Conference Title: **Snap-on Incorporated 2021 Fourth Quarter and Full Year Results Conference Call**

Moderator: **Sara Verbsky**

Date: **Thursday, February 3, 2022**

Operator: Good day, and welcome to the Snap-on Incorporated 2021 Fourth-quarter and Full-year Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Sara Verbsky, Vice President of Investor Relations. Please go ahead.

Sara Verbsky: Thank you, Christina, and good morning, everyone. Thank you for joining us today to review Snap-on's fourth quarter and full-year 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 snap-on.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 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 our forward-looking statements are contained in our SEC filings. Finally, this presentation includes non-GAAP measures of financial performance, which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding those measures is included in our earnings release issued today which can be found on our website. With that said, I'd now like to turn the call over to Nick Pinchuk. Nick.

Nick Pinchuk: Thanks, Sara, good morning everybody. Today I'll start with a view of our fourth quarter, give you an update on the environment and the trends we see, and I'll take you through some of the turbulence we've overcome and the advancements we've made. And Aldo will then, as usual, give you a more detailed review of the financials. The fourth quarter was encouraging. It affirmed the characteristics that make Snap-on the company we know it to be, the resilience of our markets, the power of our strategic position, and the consistent and capable execution of our teams. It all added up to momentum, cutting through the challenges, and the numbers testified to just that. Our reported sales in the quarter of $1 billion $108.3 million were up 3.2% including $12.2 million from acquisitions being offset by $3.0 million of unfavorable foreign currency exchange. Organically, our sales grew by 2.3%.

Importantly, if you compare to the pre-pandemic levels of 2019 before the period to period variability of last year, you see a clear and unmistakable upward drive. Versus 2019, sales in this past quarter were up 16% as reported and 13% organically, continuing an ongoing trend of accelerating expansion, increasing higher and higher over pre-COVID levels. This quarter also bears the marks of the Snap-on value creation processes, safety, quality, customer connection, innovation, and rapid continuous improvement, or RCI as we call it, all combining to author significant progress, and progress it was. OpCo operating income of $232.2 million was up $16.0 million from last year, and the OI margin, it was 21%, an all-time high, up 90 basis points from last year and 310 basis points from 2019, all achieved by overcoming the challenges of this day. For Financial Services, operating income of $67.2 million was down from the $68.5 million of last year. But delinquencies in the quarter were below both 2020 and those of 2019, an ongoing testament to our unique business model and its ability to navigate through the most threatening of environments. And the combination of the results from OpCo and Financial Services offered an overall consolidated operating margin of 25.1%, up from the 24.4% of last year and the 22.5% recorded in 2019. Our quarterly EPS was $4.10, well over the $3.82 of a year ago, which included a $0.02 charge for restructuring. And that $4.10 was up 33.1% over 2019, considerable gain in my book. Well, those are the numbers, now let's speak about the markets.

We do believe the auto repair environment continues to be favorable. In the areas serving vehicle OEMs and dealerships, we do see some turbulence. New car sales around the world remain mixed with China generally progressing but both North America and Europe having a tough fourth quarter. Overall volume remained below the 2019 levels and some new model releases and features were delayed by supply chain constraints. And that impacted the associated essential tool programs that we are involved in. OEM projects aside however, dealership repair, maintenance and warranty are all healthy, techs are seeing good times and the dealers are looking to support their expansion in their shops. In effect, the OEM market is mixed but technicians are quite positive. There's a growing appetite for repair shop equipment but essential tool programs are attenuated. Now in the independent repair shop, it's a horse of a different color, confidence is uniformly sky-high based on what we hear from our franchisees, shop owners, and technicians, optimism in independent repair shops continues to be strong. And our sales in that sector, they reflect that confidence. So we believe, on balance, vehicle repairs are a great place to operate for our Tools Group and for our Repair Systems and Information or RS&I group.

The critical industries where our Commercial and Industrial Group plays, or C&I plays, we are seeing areas of progress but the lingering effects of virus have created headwinds. And the results in the quarter showed that trend with variations from country to country. A recovery in Asia and emerging markets, but Europe being quite mixed. There are also differences from sector to sector, education, natural resources and general industry showing improvement while the military spending continues to experience what I'd say is substantial challenges. Overall, however, I would describe our C&I markets as holding their own against the turbulence but with variation. We do believe we're well positioned, and I think the numbers say this, to confront the challenges of this time, advancing along runways for growth. We're also confident that we have continuing potential on our runways for improvement. The Snap-on value creation processes, they're a constant fuel for our progress especially customer connection, understanding the work of professional technicians and innovation matching that insight to technology. We believe our

product line-up just keeps getting stronger every day and we keep investing to make it so. Vehicles are rising in complexity, technicians need assistance, and so products are becoming more sophisticated to match the changing requirements. And Snap-on is keeping pace. In 2021, we had more hit $1 million project than ever before. We've endeavored through the virus era to maintain our product, our brand, I've spoken of this before, in the virus era, we've endeavored to maintain our product, our brand, and our people. And we believe that continuing commitment has served us well, authoring positive results and creating substantial momentum for the days ahead.

And that momentum is apparent in our full-year results sales of $4.252 billion, up 18.4% including an organic increase of 15.1% compared to last year and a 14 point - 14% organic gain over 2019, strong numbers. The as reported Opco OI margin for the year was 20%, a new high, up from the 17.6% of 2020 and exceeding the 19.2% of pre-pandemic 2019. As reported earnings per share for the year were $14.92, up 30.4%, or 28.3% as adjusted for the non-recurring restructuring in 2020, and up 21.7% as adjusted from 2019, all clear signs of ongoing momentum.

