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EDITED TRANSCRIPT

SNA - Q1 2020 Snap-On Inc Earnings Call

EVENT DATE/TIME: APRIL 21, 2020 / 2:00PM GMT

OVERVIEW:

Co. reported 1Q20 net sales of $852.2m and net earnings of $137.2m or $2.49 per share.

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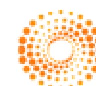

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PRESENTATION

Operator

Ladies and gentlemen, good day, and welcome to the Snap-on First Quarter 2020 Results Investor Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Sara Verbsky, Vice President of Investor Relations. Please go ahead, ma'am.

Sara M. Verbsky - *Snap-on Incorporated - VP of IR*

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

As usual, we have provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the webcast viewer as well as on our website, snapon.com, under the Investors section. These slides will be archived on our website along with a transcript of today's call.

Any statements made during this call relative to management's expectations, estimates or beliefs are 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 the 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?

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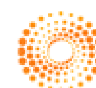

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Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

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Thanks, Sara. Good morning, everyone. Well, as some say, these are interesting times. There's considerable turbulence in business and all across the every day landscape, but I believe we can be confident that Snap-on will navigate through it all and come out stronger than when it all started, just as we have done in the past.

Before I get going, I think it's appropriate for all of you listening in, investors, associates, franchisees, customers, retirees, analysts, you have our best wishes that you and your family -- families weather these times safely and without harm. Now let's speak of Snap-on.

Firstly, we're keeping our teams safe. Snap-on people are working from home and where that's not possible. And there are a number of these instances we're proceeding using government prescribed guidelines in the United States, those put forward by the Center for Disease Control, the CDC, physical distancing, the use of personal protection equipment, cleaning of facilities deep and often, staggered shifts and break and quick attention to those who have symptoms. For our franchisees, we're active and helping providing a playbook for staying safe. The people of the Snap-on team are a great advantage. We're working hard to preserve them as we move through the difficult.

Having said that, it's clear our operations are essential. Snap-on plays an important role in the underpinning of our society, supporting vital activities, like the military, transportation infrastructure, our critical vehicle repair, the areas we all depend on for emergency services for food delivery, for distribution of medical supplies and for a variety of essential needs. Government bodies, including the U.S. Department of Homeland Security and multiple states have deemed it so. And there have been clear examples of that critical role from the United States to Italy to the U.K. And as such, our factories and distribution centers have pretty much remained active doing their part, keeping the world going.

Consistent with that, our sourcing teams have been able to maintain our supply chain, supporting both our factories and our kitting centers. Overwhelmingly, our sourcing partners have recognized the criticality of our needs and have remained active to provide support. Now in this arena, particularly in the U.S., we do have an advantage because we make in the markets where we sell. Our supply chain is fine. As you might expect, the impact of the virus varies across our operating landscape. Asia, in general, and China, in particular, has seen the impact for some time. But now, particularly in China, showing some rays of light. Restaurants are opening, and people are driving en masse. Europe has seen weak economics for several quarters, and COVID-19 has made it worse pretty much all over. It's a region that seems particularly hard hit. Of course, there's a lot being written about the United States. We do see a mix. There are points of light, primarily in the middle of the country, where franchisees have set personal positive records, and there are places, particularly in the northeast, where activity has been significantly restricted. And there are locations, not that many at this point, where we've seen green shoots of recovery.

If you view the world by business segment, most seem quite impacted. Oil and gas, of course, education and vehicle OEM projects, but there are other places like the military, like general industry and like trucking that appear more positive. Regardless of the current landscape, we believe we have the resilience and the strength to navigate the downturn as Snap-on has done so many times before. The fact that since 1939, over all those years, encountering several periods of significant challenge, Snap-on has paid a dividend every quarter and has never reduced it. That record stands as evidence of our resilience. So in that regard, we believe our longer-term prospects have not been impacted. While the time lines are uncertain, we are confident on a positive outcome to this interlude.

You can see it in the last recession in 2009. Remember how uncertain it was. Bad news for breakfast. People thinking about putting their money in the mattresses. The idea of more deep walls seeming okay without stigma. But if you look at Snap-on's record during that withering, we navigated the turbulence and came out stronger. We believe that, that reflects the essential nature of our business, the strength of our position in that business and the experience and capability of our team. That wasn't our first rodeo, and neither is this.

Because we believe in that recovery, we're keeping up with the elements of Snap-on Value Creation, safety, quality, customer connection, innovation and rapid continuous improvement. It's particularly evident in customer connection and innovation. Even in the turbulence, we're continuing with the stream of new products. The green shoots will grow, and we're going to be ready. Well, that's the overview. Let me turn to the results.

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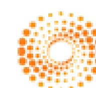

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First quarter as reported sales were $852.2 million, down 7.5%, including a $10.3 million or a 100 basis point impact from unfavorable foreign currency. Organic sales declined 6.9%, reflecting the ongoing weakness in Europe and the impact of the global economic uncertainty associated with COVID-19.

From an earnings perspective, opco OI for the quarter of $138.9 million, including $7.5 million of restructuring charges, principally focused on Europe, and $3.3 million of unfavorable currency effect was $48.5 million lower than 2019, which included $11.6 million benefit from the settlement of patent-related litigation matters. Now that's a mouthful, but the 2020 as adjusted opco OI of $146.4 million, excluding restructuring, was down 16.7% from last year's as adjusted level. And if you consider the sequential impact of the turbulence caused by the pandemic, the first quarter sales of $852 million were down organically from the fourth quarter 2019 by 10.5%, while the period's as adjusted OI of $146.4 million was down 14.6%.

Regarding opco's OI margin, the as adjusted 17.2% recorded in the first quarter compared with the as adjusted 19.1% and the 17.9% registered in the prior year and in the prior quarter, respectively. For financial services, operating income of $56.9 million was down from last year's $62.1 million, including a $2.6 million higher credit reserve as a result of the economic uncertainty associated with the virus. Overall EPS on an as-reported basis was $2.49, and it compared to $3.16 last year. The as adjusted EPS was $2.60, and that compared with last year's $3.01, down 13.5%.

Now let's move to the groups. C&I saw mixed progress through the end of February, attenuated by significant declines in March, volume in the first quarter of $299.9 million, including $5.3 million of unfavorable foreign currency translation, which is down versus last year's $322.5 million, primarily on double-digit declines in Asia Pacific and in Europe, reflecting the longer impact of the virus in Asia and the ongoing economic weakness in Europe, combined with the later period effect of COVID-19.

