Good morning, Nick, Aldo. Good to talk to you this morning.

Nick Pinchuk: Hello.

Luke Junk: So, first question I had a near-term question. So, we get further into the psychological recovery post the onset of COVID, we saw an increase in originations, both year-over-year and sequentially this quarter. Nick, as you put your finger on the pulse of bigger ticket purchases, Tool Storage, especially. Do you feel like we're getting closer to or maybe already at an inflection point in terms of mechanic attitudes around discretionary spend right now?

Nick Pinchuk: Yes, I think we are. I mean I don't know who -- it could be famous last words, Luke. You got a lot of people talking about the delta variant and all this stuff. I don't think so. I think the people of work, the people in the factories and the people in the garages, like I've said on other calls, are kind of thinking they've weathered the storm and they're not going to get shocked again no matter what. And so, I think they've kind of changed their level, they're starting to recover. And so, you're starting to see people -- we saw it in our Tool Storage numbers.

One of the reasons why we took the franchisees, the franchise council to Algona, our tool storage plant, is everybody's screaming for more tool storage. Now one of the effects was is that when we entered the COVID, they sold down their used boxes that they had taken in trade, and so they had a lot of that rolling out. But still, they're looking for boxes now. So, I think things have turned. The question is, are the franchisees so flush with cash that they want to finance some of those boxes. Or some of them, sometimes they sell them a locker, which is not quite as expensive as a box and they can afford to finance those kinds of things.

But I do think when I talk to franchisees, they're telling me that we've kind of turned the corner. Turn the corner is probably too -- maybe too binary a word for it. We were coming back, though. Things are pretty optimistic in the shops.

Luke Junk: Got it. That's helpful. Second, I'm wondering, looking forward here, how we should think about the impact of the franchisee conference this year? What I'm wondering is both in absolute terms, i.e., what is that event going to look like this year? And also, in relative terms, given the unique nature of last year's virtual conference?

Nick Pinchuk: Yes. Look, it's going to be bigger than any other conference. We think. Who knows. We still got a few weeks to go, but registrations are higher than they've ever been. When I talk to the franchisees, they are really excited about going no matter who I talk to, I haven't -- I heard -- they are always kind of optimistic about it, but this one is really big because it's -- we're celebrating our hundredth, really. And they've been -- and they've been away for -- they didn't have it last year, so they're really talking about it. So, it's going to be bigger, I think.

And so, what will the effect be? I've said for a dog's age on these calls that the third quarter can be a little bit variable because there's a lot of windage -- how many people go to the franchise conference, do they take more weeks, what happens in Europe and so on. But I'm telling you I'm not forecasting any weakness or anything like that. I'm just telling you, you never know how



those things are going to turn out. But I like how we're entering the quarter. I like our momentum. So, I think whatever happens, we'll make the best of it. We're in a great position to navigate the quarter. Hello?

Okay. He was -- he had to go to The Bucks celebration. So okay. Go next, right.

Operator: Thank you. Our next question comes from Christopher Glynn with Oppenheimer.

Christopher Glynn: Thank you.

Nick Pinchuk: Okay, Chris.

Christopher Glynn: Aldo, feel better.

Aldo Pagliari: Yes. I got it, Chris. I got it covered.

Christopher Glynn: All right. So great commentary on the momentum and the overall buzz around the operations. The comps are kind of binary into the back half and your language around Tools is that the momentum is so robust, storage sold out. So, I think you were a little more hedged in the last couple of quarters about what current run rates mean for continued growth. But what I'm hearing is you're very confident you can continue to compound, not just overall, but at SOT. So, I just wanted to bounce that off you if I'm kind of hearing you right?

Nick Pinchuk: You're not going to get me to forecast the quarter. You know what I mean, I'm not going to say we're going to build on a -- ever upward over a 17% increase over pre-pandemic levels. But all I'm saying is, the Tools Group, the reason why we say all products, all geographies, is we can't find anything wrong with it. And we always can find warts in some places. This is good. You

know what I mean. So, we like our momentum. How that plays out in the third quarter, I'm not sure.

You know, you've been on the call, we've been on these calls a long time. And I've always said that the third quarter is not -- I'm saying I like our momentum. I think we're going into the quarter really strong. We feel stronger than last quarter. But I will add that I've always said that the third quarter is not necessarily a trend indicator. Whether it's way up or way down, it has to do with all that windage, how many vacations do people take in Europe is one big thing. And are the franchisees liable to take the same vacations as last year or more, I don't know. But I do think I haven't seen the Tools Group this strong.

Christopher Glynn: Okay. Great. And just a more pointed question. Are you seeing increased uptake and interest in franchisees adopting second associates over the past couple of months?

Nick Pinchuk: Yes. Well, I don't know. I think -- look, it's starting to come out of the thaw because I think you can imagine why people are a little more reluctant in the COVID. There's a lot of interaction questions, a lot of viscosity and that kind of thing. I think they grew by 2% to 2.5% sequentially. So that's not bad, I think.