Now for the operating groups. Let's start with C&I, fourth quarter sales at $358.7 million for the group were down $5.7 million including $4.1 million of unfavorable currency. Versus 2019, sales grew $5.8 million, reflecting primarily acquisition volume and currency impact.

The period saw a recovery in Asia, with Indonesia in the quarter we saw - we did see recovery in Asia with Indonesia, India, Japan, South Korea, and China rising. Europe and North America were more impacted by the environment and were down slightly in the quarter. Looking at the sectors, nice progress with our precision - was achieved in our precision torque line. And that progress was - but that progress was more than offset by lower critical industry activity attenuated in those critical industries, primarily by lower U.S. military spending and by supply chain-driven constraints and in the custom kitting area.

C&I operating income was $50.1 million, down $6.1 million, including $1.2 million of unfavorable currency. The gains in Asia and torque were more than offset by the reduced military activity and the industrial kit constraints. As I mentioned, however, specialty torque - the specialty torque operation did register continuing progress driven by innovative new products developed through customer connection and observation of work, great offerings like our recently released QB4R line of three-quarter inch drive break-over torque wrenches. Capable of - this wrench is capable of accurately fastening from 450 to 750 pound feet. It's designed specifically for heavy-duty applications, tough jobs such as torquing lug nuts on big trucks. The new unit combines our Norbar, our recently acquired Norbar Industrial torque technology with the robust ratchet designs produced in our Elizabethton, Tennessee factory. Those original light vehicle ratcheting mechanisms of our Tennessee plant were re-engineered for higher tension, heavy requirements, and were directly matched to our unique Norbar breakover device which provides a clear indication that the torque target has been reached, ensuring reliable accuracy every time.

The ratchet's design with our patented seal head is rugged, capable of withstanding very high stresses and has an easy-to-read adjustment mechanism that reduces the possibility of error and is virtually maintenance free. The new wrench also has a quick release feature for easy disassembly, compact storage, and great portability. The Snap-on QB4R, we like to say strength, accuracy, and convenience. And as you might expect, sales have been strong. As the need for precision increases, torque products are becoming more prominent, and Snap-on is playing an active role in that rise. C&I, mixed results but significant areas of progress boding well for its future.

Now let's go on to the Tools Group. Sales of $504.8 million, up $9.9 million including favorable currency and a $7.9 million organic rise from continued expansion in the U.S., a positive that was somewhat attenuated this quarter by low-single-digit decline in the international networks. But versus 2019, a more comparable base, the Tools Group rose 21.5% and has been up now from pre-pandemic levels for six straight quarters. And the operating margin was 21.9%, easily one of

the highest ever, up 300 basis points from last year, all despite the ongoing challenges of this day.

We have continued to invest in product, brand, and people. And the Tools Group has used that focus to advantage. The expanding and considerable gains from the time before the virus makes that clear. In the quarter and throughout the year, the Tools Group results continue to confirm the leadership position of our van network. We believe the franchisees are growing stronger. And that's evidenced in the franchisee health metrics we monitor each period, they're on an unmistakably favorable trend and that positivity was acknowledged by multiple publications, all listing Snap-on as the franchise of choice.

This quarter, we were once again ranked among the top franchise organization both in the U.S. and abroad, recognized by the *Franchise Business Review* which, in its latest ranking for franchisee satisfaction, listed Snap-on as a top-50 franchise for the 15th consecutive year. We were also featured as number three among all franchises in *Entrepreneur* magazine's 2021 list of top franchises for veterans. And abroad, Snap-on was ranked number two in *Elite Franchise* magazine's top U.K. franchises. The judges in that ranking stated that the durability and innovation shown in the face of unimaginable circumstances are what has decided this year's top-ten. And the panel was right on, durability and innovation are what makes the Tools Group - what marks the tools group in this storm. It's clear.

Now this type of recognition is a point of pride for us, but it reflects the fundamental strength of our franchisees and of our van business in general. But it would not have been achieved without a continuous stream of innovative new products, developed through our strong customer connections, leading to multiple new problem-solving innovations, all the result of our insight and experience in the changing universe of vehicle repair. Customer connection gives us a great window on that changing universe and we put it to good use. Our sales in - our sales of hand tools were up nicely in the quarter and, of course, new products led the way there. Our

innovative 305LSDM half-inch drive impact sockets were a significant contributor. Born out of customer connection, observing the work in automotive shops, the special sockets, they range from 17 to 22 millimeters, come with an extra deep hex up to three-quarters inch deeper, accommodating the lug nuts with decorative caps that are becoming so common on the latest models. The new sockets provide the clearance needed to fit right over those nut covers without damage, grab the lug, and enable quick removal without having to remove the caps. It saves techs significant time over a day of repair activity. They're made right here in our Milwaukee plant. They released just this past quarter and initial sales have been gang busters, I'm telling you. And making those sales have made that new socket line a hit product just in the volume in the fourth quarter, accelerated sales. Well, that's the Tools Group, expanding the success in the U.S., balancing the international operations, continuing to innovate, building on our underlying advantages, stronger than ever performance, all achieved against the wind.