From an earnings perspective, C&I operating income of $31.5 million decreased $1.5 million -- $15 million from 2019, including $4.4 million of restructuring and $1.2 million of unfavorable foreign currency effects. Now critical industries did show variation with relatively favorable performance in the military, trucking fleets and general industry. You can see the essential nature of those areas in our activities. as we supported the production and the maintenance of the F-35 fire. And as our critical tools help keep the London ambulances on the road, that positive activity was offset by weakness in natural resources, education and aerospace as some of our commercial customers struggle to respond to the pandemic and the resulting lower oil prices and technical school shutdowns and reduced flights and generally lower capital spending. Overall, however, the critical industry is reflecting in part the essential nature of those tasks were flat in the turbulence.

We do remain confident in and committed to extending in the critical industries. So as a matter of fact, we're continuing to strengthen our product line, enhancing our position even in the attenuated environment. A great example, just to introduce this quarter, from the power tools division is the new CT9100, 3/4 inch cordless impact range. It's equipped with the market-leading combination of power and durability. The 3/4 inch amble makes the unit great for essential tasks, for big industrial applications, for power generation, for heavy-duty fleets and for the military, where fastener sizes are larger, torque values are higher and reliability and consistent performances are pretty critical. With its 5-amp power lithium battery, the CT9100 provides 1,000 pound feet of bolting and 1,300 pound feet of breakaway torque. That's real power. And beyond the strength, the tool has considerable versatility, 3 torque settings in forward and 3 in reverse, optimizing performance for a wide range of applications. And it has a built-in break, preventing that powerful wrench from throwing fasteners and sockets around when you use it. That's a significant safety feature. It's built in our -- the tools built in our Murphy, North Carolina plant. And it uses best-in-class components for superior toughness, substantial strength and long service life.

The new impact was just released in February in a limited distribution, but it's already on track to become a hit $1 million product. It's been quite well received. C&I, navigating the turbulence with customer connection and innovation, serving the essential.

Now on to the Tools Group. Sales were $375.9 million in the quarter, reflecting $31.8 million or a $31.8 million organic decline and $2.5 million of unfavorable foreign currency translation. The progress we saw in the U.S. van channel early in the quarter was erased, and the continuing weakness in the international operation was amplified by the virus as the virus spread more widely the operating earnings of $48.6 million including $1.4 million of unfavorable foreign currency compared to $67.2 million in 2019. One advantage, we believe our franchisees entered the difficulties with a strong underlying position, and that base will come in handy during the immediate future. And as I said before, van activity is mixed. There are points of light. We saw a great record-setting franchisee performance in Iowa. Even in New York, some have adjusted well, turning in strong results, but there are places where the network is attenuated. The vans are seeing variation, but we have considerable confidence in our ability to adjust

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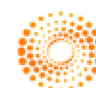

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and return to full strength. We've done it before in disasters like Superstorm Sandy and Hurricanes Marie (sic) [Maria] and Harvey. And the tools team is working again in its difficulty with focus to make sure our franchisees weather the storm and emerge with advantage. We're supporting the franchisees with tailored programs, targeted promotions and -- but, again, great new product. Products like the new line of quarter-inch drives stubby ratchets, boasting the shortest length on the market. The fixed head at 2.5 inches and the flex head at 3.25 inches both offer improved accessibility in constrained spaces, like all our quarter-inch drive ratchets. The new stubbies include Dual 80 technology for convenient ratcheting arc of 5 degrees and for more power and less lateral space. They each have sealed heads, which ensure long tool life and a screw style joint design that enables very easy repair, all while maximizing strength. The new ratchets, they were launched regionally again in March, and initial sales were nearly $1 million, a significant success for a hand tool and a regional introduction, especially in the storm.

Now let's talk about tool storage, holding its own in the face of the pandemic, helped in part by the 100th anniversary limited edition EPIQ roll cab with the centennial-themed panels and medallions. The 68-inch EPIQ with the LED lighted power tool top features a gunmetal clear coat paint scheme, a new brush red trim color, darker and richer than our standard. That first-time color combination highlights our continued innovation and emphasizes our capacity to expand color choices for -- and it captures the attention of technicians, who want to declare they are a very special professional. Only $1,920. We were founded in 1920. Only 1,920 were built. And the number of medallions, I will showcase each boxes placed in Snap-on's history. Reception was strong, the box sold out. Well, that's the Tools Group. Navigating the challenge is underpinned by strong product.

Now let's speak of RS&I. The RS&I group finished the quarter at $314.6 million in sales compared to $327.9 million last year, reflecting a $12.9 million organic sales decrease. The growth through February showing an improvement in all businesses with the exception of our automotive OEM facing operation was overcome by slippage in March, deeper decreases in the OEM area and end-of-quarter weakness in -- end-of-quarter weaker volume in undercar equipment for both automotive dealerships and independent repair shops. RS&I operating earnings of $77.3 million decreased $6.3 million, including $3.1 million of European-focused restructuring. Operating margin was 24.6%, including 100 basis points from the restructuring and compared to the 25.5% recorded last year. Excluding restructuring, the OI margin was 25.6%, up 10 basis points for RS&I despite the pandemic.

Now the overall growth was impacted by continuing weakness in OEM programs and the equipment volumes. Our diagnostics and repair information businesses did advance in the quarter, and we're working to keep that momentum going with innovative new products and features, attractions like our recently introduced interactive truck wiring diagrams. It's an enhancement to the Mitchell 1 heavy-duty repair information system. Now just like for light vehicles, technicians with the Mitchell 1 system can click on any picture component in a truck and retrieving -- when it looks at a wiring diagram, it can retrieve a pop-up menu with specifications, physical locations, connector views and guided component tests. The new productivity-enhancing truck wiring diagrams were introduced in late February. I was at a press conference attended by the industry's top publications, and reception was great. It's one of the reasons why Mitchell 1 kept growing in the quarter.