So, whether that has to do with the thaw or actually people getting more excited, I don't know. I do think when I talk to franchisees, they do more quickly go to the conversation, gee, maybe I ought to get -- I'm doing so many -- so much business, maybe I better get a franchisee. The guy in California was just talking about that. This guy just started like a few years ago, he signed up for a competitor, and then he was talking to the guy and he said, I don't want to -- you ought to go, the guy who sold him the thing, you ought to go to the best, so he came to Snap-on. And the thing is this guy is so pumped, he's gone up so far. He's talking about, gee, maybe I could do more with an assistant. I need an assistant and a lot more and more people are doing that. So, we would expect some expansion in this area.

Christopher Glynn: Nick, thanks.

Nick Pinchuk: Sure.

Operator: Thank you. Our next question comes from David MacGregor with Longbow Research.

David MacGregor: Hey, good morning, everyone. And Nick, congratulations on a really strong quarter.

Nick Pinchuk: Thanks.

David MacGregor: Just outstanding results across the enterprise. So, I guess I wanted to understand just a couple of housekeeping questions. What was the change in provisions, if you mentioned that, I missed it?

Nick Pinchuk: Change -- sorry, sorry, Dave. What is change in provisions?

David MacGregor: Yes, question for Aldo. I think you reduced ...

Aldo Pagliari: Yes. Specifically, David, we said that the charge-offs were lower by \$2.8 million, but the charge-offs are just one of the indicators. When you look at your overall provision for losses, it's down about \$9 million to cut to the chase. But that's based on an assessment of what is the reserve side that we think we need for expected losses over the duration of the portfolio, which runs a little over four years on average.

So that's the change order. But again, as you'll see -- you'll get more information, obviously, when the Q comes out. But if you look at charge-offs are lower, the 60-plus day delinquency rate is lower. The net trailing 12-month losses are lower. The recoveries are better. The

nonperforming loans number are lower. The amount of pass-through accounts are lower. So, you put that all together, and that's what lets us arrive at the conclusion that the reserves were able to be reduced somewhat.

David MacGregor: Sure. That makes sense. But \$9 million is the number, that's what I was looking for.

Aldo Pagliari: Yes.

David MacGregor: The second question is, I guess, going back to the whole discussion around originations and Nick, you talked about that the technician is just in better shape today than they've been in a while. I guess a lot of stimulus and a little wage growth will do that. But I'm just wondering right now to what extent you think the slower origination growth may be attributed to technicians? Again, because they're in better shape just qualifying for lower cost credit from alternative sources, and they're just going outside ...

Nick Pinchuk: Well, I have a tougher time figuring that out. I don't think so, though, because... It might be. It might be in the U.S. I don't think -- I actually don't think -- David, I don't think stimulus is much of a factor, maybe some, because we have pretty good growth in international operations, where you don't see a clear a pumping of the money into the economy. So, when we look at it across the world, it doesn't seem as though that specific characteristic of America is a factor. I don't know, maybe, but I tend to think it's more a combination of the franchisees feeling more flush.

You kind of got an interesting interaction. You have people who at first were leaning towards shorter payback items. And maybe that expands to away from hand, to past hand tools, up into lockers or spiffier tops for the tool storage boxes, which are more fundable by the franchisees over time. Franchisees like building their shorter-term credit, so they like that. And it is true that the technicians do have more cash. I mean they've been working all through the pandemic. And

so that's kind of built up on a relative case. It could be eligible for other credit. We have no way of knowing that. I don't hear anybody mention it, though. Now I talked to a lot of franchisees, and they may not necessarily mention, but we haven't heard that particular thing come up in any environment. So, I don't know.

David MacGregor: Yes. It's an interesting dynamic. I guess we'll watch and see where it goes. You talked about the strength in storage, which I guess was surprising to hear and certainly strikes me as counterintuitive, given it's hard to think of another product you sell that would be more carbon steel-intensive. And given cold-rolled steel now hitting \$2,000 a ton this week, there's been an awful lot of inflation, which I'm assuming you pass through. So, is there just no elasticity there in storage? Or are legacy storage sales kind of flat and what we're seeing the growth on is a lot of these new product introductions?

Nick Pinchuk: Yes. No. It was a strong quarter in storage. I think somewhat -- I'd like to think our offerings are kind of spiffier than they have been. I talked about this extra wide, the 72-inch master series in the call, with the lighted top. Those things are statement makers in garages. And I think that having refrained from some of this for a period of time, technicians are getting more anxious to buy them and they have the money and they're getting a little more confidence so they go out and look at them. That's really -- I think that's the situation.

I wouldn't say there's no elasticity. But I think when you -- I mean, is there elasticity with new cars? I mean the thing is people are buying new cars and reuse cars and so on. I mean, so I think when people want something in this category, which is, I've often said, I think you and I have had conversations, that a tool storage box is like a car. So, people tend to want them. They'll pay a little bit more. It's not no elasticity, but people will go up and pay for them. That's my analysis.