Now for RS&I. Volume for the fourth quarter was $392.5 million, up 8.7% including acquisitions and 5.5% of organic growth with gains in sales of undercar equipment, increased volume of handheld diagnostics, and the rise of information and data subscriptions being partially offset by a decrease in our business focused on the vehicle OEMs and dealerships. RS&I operating margins of $97.2 million rose $7.2 million or 8% versus 2020. And that number in 2020 included a million dollars of restructuring costs. Compared with the pre-pandemic levels of 2019, sales grew $57.5 million, 17.2%, including a $43.7 million or 13% organic gain. And the RS&I OI margin of 24.8% compared with a 24.9% and a 26% registered in 2020 and 2010 respectively, with the impact of acquisitions attenuating a generally positive balance for the operations.

Again, software products and subscriptions for RS&I were a significant plus. Along those lines, our Mitchell 1 division providing software to independent shops continued to succeed, pursuing customer connection and innovation, launching great new products to improve shop efficiency. RS&I just added more powerful and exclusive features to its award-winning Mitchell 1 ProDemand auto repair information software. You see, as auto electronics have expanded,

wiring diagrams have become of rising importance in vehicle diagnosis and repair. And the new ProDemand significantly advances what is already a clear lead for Mitchell 1 in diagram navigation, offering new features that provide interactive dropdowns displaying connection data, allow easy movement to the next diagram on the diagnostic trail, and enable the seamless recall of previous viewed circuits should a look back be needed in the repair process. And as you might expect, the initial reaction to the new updates have been quite enthusiastic from both the shops and from the technicians. It's all music to our ears. We keep driving to expand RS&I's position with repair shop owners and managers, offering them more and more solutions for their day-to-day challenges, developed by our value creation processes or added by our strategic and coherent acquisitions, and we're confident it's a winning formula.

So those are the highlights of the quarter, doing what we expect to do, achieve ongoing process - achieve ongoing progress against the storm. A continuing rise versus the pre-pandemic levels, up more each quarter now for several straight periods. Gains forged through our Snap-on value creation processes, strengthening our businesses, and driving to a 21% OpCo operating margin, up 90 basis points, a new record.

EPS $4.10, a considerable rise to new heights. Overcoming all headwinds and demonstrating continued confirmation that Snap-on has emerged from the pandemic much stronger than when we entered with a momentum that we're confident will propel us to even higher heights as we move forward. Now, I'll turn the call over to Aldo. Aldo.

Aldo Pagliari: Thanks, Nick. Our consolidated operating results are summarized on slide six. During the fourth quarter of 2021, the resilience and continued strength of our business model enabled Snap-on to close the year with another period of robust financial performance. The quarter also compared favorably with the fourth quarter of 2019, which being a pre-COVID-19 time period, in some cases may serve to be the more meaningful baseline. Net sales of $1 billion, $108.3 million in the quarter increased 3.2% from 2020 levels reflecting a 2.3% organic sales gain and

$12.2 million of acquisition-related sales partially offset by $3.0 million of unfavorable foreign currency translation. Additionally, net sales on the period increased 16% from $955.2 million in the fourth quarter of 2019, including a 13% organic gain, $20.9 million of acquisition related sales, and $7.1 million of favorable foreign currency translation. In both comparisons, the organic gains more than offset lower sales to the military.

Consolidated gross margin of 48.1% improved 10 basis points from 48% last year. The gross margin contributions from the higher sales volumes, pricing actions, 30 basis points of favorable foreign currency effects, and benefits from the company's RCI initiatives offset higher material and other costs. For the quarter, the corporation continued to navigate effectively the supply chain dynamics associated with the global pandemic.

Operating expenses as a percentage of net sales of 27.1% improved 80 basis points from 27.9% last year, which included ten basis points of cost from restructuring actions. The improvement is primarily due to higher sales volumes partially offset by 40 basis points of unfavorable acquisition effects.

Operating earnings before financial services of $232.2 million compared to $216.2 million in 2020 and $171.4 million in 2019 reflecting an improvement of 7.4% and 35.5% respectively. As a percentage of net sales, operating margin before financial services of 21% improved 90 basis points from last year and 310 basis points from 2019. The operating company margin of 21% represents the highest quarterly level of profitability in Snap-on's modern-day history.

Financial services revenue of $86.9 million in the fourth quarter of 2021 compared to $93.4 million last year, which included an extra week of interest income associated with the 53rd week 2020 fiscal calendar. Operating earnings of $67.2 million decreased $1.3 million from 2020 levels, reflecting the lower revenue partially upset by lower provisions for credit losses.

Consolidated operating earnings of $299.4 million increased 5.2% from $284.7 million last year and 28.2% from $233.6 million in 2019. As a percentage of revenues, the operating earnings margin of 25.1% compared to 24.4% in 2020 and 22.5% in 2019.

Our fourth quarter effective income tax rate of 22.3% compared to 21.8% last year, which includes a ten basis point increase related to the restructuring actions.