Also, during February, we launched our SOLUS-- our new SOLUS Legend diagnostic scan tool. It's quick, a-10 second boot up in the ability to display scan results in as little as 30 seconds. It also offers a best-in-class 8-inch touch screen color display, and it combines a full diagnostic capability. It combines full diagnostic capabilities for both standard vehicles and for motorcycles into one platform. That's a very popular feature. The new handheld also provides access to our SureTrack vehicle-specific real fixes, repair tips and commonly replaced parts, all derived from our proprietary database of 1.3 billion repair actions. SOLUS Legend has the look of a very successful addition to our lineup.

We're confident in the strength of the RS&I product line. 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 a Snap-on first quarter. Some momentum in the beginning, checked by the virus, making sure our team is safe. Maintaining our operations. They're essential to society. Navigating the mix effects of the virus across our geographies and industries, knowing we can weather the difficulties, not knowing the exact time line, but confident that our position is positive going forward and keeping our company strong, Snap-on Value Creation and a continuing string of new products.

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

Aldo J. Pagliari - *Snap-on Incorporated - Senior VP of Finance & CFO*

Thanks, Nick. Our consolidated operating results are summarized on Slide 6.

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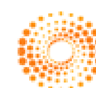

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Net sales of $852.2 million in the quarter compared to $921.7 million last year, reflecting a 6.9% organic sales decline, $10.3 million of unfavorable foreign currency translation and $3.5 million of acquisition-related sales. The organic sales decrease this quarter primarily reflected the impact of economic uncertainty associated with the COVID-19 pandemic, which sales declined in all 3 operating segments and across most geographies.

Through the month of February, with the exception of Asia Pacific and certain European geographies, sales were up on a year-over-year basis. As the effects of COVID-19 spread across Europe and the United States in March, and as further government actions were put in place, demand slowed and access to some customers was interrupted, resulting in the lower year-over-year sales for the quarter. During the quarter, as a result of the continued economic slowdown in Europe as well as effects of COVID-19, we recorded $7.5 million of restructuring costs for actions primarily associated with our European operations. These costs were recorded in both the Commercial & Industrial Group and the Repair Systems & Information Group. Consolidated gross margin of 49.5% compared to 51.2% last year, which was one of the highest quarterly gross margins reported in Snap-on's recent history. The 170 basis point decrease primarily reflects 60 basis points from restructuring costs, the impact of lower volumes, costs associated with COVID-19 related operating disruptions and 10 basis points of unfavorable foreign currency effects. The decrease was partially offset by savings from RCI initiatives. Despite the cost of restructurings and the impact of COVID-19 in the first quarter, the gross margin rate of 49.5% improved sequentially from 47.2% in the fourth quarter of 2019. The operating expense margin of 33.2% increased 230 basis points from 30.9% last year. The first quarter of 2019 included an $11.6 million or 120 basis point benefit associated with the legal settlement Nick mentioned earlier. The remaining increase primarily reflects the impact of lower sales volumes, 30 basis points from restructuring actions and 10 basis points of unfavorable foreign currency effects.

Operating earnings before financial services of $138.9 million, including $7.5 million of restructuring costs and $3.3 million of unfavorable foreign currency effects compared to $187.4 million in 2019, which included the $11.6 million legal settlement. As a percentage of net sales, operating margin before financial services of 16.3% compared to 20.3% last year. On an adjusted basis for both years, excluding the impact of restructuring and the benefit of the legal settlement, operating earnings before financial services of $146.4 million or 17.2% of sales decreased 16.7% from $175.8 million or 19.1% of sales in 2019.

Financial services revenue of $85.9 million in the first quarter of 2020 compared to $85.6 million last year. While operating earnings of $56.9 million compared to $62.1 million in 2019, primarily reflecting a $4.5 million increase in provisions for credit losses. Included in the higher provisions, under the recently adopted accounting standard update Topic 326 on credit losses, often referred to as CECL, there was $2.6 million of higher reserve requirements resulting from the economic uncertainty caused by COVID-19.

Consolidated operating earnings of $195.8 million, including $7.5 million of restructuring charges, $2.6 million of higher credit reserve requirements and $3.5 million of unfavorable foreign currency effects compared to $249.5 million last year, which included the legal settlement. As a percentage of revenues, the operating earnings margin of 20.9% compares to 24.8% last year. On an adjusted basis in both years, excluding restructuring and the legal settlement, operating earnings of $203.3 million or 21.7% of revenues, decreased 14.5% from $237.9 million or 23.6% of revenues in 2019.

Our first quarter effective income tax rate of 24.2% compared to 24.3% last year. The effective rate in both periods were increased by 10 basis points from the restructuring charges in 2020 and the legal settlement in 2019.

Finally, net earnings of $137.2 million or $2.49 per share, including an $0.11 charge for restructuring, a $0.04 impact from the COVID-19 related credit provisions and a $0.05 unfavorable impact associated with foreign currency compared to $177.9 million or $3.16 per share a year ago. On an adjusted basis, excluding the restructuring charges this year and the $0.15 benefit from the legal settlement in 2019, net earnings of $143.2 million or $2.60 per share compared to $169.2 million or $3.01 per share last year.

Now starting with the C&I Group on Slide 7. Sales of $299.9 million compared to $322.5 million last year, reflecting a 5.7% organic sales decline and a $5.3 million of unfavorable foreign currency translation, partially offset by $0.7 million of acquisition-related sales. The organic decrease primarily includes double-digit declines in sales in both the segment's Asia Pacific operations and European-based hand tools business, partially offset by a high single-digit gain in our power tools operations.

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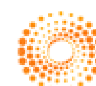

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Gross margin of 36.8% decreased to 360 basis points year-over-year, primarily due to 150 basis points from $4.4 million of restructuring charges, the impact of lower sales volumes as well as higher sales and lower gross margin businesses, including sales to the military and costs associated with COVID-19 related operating disruptions. These decreases were partially offset from savings from the company's RCI initiatives.

The operating expense margin of 26.3% increased 30 basis points from 26% last year. Operating earnings for the C&I segment of $31.5 million, including $4.4 million of restructuring charges and $1.2 million of unfavorable foreign currency effects compared to $46.5 million last year. The operating margin of 10.5%, including the 150 basis point charge for restructuring compared to 14.4% a year ago and 12.8% in the fourth quarter of 2019.