It's really the psychology and the need, a combination of need and psychology. And our biggest -  
- the product we have, which is the biggest psychological factor in people buying is tool storage.  
Now all I can tell you is our tool storage plant is sold out, sold out.

David MacGregor: That's fantastic.

Nick Pinchuk: Yes.

David MacGregor: That's great. I guess as you talk about the strong growth in storage, how much of that  
growth was from some of these new products? I guess, what was the legacy product growth  
looking like?

Nick Pinchuk: Well, look, I don't -- I think when I say I don't know. I don't have that number at my  
fingertips, but there's a lot of wrinkles you can put in tool storage. Like we wouldn't necessarily  
call a new color a new product. On the other hand, you roll out a new color, remember when we  
rolled out purple, there was an explosion.

David MacGregor: Yes. Yes.

Nick Pinchuk: So, some of that happens. It just has to do with a wrinkle that makes it, oh, this is the best  
box in the shop or it's the newest thing. That's really what happens. So, we're constantly doing  
that stuff.

David MacGregor: I just wanted to wrap up, one last question. And I guess you kind of touched on this  
earlier in our conversation. So maybe I'll ask the question in a slightly different way. But I'm just  
thinking about tool segment growth sort of going forward. And prior to the pandemic, Tools were  
struggling with growth for a rather extended period of time and certainly were coming short of that  
4% goal that you'd set for the segment. Now whether through the last four quarters, sort of the

easy compares are behind you, but you've delivered remarkable growth through that period of time, including on a two-year basis, just to be fair. I guess as we think about the growth potential for the business now that four easy compares are behind you. I guess what has changed to support sort of growth going forward? And what gives you confidence that the segment can track forward at greater than 4% when you were having ...

(Crosstalk)

Nick Pinchuk: I'll tell you, it's this way. It's simple statement. Figured out new ways to expand the selling efficiency of the franchisees. This has happened before, there's a precedent for this. If you go back and you look before that term, which you told, you said that they struggled for growth and it's a fair characterization in some ways. Between '11 and '16, the compounded annual growth rate was 7.2%.

And that was fueled by the expansion of the capabilities. We found artifices to do that, the vans, the Rock & Roll Cabs and so on. And in this case, we believe we've broken through another ceiling to a new level, and it's provable by the absolute amounts that are flowing through the vans at this point.

So that's certainly true for us. And so we keep -- we've always said, keep pounding that and we can sell more. We're not bound by the market. We're bound by our ability to sell. And so that's part of it. That's part of getting those franchisees to be able to deal with these more complex products. And we think we've made a step change over the last. Now we've been investing in it for like three years or something, trying to get that, but we think we've done it, and we think this is provable by the absolute amounts. Whatever the source of that volume is, it proves that the franchisees can accommodate it. They couldn't before.

Operator: Thank you. Our final question comes from Gary Prestopino with Barrington Research.

Gary Prestopino: Hey, good morning, everyone.

Nick Pinchuk: Gary, hey, Gary.

Gary Prestopino: Most of the questions have been answered. But I guess I just want to pick up on some of the things the last questioner was asking as it relates to margins. It looks like your Tool and C&I margins from Q2 '19 have expanded fairly significantly, particularly the Tools Group. I mean, is there anything that's inherently changed in the business? Or is that just a function of -- that's just the leverage of the business with the sales growth?

Nick Pinchuk: Well, look, I think there is leverage in that situation. So that's good. I think it would be a mistake to overlook the idea that embedded in there is some pricing to offset. We've got a whole bunch of -- we've got material costs in there. I don't want to get in into the documented, but we've got a great dollop of material cost. Anybody who's reading the press sees that the varying levels of steel we use from steel rod to plate steel to sheet steel and so on, have gone up tremendously. The costs of freight are up tremendously, yet through pricing and RCI, we shove them aside, and got the 20. So yes, there's leverage, but there's also great RCI in there that's dealing with the material costs. That's one thing to think about.

So, you got a combination of those. And you have some other costs in there. I think we'll talk about it. I think you'll see some of them when you see in the Q, but I do think it's a combination of those working very well. 21.4%, I think, might be the highest we've ever seen in the Tools Group. I don't know. But we kind of hope to get the highest every quarter actually. So, I don't like to say that. But we're pretty pleased with that.

Gary Prestopino: Okay, thank you.



Nick Pinchuk: Sure.

Operator: Thank you. This concludes today's question-and-answer session. I'd like to now turn it back to our presenters for any closing remarks.

Sara Verbsky: Thank you all for joining us today. A replay of this call will be available shortly on [snaon.com](http://snaon.com). As always, we appreciate your interest in Snap-on. Good day.

Operator: Thank you, ladies and gentlemen. This concludes today's presentation. You may now disconnect.