Net earnings of $223.7 million or $4.10 per diluted share increased $14.8 million at $0.28 per share from last year's levels, representing a 7.3% increase in diluted earnings per share. As compared to the fourth quarter of 2019, net earnings increased $53.1 million or $1.02 per share, representing a 33.1% 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 $358.7 million decreased from $364.4 million last year, reflecting a $1.6 million organic sales decline and $4.1 million of unfavorable foreign currency translation. The organic decrease primarily reflects a low-single-digit decline in sales to customers in critical industries. Within critical industries, lower sales to the military were partially upset by gains in general industry and technical education as well as by improved sales into oil and gas applications. As a further comparison, net sales in the period increased 1.6% from 2016 levels, reflecting $8.7 million of acquisition-related sales and $3.8 million of favorable foreign currency translation partially offset by a $6.7 million organic sales decline. As compared to 2019, sales in our European-based hand tools business were up mid-teens. Those gains were more than offset by lower activity with the military. As you may recall, the fourth quarter of 2019 included sales for a major project that is substantially complete.

Gross margin of 36.5% declined 130 basis points from 37.8% in the fourth quarter of 2020, primarily due to higher material and other costs, partially offset by benefits from RCI initiatives.

While pricing actions have been taken in this segment to help offset the increasing cost, the longer-term nature of certain customer agreements affects the timing of price realization.

Operating expenses as a percentage of sales of 22.5% in the quarter compared to 22.4% last year. Operating earnings for the C&I segment of $50.1 million compared to $56.2 million last year. The operating margin of 14% compared to 15.4% a year ago.

Turning now to slide eight, sales in the Snap-on Tools Group of $504.8 million increased 2.0% from $494.9 million in 2020, reflecting a 1.6% organic sales gain and $2 million of favorable foreign currency translation. The organic sales increase reflects a low-single-digit gain in our U.S. business partially offset by a low-single-digit decline in our international operations. Net sales in the period increased 22.6% from $411.7 million in the fourth quarter of 2019 reflecting a 21.5% organic sales gain and $3.9 million of favorable foreign currency translation. Sales gains in the quarter were led by our hand tools category with strong performance sequentially as well as versus both the fourth quarters of 2020 and 2019.

Gross margin of 43.9% in the quarter improved 100 basis points from last year primarily due to the higher sales volumes, pricing actions, and 60 basis points from favorable foreign currency effects, which offset higher material and other costs. Operating expenses as a percentage of sales of 22% improved from 24.0% last year, primarily reflecting the higher sales and benefits from ongoing RCI and cost containment efforts. Operating earnings for the Snap-on Tools Group of $10.5 million compared to $93.6 million last year. The operating margin of 21.9% improved 300 basis points from 18.9% last year.

Turning to the RS&I group shown on slide nine, sales of $392.5 million compared to $361.1 million a year ago, reflecting a 5.5% organic sales gain and $12.2 million of acquisition-related sales, partially offset by $500,000 of unfavorable foreign currency translation. The organic gain is comprised of a double-digit increase in sales of undercar equipment and a mid-single-digit gain in sales of diagnostic and repair information products to independent shop owners and managers, partially offset by a low-single-digit decrease in sales to OEM dealerships. Also during the

quarter, the RS&I group continued to benefit from the increasing number of monthly software subscribers for its aftermarket and dealership repair shops.

As compared to 2019 levels, net sales increased $57.5 million from $335 million, reflecting a 13% organic sales gain, $12.2 million of acquisition-related sales, and $1.6 million of favorable foreign currency translation. Gross margin of 46.1% was unchanged from last year, as benefits from pricing actions and 60 basis points from acquisitions were offset by higher material and other costs. Operating expenses as a percentage of sales of 21.3% compared to 21.2% last year primarily due to 150 basis points of unfavorable acquisition effects, partially offset by the impact of higher sales and 30 basis points from lower expenses related to $1.0 million of restructuring costs that were recorded in the fourth quarter of 2020. Operating earnings for the RS&I group of $97.2 million compared to $90 million last year. The operating margin of 24.8% compared to 24.9% a year ago.

Now turning to slide ten, revenue from Financial Services of $86.9 million decreased $6.5 million from $93.4 last year, primarily as a result of an additional week of interest income occurring in the 53-week 2020 fiscal year. Financial Services operating earnings of $67.2 million compared to $68.5 million in 2020. Financial Services expenses of $19.7 million were down $5.2 million from 2020 levels, primarily due to $5.6 million of decreased provisions for credit losses resulting from favorable loan portfolio trends, including reduced year-over-year net charge-offs, which support lower forward-looking estimated reserve requirements. As a percentage of the average portfolio, Financial Services expenses were nine-tenths of 1.0% and 1.1% in the fourth quarters of 2021 and 2020 respectively. In the fourth quarters of both 2021 and 2020, the average yield on finance receivables was 17.7% and the average yield on contract receivables was 8.5%.

Total loan originations of $256.3 million in the fourth quarter decreased $16.1 million or 5.9% from 2020 levels, reflecting a 3.6% decrease in originations of finance receivables and a 16.6% decrease in originations of contract receivables. Last year's extra week in the quarter contributed

approximately $10 million of finance receivable originations. As a reminder, revenues in the quarter are generally dependent on the average size of the financing portfolio rather than originations in any one period.

Moving to slide 11, our quarter-end balance sheet includes approximately $2.2 billion of gross financing receivables, including $1.9 billion from our U.S. operation. The 60-day-plus delinquency rate of 1.6% for U.S. extended credit compared to 1.8% in the fourth quarter of 2020. On a sequential basis, the rate is up 20 basis points, reflecting the typical seasonal increase we experience between the third and fourth quarters. As it relates to extended credit or finance receivables, trailing 12-month net losses of $41.1 million represented 2.38% of outstandings at quarter-end, down 24 basis points as compared to the same period last year.