Turning now to Slide 8. Sales in the Snap-on Tools Group of $375.9 million compared to $410.2 million in 2019, reflecting a 7.8% organic sales decline and $2.5 million of unfavorable foreign currency translation. The organic sales decline includes a mid-single-digit decrease in our U.S. franchise operations and a double-digit decline internationally. As Nick mentioned, sales in the United States were up year-over-year through February before the wider government restrictions impacted access to certain customers and locations during March.

Gross margin of 42.7% declined 190 basis points, primarily due to the impact of lower sales volume, costs associated with COVID-19 related operating disruptions and 20 basis points of unfavorable foreign currency effects. The operating expense margin of 29.8% increased from 28.2% last year, primarily due to the impact of lower sales volumes and 10 basis points of unfavorable foreign currency effects. Operating earnings for the Snap-on Tools Group of $48.6 million, including a $1.4 million of unfavorable foreign currency effects compared to $67.2 million last year, while the operating margin of 12.9% compared to 16.4% a year ago and 13.2% in the fourth quarter of 2019.

Turning to the RS&I Group shown on Slide 9. Sales of $314.6 million compared to $327.9 million a year ago, reflecting a 4% organic sales decline and $3.2 million of unfavorable foreign currency translation, partially offset by $2.8 million of acquisition-related sales. The organic sales decrease includes double-digit decline in sales to OEM dealerships and a low single-digit decrease in sales of undercar equipment, partially offset by a low single-digit gain in sales of diagnostics and repair information products to independent repair shop owners and managers.

Gross margin of 47.9%, including 20 basis points of costs from restructuring, decreased 30 basis points from 48.2% last year. The operating expense margin of 23.3%, including 80 basis points of costs from restructuring, increased 60 basis points from 22.7% in 2019. Operating earnings for the RS&I Group of $77.3 million compared to $83.6 million a year ago, and the operating margin of 24.6%, including 100 basis points of costs from restructuring decreased 90 basis points from 25.5% last year.

Now turning to Slide 10. Revenue from financial services of $85.9 million compares to $85.6 million last year. Financial services operating earnings of $56.9 million compared to $62.1 million in 2019. Financial services expenses of $29 million increased $5.5 million from last year's levels, primarily due to $4.5 million of increases in the provision for credit losses, which included $2.6 million under Topic 326 or CECL for the impact of COVID-19. Excluding the $2.6 million associated with COVID-19, provisions for credit losses increased $500,000 from those recorded in the fourth quarter of 2019. As a percentage of the average portfolio, financial services expenses were 1.4% and 1.1% in the first quarters of 2020 and 2019, respectively.

The average yield on finance receivables in the first quarter of 2020 was 17.7% compared to 17.8% last year. The respective average yield on contract receivables was 9% and 9.1%. Total loan originations of $255.6 million increased $3.1 million or 1.2%, primarily due to a 1.1% increase in originations of finance receivables and a 2% increase in originations of contract receivables, principally franchise finance. In the United States, extended originations were up 2%, largely reflecting higher franchisee sales of big-ticket products.

Moving to Slide 11. Our quarter-end balance sheet includes approximately $2.1 billion of gross financing receivables, including $1.9 billion from our U.S. operation. Our worldwide gross financial services portfolio decreased $19.8 million in the first quarter, primarily due to $26 million of unfavorable foreign currency effects. The 60-day plus delinquency rate of 1.7% for the United States extended credit is up 20 basis points from a year ago, but remains well below levels seen in 2008 through 2010 and improved 10 basis points sequentially. As it relates to extended credit or finance receivables, the largest portion of the portfolio, trailing 12-month net losses of $50.4 million represented 2.99% of outstandings at quarter end, up 8 basis points sequentially, of which approximately 4 basis points is as a result of the unfavorable foreign currency effects on the portfolio.

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Now turning to Slide 12. Cash provided by operating activities of $213.4 million in the quarter increased $12.1 million from comparable 2019 levels, primarily reflecting net changes in operating assets and liabilities, including decreases in working investment, partially offset by lower net earnings. Net cash used by investing activities of $49.8 million included capital expenditures of $17.2 million and net additions to finance receivables of $22.1 million. Additions to, and collections of, finance receivables were consistent with that of the prior year.

In the quarter, our free cash flow from operating company of $143 million improved $10.7 million, as lower working investment largely offset the change in year-over-year net earnings. Additionally, the first quarter of 2019 cash flow reflected the settlement of a legal matter, which resulted in a decrease in accrued liabilities of $11.6 million in that prior year period. Total free cash flow or cash flow from operating activities, less capital expenditures and the net change in finance receivables of $174.1 million, represented 123% of net earnings. Net cash used by financing activities of $157.1 million included cash dividends of $59 million and the repurchase of 349,000 shares of common stock for $50.5 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional $313.3 million of common stock under existing authorizations.

Turning to Slide 13. Trade and other accounts receivable decreased $59.4 million from 2019 year-end, including $21.9 million from unfavorable foreign currency translation. Day sales outstanding of 62 days compared to 67 days at 2019 year-end. Inventories decreased $3 million, including $25.1 million of unfavorable foreign currency from 2019 year-end. On a trailing 12-month basis, inventory turns of 2.5 compared to 2.6 at year-end 2019. Our quarter end cash position of $185.8 million compared to $184.5 million at year-end 2019. Our net debt-to-capital ratio of 21.7% compared to 22.1% at year-end 2019. At the end of the quarter, we had $150 million of short-term borrowings under our $800 million revolving credit facility that terminates in September 2024. These funds were largely utilized to pay down commercial paper outstanding at year-end 2019. As such, there were no commercial paper borrowings outstanding at the end of the quarter, and our net debt levels were similar to year-end.

As of the end of the quarter, we were well within the permitted ranges set forth in the credit facility's financial covenants. Despite the uncertainty in the credit and financial markets, we currently believe we have sufficient available cash and access to both committed and uncommitted credit facilities to cover expected funding needs in both the near-term and on a long-term basis.

That concludes my remarks on our first quarter performance. I'll now briefly review a few updated outlook items. While we do not generally provide quarterly sales or earnings projections in the near term, we anticipate no improvement in the macroeconomic environment and, as a result, expect sales, credit originations and earnings in the second quarter of 2020 to be lower than those in the same period last year. We now anticipate that capital expenditures will be in the range of $70 million to $80 million as compared to our prior estimate of $90 million to $100 million. Additionally, we currently anticipate that our full year 2020 effective income tax rate will be in the range of 23% to 25%.