Now turning to slide 12, cash provided by operating activities of $222.7 million in the quarter reflects 97.2% of net earnings, and compared to $317.6 million of last year. The decrease from the fourth quarter of 2020 primarily reflects higher cash payments for income and other taxes, an $85 million increase in working investment, partially offset by higher net earnings. The change in working investment is largely driven by increased receivables and higher levels of inventory this year versus a reduction of inventory in 2020. The increase in inventory primarily reflects higher demand as well as incremental buffer stocks and expanded levels of in-transit inventories associated with the supply chain dynamics in the current macro environment.

Net cash used by investing activities of $23.8 million included net additions to finance receivables of $9.7 million and $16.3 million of capital expenditures. Net cash used by financing activities of $154.1 million included cash dividends of $76.1 million and the repurchase of 355,000 shares of common stock for $75.5 million under our existing share repurchase programs. As of year-end, we had remaining availability to repurchase up to an additional $454.9 million of common stock under existing authorizations. The 2021 full-year free cash-flow generation of $872.6 million represented about 104% of net earnings.

Turning to slide 13, trade and other accounts receivable increased $41.6 million from 2020 year-end. Days sales outstanding of 58 days compared to 64 days at 2020 year-end. Inventories increased $57.3 million from 2020 year-end. On a trailing 12-month basis, inventory turns of 2.8 times compared to 2.4 times at year-end 2020. Our year-end cash position of $780 million compared to $923.4 million at year-end 2020. Our net debt to capital ratio of 9.1% compared to 12.1% at year-end 2020. In addition to cash and expected cashflow from operations, we have more than $800 million available under our credit facilities. As of year-end, there were no amounts outstanding under the credit facility and there were no commercial paper borrowings outstanding.

That concludes my remarks on our fourth quarter performance. I'll now briefly review a few outlook items for 2022. We anticipate that capital expenditures will be in a range of $90 million to $100 million. In addition, we currently anticipate, absent any changes to the U.S. tax legislation, that our full-year 2022 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, that's our fourth quarter, positive performance, overcoming challenges as we expect to do. In these times of turbulence, we continue to rise based on the resilience of our markets, vehicle repair expanding at the shop level, techs pumped, and garages optimistic, overcoming the postponement of essential OEM programs. Critical industries, mixed but with promising areas. Gains in general industry, natural resources, and education, and progress in emerging markets. Difficulties are in the air but we're able to prosper nonetheless on the power of our strategic position, controlling the customer interface with our wide product line and unique brands. And perhaps most importantly, we rose on the consistent and capable execution by our team, employing agile marketing, considered and active pricing, new and higher value products, quick redesigns to match available materials, aggressive spot buying, and as always, our ongoing RCI.

It's a combination that authored another positive performance and it's all spelled out clearly in our numbers. Sales rising organically over pre-pandemic levels by 13%, with the last four periods up organically 8%, 9%, 11%, and 13%, expanding the gain over 2019, demonstrating a positive second derivative in the rising sales quarter-by-quarter. OpCo OI margins of 21%, a record high in the midst of multiple challenges, up 90 basis points from last year, and up substantially more from 2019. And it all came together for an EPS of $4.10, up 7.3% from last year and 33% from the pre-pandemic period, leading to a full-year EPS of $14.92, new heights despite the storm. It was an encouraging quarter and year. The period clearly had challenges, but we were able to overcome, maintaining our progress, extending our upward trend, and we believe that Snap-on exits 2021 with a substantial momentum that will carry us forward. And as we mine the abundant opportunities of our resilient markets, wield the advantages of our unique strategic position, and engage the considerable capabilities of our challenge-tested team, we'll continue to chart progress throughout 2022 and well beyond.

Now, before I turn the call over to the operator, I'll speak directly to our franchisees and associates, many of them are listening to this call. My friends, you are the base of the success we've registered this quarter and this year. For the extraordinary progress you achieved, you have my congratulations for the unique individual and collective capabilities you brought to bear against the challenges. You have my admiration. And for the commitment you bring to our now and the conviction you hold in our future, you have my thanks. Now I'll turn the call over to the operator. Operator.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 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, press star one to ask a question. And we'll take our first question from Scott Stember with CL King

Scott Stember: Good morning, guys, and thanks for taking my questions.

Nick Pinchuk: Okay, Scott.

Scott Stember: To better frame things out, obviously as the comparisons are getting more difficult, can you maybe talk about in the Tools Group, in the U.S., on a two-year stack and maybe also further flesh it out by Tools and some of the other segments?

Nick Pinchuk: Well, look, I think the Tools Group is demonstrating itself, I mean, if you look at the pre-pandemic levels, it's been up now six straight quarters and it was up over 21% in this quarter, I think it's 21.5%. So it seems to be moving upwards. And all of our good power, in this time of turbulence, the Tools Group is really well positioned. When I say our strategic advantage of being with wide product line and unique brand to control the interface with the end customer, that's exactly what the Tools Group does in spades. It's able to price, it's able to bring value, new value products that don't look like price increases because people are paying for more features. And so that's a very strong position they have. Also, they can market agilely so if you have supply chain problems, they can pitch their promotions to move people toward what we have a lot of and away somewhat from things we have less of. At the same time, they're working pretty well in their factories because they're vertically integrated. So, you see their kind of numbers. The 21.9%, I think we were very encouraged by when we saw it. And so, you see the Tools Group doing well in sales in terms of profitability. And if you look back to 2019, what's happened is, I think I said before, is that we have figured out, over the period we were investing in SG&A, in say like 18 and 19 to try to figure out how to expand the Tools Group's selling capability. And it seems to have worked, our selling capability, to our franchisees has gone up each quarter over that. You can see the expansion. Second derivative looks pretty good. So, you're seeing that play out.

What we're doing now is we're of course plumbing the ceiling of that, see how far it would take us, and we're investing and looking at other possibilities to keep that string going. We think we don't know how far those things we've understood in terms of social media, in terms of being able to train more effectively will bring us but we're pretty optimistic about it. And I thought I was pretty clear about our views about momentum going forward in this period.

If you look at RS&I, RS&I's starting to come back, I mean, the thing is it's had some good quarters but it's had some quarters where the margins were down. But this quarter 23.8%, down 10 basis points and that's against multiples that - much more like 80 or 90 basis points of acquisition impact. And what you see in RS&I is a grow - is continuing positivity around the independent repair shops, particularly diagnostics and information products. The rise of subscriptions and software keeps ticking up because we keep emphasizing that, particularly things like the innovation you heard about Mitchell in terms of navigating the wiring diagrams in the car, that's a big deal. It's useful in those kinds of situations. So, you see that playing out, RS&I, I think they were up 5.5% organically in the quarter and up 13% versus last year and up 13% versus pre-pandemic levels, another very positive quarter.

C&I is more vulnerable to the turbulence of the days because you have a lot of mixed markets. C&I's in a lot of sectors, a lot of countries, and in that cocktail you see some countries that are down, particularly in Europe in this quarter, which was difficult for you. And then C&I and some of their businesses, I did say, the customized toolkits, well these customized toolkits are great, just great margins on them. But you have, in those kits, sometimes a couple hundred tools and in the sourcing situations of today, when you're going to deliver those, many of them from individual sources, you can get disruptive in terms of when you're going to be able to deliver and create some problems. And then on top of it for C&I, a big piece in the critical industries, the military business, is pretty weak. We always - we expect that to come back, and we expect C&I to come forward.

But we see Tools Group, gangbusters. We see RS&I coming back from, they've been - they have been weak but they're getting better, they're heating up, you can see that number. And you see C&I kind of holding its own, kind of flat sales but we figure as we get better at managing this situation, we have a challenge tested team that does pretty well in this, C&I's going to keep coming back. So, we like our momentum going forward.

Scott Stember: Got it. Just last question. This seems to be the first quarter that we've heard about meaningful or any quasi-meaningful impact from supply chain. Can you maybe talk about that and any further mitigation efforts that you guys can put through, whether it's RCI or anything else?

Nick Pinchuk: Well, let me just say though I didn't say, I said when I burrowed down on C&I, I mentioned supply chain but our view of this is it's always something. And if you look at our numbers, up what? 13% over pre-pandemic levels, 21% OI margin. I don't know if you look at the numbers you can see any turbulence in those numbers. So, I think we're managing through it. Yes, of course it'll get better as we go forward, I mean, it's hard for me to predict but as you get into the moment, you get better at managing it. Right now, we're pretty good at agile marketing, we're good at managing or redesigning our products, we're good at spot buying. So, we don't get disruptive in general. We have certain nodules of disruption that we'll figure out and we'll solve but you don't really get that kind of problem going forward.

Now, some of our businesses, like for example, you could look at tool storage, we could sell more tool storage if we could turn some more out, and we're working on that so you may see some of that going forward. But I don't accept the idea that we're being impacted by this, we're dealing with it, I think the numbers say that was a good quarter whether we thought we had turbulence or not.

Scott Stember: Got it. Thanks again. That's all I have.

Nick Pinchuk: Sure.

Operator: We'll take our next question from Brett Jordan with Jeffries.

Brett Jordan: Hey, good morning, guys.

Nick Pinchuk: Morning, Brett.

Brett Jordan: You called out I guess some of the pricing contracts in C&I as obviously costs of everything have gone up versus the prices you received. Could you talk maybe about the magnitude and the timing of some of the pricing resets that you have coming forward?

Nick Pinchuk: Yeah, I don't - they're all over the map in terms of that situation and they're by segment. But look, C&I is a - I just, our point there was C&I is a longer wave business. So, you have commitments with some customers, not all customers, so you see some impact on that and you price associated with that. We're getting some pricing in C&I, some, but not as much as other things. Our big thing isn't so much about pricing, it's managing those costs. And so the idea of C&I, I think, our disruption is mostly associated with what I pointed out in terms of the custom kitting situation, trying to deliver those things. That's been more, probably the biggest impact on this, attenuating some of their volumes, particularly in critical industries.

Brett Jordan: Okay, great. And then within the OE business was there any improvement in cadence as we got through the quarter? Obviously, some of the OEs on the auto side are talking about some improvement in supply chain but did you see any change in their buying patterns as the quarter progressed?

Nick Pinchuk: You got to be kidding, their fourth quarter was terrible, wasn't it? I thought the fourth quarter for those guys was brutal. So we didn't see much cadence – if you're talking about

projects, we didn't see much cadence difference. I mean, actually, there's a lot of new models coming out, that are going to come out, new features. And I don't think we saw any cadence change in the quarter. Now I'm on shaky ground a little bit about saying that. There might have been some of it, but I - my macro view of it Brett is it was a tough quarter for the auto companies. So, I think as we go forward, it's got to get better. They're going to shake loose some of those and so we're going to get, because we're already involved in some of those products, we're just waiting for them to come out. That's what I see.