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

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Thanks, Aldo. Snap-on first quarter, progress interrupted, a time of multiple headwinds, the ongoing economic weakness in Europe, the continuing impact of COVID-19 in Asia and the spread of the virus in Europe and North America, all in this quarter. As I've said, our team is experienced. This isn't our first encounter with deep difficulty. And in this, we are keeping our people safe, working from home. And when we can't, distancing, using PPE where appropriate and cleaning deep and often. What we do is essential to society. And we're acting accordingly, maintaining operations to keep the world going, supporting the professionals, performing critical tasks. The impact of the virus is mixed across our businesses, some sliding deeper, some flattening, some getting better, all at the same time. But we're confident that the continuing and essential nature of our mission, the advantage of our position, the strength of our balance sheet, the extraordinary experience and capability of our team will carry us through the turmoil.

Our long history, navigating disruption, our dividend record and our performance in the last great recession all say so. We don't know the time line or the shape of the disruption, but we do know we'll resume our upward trend with surety. And because of that, we're confident. We're confident. Because of that confidence, we're working to preserve our strengths and our advantages. We'll keep driving the elements of Snap-on Value Creation, building our capability, expanding our products, nurturing our networks. And we believe we'll emerge from this turbulence stronger than when we entered, as we have so often before.

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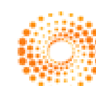

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Before I turn the call over to the operator, I want to speak directly to our associates and franchisees, the Snap-on frontline. I know you're listening today. We will all pass through this challenge together. And in this difficulty, there's no other team I would rather be standing with. For your courage in meeting the difficulties, you have my admiration. For your capability in navigating the challenges of the day, you have my congratulations. And for your dedication and fulfilling your essential role in supporting our society, you have my thanks.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from David Leiker with Baird.

Erin Alexandra Welcenbach - *Robert W. Baird & Co. Incorporated, Research Division - Analyst*

This is Erin Welcenbach on for David. So my first question is about the sale of big-ticket products. Based on the finance receivable originations in your commentary, it sounds like that held in better than maybe expected. So I guess I'm wondering if you can give any color on how that shaped up, I guess, throughout the quarter and expectations of that given the weaker economic conditions in Q2.

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Well, I think when you talk about looking forward, I think we think we're going into a little more turbulence. It's going to be extended. Remember that the first California shelter at home was only done, I think, March 22. So we're only talking about a relatively short period of time in this kind of situation. So it's hard to make any extrapolations on that. But if you look at the quarter, here's what happened. I think I said it. Tool storage held its own. Diagnostics was pretty good. So you had the underpinning of those things. But remember that originations and sales -- Tools Group sales don't necessarily match up. There's a timing difference. And in the quarter, in the quarter, the sales off the truck exceeded were positive, actually, exceeding the Tools Group sales. So you have some of that mismatch there. But as I've said, we were kind of pleased with the tool storage business held its own.

Erin Alexandra Welcenbach - *Robert W. Baird & Co. Incorporated, Research Division - Analyst*

Okay. That's helpful. And then, Nick, I think you had mentioned that you were doing some things to support the franchisees during this time. Can you provide some more color on some of the actions you're taking?

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Well, first and foremost, what we're doing is we're trying to give them a playbook. I don't think many people have seen this before, so we're trying -- we did this actually in Superstorm Sandy. That's why I've mentioned this stuff, the Marie (sic) [Maria] and so on. Each disaster is a little bit differently, but we're trying to tell them how to conduct their business, serving essential and critical tasks in an atmosphere of distancing. And so we have a playbook to help them. And then we're kind of working with them with other things in terms of working with their financials. And they're working with their business managers in each of their locations to try to find a path in the particular prescription that will help them and their individual franchisees move forward. Like I said, what I was trying to say is the world is mixed. So we have guys in Iowa, who are kicking it. There was a guy in Iowa, who had a week we couldn't believe. And even in New York, in the new role Shell area had. But on the other hand, other people are having difficulty. So we try to -- we're adjusting to each person, each franchisee.

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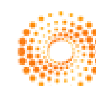

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Erin Alexandra Welcenbach - *Robert W. Baird & Co. Incorporated, Research Division - Analyst*

Okay. And then finally, on Asia Pacific, you mentioned a better trajectory coming on to the end of the quarter and higher miles driven. I'm wondering, what do you think is driving the miles driven recovery there? Is it just some pent-up demand? Or are you seeing some at least anecdotes of a structural shift in terms of consumer behavior, kind of a preference towards private vehicle ownership?

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Well, I don't know. This is early days. And the thing is I didn't say necessarily. I said we see green shoots of recovery there. But do you want to be riding a subway now? I don't know, right? Do you want to be taking a bus? Do you want to be ridesharing? I think this is a change that's going to echo for a while. And we're seeing that in Beijing. Beijing snapped back in terms of traffic. I think people can see this. And our anecdotal evidence about Shanghai is the same. So I think you're at least temporarily seeing people say, "I don't want to get sick in here." So I think, actually, people ownership, I mean, when you go through that, you think, I don't know if I want to be selling real estate in New York now or for the next -- for the future.

Operator

And we will take our next question from Gary Prestopino with Barrington.

Gary Frank Prestopino - *Barrington Research Associates, Inc., Research Division - MD*

Could you maybe tell us, and if you don't want to do that, that's fine, but what was the slide in sales over the last 2 weeks of March across all your businesses on an aggregate basis?

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

I'll tell you what. You be -- let me put it this way. Because it's you, Gary, I'll say, look, you can be confident it was double digits, for sure. It was -- we were down single digits. We said we were up already. We had a reasonable quarter in -- going, particularly in the Tools Group U.S. seemed pretty reasonable for us. So there was a significant slide, but I don't think -- look, Gary, I don't think you can make a conclusion of that because, remember, it's only a month. You got individual businesses and franchisees, who are trying to figure out how to deal with this. So it's hard to make any conclusions about that -- those weeks, I think. That's what we're thinking. It's going to play out in the future. Of course, we're going to live with it longer, but I'm not sure those weeks are a good extrapolation for the future.

Gary Frank Prestopino - *Barrington Research Associates, Inc., Research Division - MD*

No. Okay. Like I said, I'm just trying to get an idea of the magnitude here. I mean...

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Yes. Like I actually told, yes.

Gary Frank Prestopino - *Barrington Research Associates, Inc., Research Division - MD*

If you look across your customer base really worldwide, I mean, how much of that do you still have access to?

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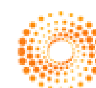

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Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Well, let's put it this way. I think in the Commercial & Industrial Group, if you're talking about the people like the critical industry, generally, we have access. They have business. Some of those people are getting hammered like oil and gas or some of the aerospace businesses are getting hammered. So businesses are attenuated by other places. And so when we talk to our people, it's a mix. Some of them are calling directly on the people. Some are dealing at a distance through social media or e-mail or things like that. Or our phone calls, our phone calls, if you're talking about the franchisees, same kind of thing, it's a mix depending on where you live and where you're at and the size of the dealership and their requirements. One of the things that's true is, generally, we're pretty sure that critical repairs are happening. If somebody needs -- if somebody's got to check engine lines, they're bringing it in. If somebody's going for oil changes, it doesn't seem like it's happening. So we can tell that. And so some of the businesses that focus on that are a little less receptive to having people come in. If you're a transmission guy, you're probably doing okay. And as such, our people go. It's quite a mix.

Gary Frank Prestopino - *Barrington Research Associates, Inc., Research Division - MD*

And then -- okay. And then lastly, could you maybe just go back to 2008, 2009? Obviously, every situation is different, but we did have one hell of a recession at that period. What were the indicators to you that the business was coming back? I mean, which segment started to really show significant, I guess, lack of a better word, green shoots, and that you felt that, okay, the business is starting to come?

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

It was a different deal, of course, but big-ticket items coming back was the big thing. Generally, it was the attenuation of bad news for breakfast. I think people were getting scared by what they were being told about the banking system. That was affecting it. So generally, it was big ticket in that situation because people only were buying -- I remember talking about it incessantly. People were only buying short payback items. And if you looked at that, when we -- recession, if you look at it, we came out of it. And by the time you got to 2011, our trajectory was still a healthy double digits in profit growth, including a recession.

Operator

We will take our next question from Bret Jordan with Jefferies.

Bret David Jordan - *Jefferies LLC, Research Division - MD & Equity Analyst*

When you look at the service channel, I mean, independent volumes seem like they're down 30% to 50% here in a pretty short period of time. I guess, you're looking at the credit book. And a lot of these guys are getting paid on piecework. Do you think that in the short term, we're going to see delinquencies exceed what you saw in '08, '09, just given the magnitude and the relatively quick speed of the shrink? And then, I guess, a follow-up question. On franchisee health, I mean, obviously, you hear about a lot of small businesses that didn't have the liquidity to go into this type of dramatic contraction in a short period of time as well. I guess, are you doing much across the board? You talked about a couple of franchisees that are doing particularly well, but if you think about average franchisee liquidity, are you going to need to step in and help them a little bit in the second quarter, assuming volumes remain down pretty dramatically?

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Well, I think -- first of all, I think the jury's out on the delinquency rates. I'm not so sure how it will behave. You might remember that losses improved, went -- we didn't -- went up 100 basis points in the recession last time. And delinquencies did go up. I think there is a question of the shock of this all that, I think, there's going to be sort of like time lines that work its way through this situation, where people get shocked and then figure it out and then deal with it for a while. I don't know what those time lines are. In terms of helping our franchisees, like I said, it depends on the segment of the country. For example, if you look at the northeast, the franchisees are a little more attenuated. If you look at places like the central region or

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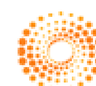

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the North Central region, where we're living in, where we're sitting in now, it's not so bad. Northwest seems to be coming back a little bit if you look at certain indicators. So we would look at franchisee by franchisee. And then we would we talk about things like, well, loan extensions for them and some help in terms of their position. And we did that in the past. We did it in Superstorm Sandy. We did it in Maria. We did it in Harvey. And it all worked out very well for us because our business managers highlight those guys, who need help, and we get out there and help them. And of course, there are government programs they can access to, although I don't think it's that easy to do it these days. But in general, we've seen this movie before in a more narrow way, Puerto Rico, in the East Coast and in the Houston area. And our actions around having the business managers deal with the franchisees and help them, in some cases, giving them extensions of deferral has worked very well for us.

Operator

We will take our next question from Scott Stember with CL King.

Scott Lewis Stember - *CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst*

You talked about how big-ticket items such as storage held its own in the quarter, but could you just give us your expectations? I know you don't really guide by month or quarter, but is it safe to assume that we're going to start seeing some elevated declines in big-ticket items at least in April and May?

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

What I'm trying to say, Scott, is -- sure. I think if you're going to -- if we're to lay bets now, I'd lay bets that the second quarter is worse than last year. And I'd lay bets that we have more weeks of angst in the second quarter than we had in the first quarter. The shape of that is what I don't know because I don't know. I think there was a lot of experience. I think if you think about it in a practical sense, okay, you've got guys who are working on essential. Everybody recognizes what we do is essential. Everybody recognizes this. We're -- the Department of Homeland Security talked about automotive repair. And so every state proclamation says that, but our people are worried about how they deal with the customers. The customers are trying to figure out how they apply their essential trade, and our people are trying to figure out a deal with them. And so it's hard to figure out how that's going to play out. I don't know. I'm not sure, but we see a lot of variation in our situation. Yes, big ticket. If you say, look, a recession creates angst, and people are worried about uncertainty, big ticket tends to go down like it did in the last environment. Because people say, "I don't want to -- I've got to hustle my own cash." But my suggestion is what's going to happen eventually is people come out of the woodwork to get their cars repaired. It's one of the first things that happens. And I don't know the time line for that. So that's why I'm being a little bit -- I can't really predict so much about the second quarter, except that we're going to manage. I can't tell you anything that you don't know really with these kinds of things.

Scott Lewis Stember - *CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst*

No, no, that's fair enough. And just maybe just give us a little bit more commentary on what you're hearing from the van channel, what they're seeing at the repair shop level as far as the health, the employment picture with their mechanics. And just -- and I know that we're miles driven have been off, obviously, a lot, but just the general commentary about what they're seeing as a repair company.