I think the - if you look at the dealerships, if you go, like I thought I tried to make clear, at the dealerships level, the repair is great at that situation. So, we're seeing dealerships buy equipment, and one of the upticks we didn't mention - I don't think I mentioned it here, but one of the upticks in the RS&I business is a rise - a nice rise in repair and repair shop under car equipment, you know collision and the balancers and changes and those kinds of things. And so that's been going up. Also, they're buying software from us so that's pretty good in that situation. But if you're talking about the programs out of the OEM, your guess is as good as mine when that breaks loose. All we know is they've got a backlog in there that's going to be good for us when it breaks.

Brett Jordan: Okay, great. And one final question, I guess you called out hand tools as strong in the Tools Group a couple of times, did you say what the spread was sort of hand tools relative to storage and diagnostics?

Nick Pinchuk: I did not, and the reason is I want to get away from talking about the numbers by product line in the Tools Group. To us, it doesn't matter, we skin the cat many ways. So the point about the Tools Group is 21.9% margin. Now hand tools were a nice piece of that, but I will tell you that big ticket items were also up in that period. The tool storage and diagnostics were up, the hand tools are sort of the flavor of the day these days because of course we're more vertically integrated. Fundamentally, when the hand tool comes in the door, all we add is steel, capital and

labor - boom. It was - but it's been strong for a number of different periods. So, I don't really want to get down that road, just say hand tools was a nice product, a nice, but as was diagnostics in the period. And we had increases in tool storage as well.

Brett Jordan: Okay, great. Thank you.

Nick Pinchuk: Sure.

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

Luke Junk: Good morning, thanks for taking the questions. First question, Nick, I wanted to ask a follow-up on something that you mentioned a couple of callers ago, and that's regarding the investment spending posture as we begin ‘22 or maybe even more broadly, as we go through the next few years at this stage of the cycle. You've been steadfast about maintaining the rate of investment in the Tools Group in particular, and you referenced plumbing the depths of these capacity creation initiatives from here. Just wondering if you're able to talk about any new focus areas or within the capacity creation initiatives where we might see the company push a little incrementally in 2022?

Nick Pinchuk: Well look, I think this - we have, of course we're taking a look at where - how we source and where we need more capacity in the factories and those kinds of things. But I don't see it there, I don't see it distorting our financials in that regard. I think it - a couple of things, when I said that I didn't mean that the OE was going to explode or anything like that. Fundamentally, our OE was higher before because we were spending a lot of effort in a lot of different corridors trying to figure out what would actually resonate with the Tools Group and make a difference. Our OE in a nice place now and of course as you come out, how you say this, you're kind of loosening your belt a little bit when you've had a downtick in the COVID, but I think our OE is at a nice level. It may go up a little bit but not that much. We're not going to - but the areas where we're going to

spend, I think would be, we're going to push more on social media because we've learned more about that.

Boy, you know what? We've got a lot of data on our franchisees, the franchisees and our customers. We got oodles of data and we could do a better job in terms of predictive behavior on those things, so we're spending time looking at that right now. I don't have anything to report other than that, boy, it's obvious to us we have Mitchell-type sure-track data which we have about cars, we have that about our customers. And so we think we'll be able to wield that to make the Tools Group even more effective so our guys can make better choices when they engage customers. That's probably another area we're looking at right now.

Luke Junk: Okay. And then I want to ask a bigger picture question as a follow-up, thank you for that. Dealer-FX we're, I think, approaching the one-year anniversary of that acquisition, I don't know if you could speak to progress in year-one under the company's ownership? And looking forward, more importantly, should we expect to hear more about this business in the future as a complimentary software platform sitting alongside Mitchell 1 in that dealership environment? Thank you.

Nick Pinchuk: Sure. I mean, look, I think that's why we bought it, for two reasons. One, from a financial point of view, it is a twin of Mitchell 1. And I don't know if you're familiar with Mitchell 1 but if you pay, I know you are, we've been paying - we've been talking about the growth in our diagnostics and software in independent repair shops almost every quarter since I've been here, they just keep going upwards, boom, boom, boom. And so, Mitchell 1 knows how to handle that interface. And so, we're using that knowledge that, I would say challenge-tested understanding of the business, to apply to Dealer-FX. And in the fullness of time, that's going to work its magic there. We believe we'll have a kind of a twin. I'm not saying it's going to be as great as Mitchell 1. It may be, but it's going to be a good business. So, you're going to see it from a financial point of view, but it's also important for us strategically because as you know, it has a window on what happens

with these new technologies and the new technologies are going to be the drivers of the future. And it's going to call in - help us call in the airstrikes for what product we develop because we're going to see it first in Dealer-FX. So, you're going to hear us talking about that, but these are early days, it's the first year, there's a lot of turbulence, these kinds of things. In terms of Canada, I think Justin Trudeau just got the COVID himself. So, this impacts the activity in Canada, but I believe certainly Dealer-FX was up in the quarter and we're making - we're sort of making our expectations in this. But you'll hear more of it as we go forward because it's going to be a big factor, honestly, in terms of early warning, also financially.

Luke Junk: Okay, great. Well, I appreciate that it's still early days there. That's great color and I'll leave it there. Thank you.