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Yes. Generally, again, I'm sorry, it's like it's mixed. Some are sliding deeper. Some are flattening. Some are getting better. That's what I hear. But I will tell you this. I think now if you look at the BLS data, the BLS data says that the nominal spending of households on automotive repair in February year-over-year was up 8% and change. So I would suggest that just like our franchisees, the garage has entered it not bad shape. So I think the resilience is probably pretty good in this situation. So I don't -- some are probably -- some we know. Some are closed. Some are operating at reduced hours. Some are going gangbusters. So it just depends, I think, in this situation. I can't say. I know that's not very helpful to building a model or any,

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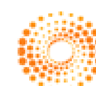

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but I can't really give you anything like that. I think the one piece of data I do think is worthwhile is that both the nominal repairs, maybe the household spending and the technician wages were up in February year-over-year. So I think they entered pretty good.

Scott Lewis Stember - *CL King & Associates, Inc., Research Division - Senior VP & Senior Research Analyst*

Got it. And last question, just remind us what -- just going back to '08 through 2010, what the 60-day delinquency numbers went up to from a percentage standpoint and the losses -- the total losses in the portfolio on a trailing 12-month basis.

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

I'll let Aldo answer that.

Aldo J. Pagliari - *Snap-on Incorporated - Senior VP of Finance & CFO*

So Scott, I don't have the exact delinquency numbers in front of me, but they would be not so dissimilar to what you're seeing today. But the losses went up about 100 basis points, as Nick had mentioned earlier on the call. They hit a peak in a negative sense in Q4 of '09. And they've moved from around 3% over the portfolio to around 4%, and then they declined back to below 3% until recent times. So about -- I think it gives you a range, I guess, or a feel for what it might be like.

Operator

We will take our next question from Christopher Glynn with Oppenheimer.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

A lot's been asked, but just around the outlook lacking guidance, so I was curious what your sense is of what among your 3 operating segments might see the biggest pain as you look at it. Should we use the 1Q magnitudes as a guide or...

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Look, I think I don't -- my own view is Europe is sick. It was weak going -- it was weak coming in here. About 18% of our business in Europe, that's the big -- it's got a big doll up in C&I. And so that's probably the place, I think, is going to be tougher. If you look at Spain and Italy, the prebook of Milan asked us to get back in business in Italy because we were essential in that place. But I just think Europe's going to have a tougher time coming out of this. Asia, it's spreading through the -- I think China starts to come back. Japan, I think, is resilient. I think Southeast Asia, I don't know. Indonesia seems to be sinking. Philippines seems to be in trouble, and India has completely shut down. So I don't know about the Southern Asia. I think China and Korea and maybe Japan start to excel. United States, you guys know as best as I do. I kind of think, though, that in our business, our people will learn -- will adjust to this. The garages will adjust, and it will kind of -- they'll be adapting to this, and we're going to help them. The question is, how quickly does that happen? And we know it's going to be for more weeks in the second quarter. So I can't give you much more guidance than that. But I think we're better off in the United States than Europe, for sure.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And then I was just curious on the costs to manage supply chains, people, safety through the COVID experience. What is that layer of cost like in terms of magnitude? Or what do you have to spend for continuity?

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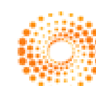

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Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Well, I don't think it's so much about continuities. You have lower volumes, so you have more people on the payroll and so on. I think the question is, what do you do about that as you go forward if the lower volumes get smaller? I think I've said in many form that we're looking at this carefully. We have 2 sets of what we call profit assurance actions. So we'll take actions depending on how long things go and so on. But we're not going to take precipitous action based on a few weeks. We have, of course, done the standard stuff like reduced travel and done other things. And I would expect that, on the other hand, working from home tends to be a little less efficient, I think. And so you have that floating. I don't think we have a real number on the costs to clean and so on. Generally, though, our cases, I'd say, knock on wood, seem to be stabilizing. So we seem to be in reasonable shape in that area. So I don't think we have -- you can look at the first quarter, make any conclusions about extrapolating those costs going forward because if it gets worse, we'll have to take other actions to reduce our cost.

Operator

And we'll take our next question from Curtis Nagle with Bank of America.

Curtis Smyser Nagle - *BofA Merrill Lynch, Research Division - VP*

So just to -- so turning just quickly back to the Tools Group and the van franchise network. I guess, how many -- of the 3,500 or so in the fleet, how many are like actually operating right now? Or are there any that are mandated not to run because of social distancing and things like that?

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Look, we pretty much, by phone, talk to every franchisee every day. And I would say, a relatively small number, pretty small number are not running. But there's gradations of that all the way up. We would say a lion's share of them are operating on a relatively normal but attenuated activity because if they spend an hour, they're not getting as much return from some of the people because maybe they're not buying big-ticket items or it's taken longer to get the people or they have to set up an organization. And in between there, there's a bunch of gradations. People might be working a small number, maybe working partial shifts or partial days. Some people are not even taking out their trucks. They're putting their stuff in the car, and they're driving around. Other people are spending half their day setting up appointments and then going out. But the lion's share of the business and way over the majority is working as normal, maybe not getting the returns as normal. Now I'm not... when I say working as normal, I'm not saying they're rolling into every garage or anything like that. Some garages they're going into. Other garages they're putting the stuff on the outside. Other people are bringing them on the band one by one. We had a guy who had a customer event. Really, he brought people on. He had food on the van, but he limited the number of people on. He enforced distancing and had a great day.

Curtis Smyser Nagle - *BofA Merrill Lynch, Research Division - VP*

Okay. Understood. And then kind of thinking about -- so, again, vehicle repairs is an essential service. We'll get cars back on the road to some normalcy at some point, but I would think at least in the kind of the short or maybe medium term, there might be some negative impact on repair demand just because cars aren't being driven at the moment. Have you guys done any work trying to figure out, is that going to be the case? What's the tail that can be able to be a residual impact on the bit distance, not just related to people not take the garage...

Nicholas T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Well, I think, look, I think -- like I said, I think a couple of things I can tell you. First of all, trucks are being repaired. I'm right in 94, I-94 out here. It seems like there's as many trucks on I-94 as there ever was. It kind of makes sense, right? People are getting deliveries, maybe more deliveries now than before. So trucks are -- while they -- while I'm sure that truck shops, because of the lighter trucks, maybe are attenuated, a lot of these trucks are still rolling. So I think that they're probably doing okay, continuing. If you're talking about regular vehicles, like I said, I think our monitoring, and we get a pretty good monitor of this, is that, generally, maintenance is drying up and repairs continuing at a somewhat reduced rate, but still

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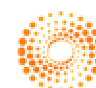

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at a reasonable rate. I would expect that after this starts to play out, you're going to get a rush on the garages with maintenance. There's going to be a snapback as maintenance tends to come like death and taxes. You need to have your oil changed every once in a while. So that's going to happen.

Operator

And we will take our next question from David MacGregor with Longbow Research.

David Sutherland MacGregor - *Longbow Research LLC - CEO, Director of Research & Senior Analyst*

Just a couple of questions on credit. I guess, we've got mid-teens unemployment in this country. Small businesses are on the ropes. The $500,000 provision seems a little light. I wonder although if you could just discuss the key assumptions that were underlying that your provision decision, particularly in light of the fact that you're calling the second half of March down double digits, which would have relatively negative implications for what might happen in the second quarter. We'd love to understand some of the key assumptions underlying that provision decision.

Aldo J. Pagliari - *Snap-on Incorporated - Senior VP of Finance & CFO*

Well, sure. If you actually go, Dave, remember, we're making our accounting adjustments effective at the end of the fiscal quarter. So that's March. So you have to keep that in mind as well. And performance off the back of the van, performance for extended credit originations in general were pretty good. Yes, they were stronger at the beginning of the month than they were at the end of the month, but the performance was pretty good, and the performance of collection activity was pretty good. So it wasn't quite as good as Q1 of last year, which we actually saw lower levels of provisions and charge-offs, but there was actually a better performance than what you would have seen as a normal run rate. So we took that into account when we increased the reserve. And then on top of it, we have to take a forward look under CECL. This gets to be a little bit more judgmental, certainly, because we pressure test the portfolio in a variety of circumstances of preparing for CECL's adoption. And actually, there's not any single variable that correlates so perfectly with it. So we look at a myriad of different things, and we have to apply some judgment. Having said all of that, we came to a conclusion that we thought it was appropriate to increase the reserve by about $2.6 million. I'd say it's more specifically for the forward look. So it's not like it was nothing of the spreads in the $500,000 just in reference to the sequential movement. But the CECL adjustment actually within the quarter was about $2.6 million. And if you look at the level of reserves at the end of March as compared at the end of December, actually, you're up 15% in total. So it's not like it's nothing.

David Sutherland MacGregor - *Longbow Research LLC - CEO, Director of Research & Senior Analyst*

Right. I guess, just further on the credit. I didn't hear any mention in your prepared remarks about the 90-day payment deferral plan that began in March. And we saw a rather parabolic upturn in UCC filings. And I'm guessing, although it would be nice to have you confirm it one way or the other, if this was just technicians refinancing and franchisees rolling their RA balances into EC. But can you just -- I guess, under this 90-day deferral plan, how much for balance has been granted at this point to end customers and franchisees?

Aldo J. Pagliari - *Snap-on Incorporated - Senior VP of Finance & CFO*

Well, people are thinking it's, first off, the -- it's early days. It was launched on March 23. We have had programs like this before. So if timing is even better with the advent of CECL. You can look at this not at CECL, but the COVID-19. So you can look at this as a form of being able to help customers out. But we've done programs like this in the past. So it's not like it's something radical in any way, shape or form. So we'll see what the uptake is. But as of the end of March, it was only in the field for about less than 7 days, I guess, given our fiscal cutoff, I think, was March 29. So you have that. Now you have a separate program where we grant forbearance or can allow extensions to certain people. That's on a case-by-case basis, is for a limited number of weeks. We try to work -- one thing that Snap-on is it's personal. And that's not a bad word. Some people shy away from the word, personal, these days with the pandemic, but we're pretty intimate with our customers. And we know our customers, both our franchisees, and they know their end mechanics. And we have to reach out and help them, but it was a relatively small percent. I think it will increase going into Q2. But,

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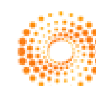

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geez, I think at the end of the quarter, it might have been less than 5% of people had asked for some type of forbearance, if you want to use that word.

David Sutherland MacGregor - *Longbow Research LLC - CEO, Director of Research & Senior Analyst*

Right. And so does -- the originations growth of 1.2%, does that include refinancings of EC and revolving cap balances? And if so, can you say what originations growth might have been based purely on purchases and merchandise unrelated to the deferred payment offer?

Aldo J. Pagliari - *Snap-on Incorporated - Senior VP of Finance & CFO*

The way we measure originations is the same each and every quarter. It doesn't change because of what's going on. So extended credit can include both add-ons as well as sale of brand new products. But to be able to do so, customers have to be in good standing. So in other words, if you want to add on to a contract, you have to be a customer that, one, has additional credit capacity. So we measure people's scribe limits in that regard. And then it's got to be a minimum dollar sale in addition, which is typically, I think, $300 and up. If I remember the cutoffs, usually, it's more dollars than that, but it has to be at least $300. And that's one of the determinants as to when people add on and add on to a contract they already have in place.

David Sutherland MacGregor - *Longbow Research LLC - CEO, Director of Research & Senior Analyst*

Great. Finally, you mentioned you've got $300 million left on your share repurchase authorization program. I guess with the stock haven't been sold off here rather hard, what would be your plans? Or how would you think about capital allocation here and maybe the priority of share repurchase operations within that?

Aldo J. Pagliari - *Snap-on Incorporated - Senior VP of Finance & CFO*

Well, first and foremost, we want to support the ongoing operations. I think that's kind of obvious. You're in a mode here where I think people will be careful with their cash. I think no one has perfect visibility when you look forward. So the forecast with precision is not easy in normal times, let alone rockier times. So you're going to want to keep an eye on cash inflows. And of course, cash outflows and one of the more discretionary items actually would be share repurchase. So when you look at share repurchase, I would put that on the list of one of the more discretionary items. So first and foremost, I look at, what's the cash position of the corporation? And how does that fit into the equation? I thought that Snap-on was a great bargain at $150 per share. It's even a better bargain today. Does that mean I can't buy it at a lower price tomorrow? I just don't know with certainty. So again, we have to apply judgment.

Operator

And at this time, I would like to turn the conference back to Sara Verbsky for any additional or closing remarks.

Sara M. Verbsky - *Snap-on Incorporated - VP of IR*

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

Operator

Ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.

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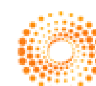

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