Nick Pinchuk: Okay. Sure.

Operator: We'll take our next question from Liz Suzuki with Bank of America.

Liz Suzuki: Great, thank you. So, this one is for Aldo, I guess if you could just talk about the inflation impact that you expect through the course of the year, and just cadence that could work out with the dynamic of cost and price and how that would impact the P&L?

Aldo Pagliari: Well, certainly. Of course, everybody's talking more about inflation than in the past and Snap-on is not immune from that. However, Liz, I think it is something we manage in stride. First of all, we always look for alternative ways to reduce cost whether that be alternative sourcing, alternative componentry, rapid continuous improvement to get some productivity. And of course, if we can't cover that, then we look for pricing actions to help us out, and we do believe we have pricing power personified by the Tools Group. And then, as Nick already has said, we get pricing over time in the Commercial and Industrial Group and in Repair Systems and Information in light of the fact that they have longer- term customer agreements. So, we don't immediately just put

pen to paper and say, oh, it's got to be this pricing. We try and strive to see what we can offset internally. At the same time, we're cognizant of the new features we always bring to market so rather than bring a price increase to market, our preference is can we bring a higher featured product to market and talk more about that feature even though it might cost more to the customer? We try to create that vision, that there's more productivity being brought to market. So that's kind of our broad-based approach. So yeah, there's more inflation but we'll continue to try to bring more innovation and more value-added for the customer.

Nick Pinchuk: To put in perspective, Liz, just to add on that, if you just look at our hit products, we bring a couple three dozen new products every quarter to the market. So that's a big factor for us.

Liz Suzuki: Great, thank you. And I guess second question is, just on priorities for capital, I mean, your net debt to capital ratio came down about three percentage points since last year, it's at a historically low level. What are you thinking about for this upcoming year and beyond in terms of where your priorities lie?

Nick Pinchuk: Well, look, I, I think our priorities are still in line, I think we believe the best return on capital for our people, for our investors, and for our constituents is investing in our business. So, to the extent we can invest it in business in some of these new activities or anything like that, we will - we support that. Secondly, we have a pretty full, I would say, pipeline of acquisitions that we keep looking at. And I kind of think, call me crazy, but I think in the turbulence, the acquisitions may be more available in this situation. So, we're kind of hoping that - we're kind of focusing on a few things that we may have some ability to move and we're not afraid to take big ones or small ones in that situation.

And we have our - our board just reloaded our share buyback situation and, I think now another $500 million, and we have our dividend which we look at and we're kind of, I think it's been a kind of a front piece for Snap-on where we have paid a dividend every quarter for since 1939 and

we've never reduced it. So, we hold it in perpetuity in terms of our policy and we always look to seeing if it's appropriate to upgrade it. So those are the kinds of things we're looking at. I think every year changes and this year it's marked by the idea there's a lot of turbulence out there, maybe there's some opportunities for us.

Liz Suzuki: Great. Thanks. That's very helpful.

Operator: And we'll go to our next question from David McGregor with Longbow Research.

David McGregor: Yes, good morning, everyone. Nick it's encouraging to - it's encouraging to hear you leaning a little more into the data analytics. So I think that has the potential to move the needle, so congratulations on that initiative. I guess to start off with, what do you think sales were off the truck were year over year?

Nick Pinchuk: I think about the same, I think roughly the same as the Tools Group, I would say in the same ballpark. In fact, if you look over, David, if you look over two years' worth there's differences from quarter to quarter. But if you look back over two years, they've been about the same. We generally see, and this quarter was the same kind. There was a little bit of noise with the 53rd week and the franchisees, probably, doing a little more than they would order from us. But I think generally it's roughly the same. They're in practically lockstep. So we see the inventories kind of on the Tools Group holding pretty flat.

David McGregor: Got it. And then just still on the Tools Group you talked about the 300 basis points of operating margin improvement now but 200 basis points of that came from SG&A and 60 basis points was FX, so clearly it feels like the price cost pressures that everybody else in the world seems to be feeling are coming home to roost at Snap-on as well.

Nick Pinchuk: You think holding most margins is a common occurrence in this environment?

David McGregor: I'm just trying to get at kind of the price cost…

Nick Pinchuk: It's like this, I think, look, I think, yes, we have pressures on a lot of different things. There's a lot of things that go in that gross margin and there are a lot of things that go in the SG&A. I think our view is on the OI margin in general, we upped it 300 basis points. We, I think, have said this on other calls long ago that we're kind of agnostic between those two numbers. We kind of focus on the OI margin, up 300 basis points is not bad. Now you could say, okay, well, the gross margin is up less than the OE but if you look back to pre-pandemic levels, they're both up reasonably well. I think a hundred basis points and 200 basis points and I don't think that's chopped liver in this environment. Yes, there are pressures associated with supply and sourcing, but we're able to manage it such that we don't give up anything.

David McGregor: So, I guess my question on this is, really, just as you look forward to 2022, Nick, you talked about there's the opportunity to raise, or Aldo talked about the opportunity to raise pricing within the tool segment but also to bring kind of better margin products or better incremental margin products to the marketplace and cover your costs that way - your costs and productivity that way. Can you give us a sense of how you're thinking about the split between those two opportunities? Do you think you'll be leaning a little more onto the pricing side and then supplementing that with the better margin product or are you leaning a little more towards the better margin product and supplementing that with pricing?

Nick Pinchuk: Well, generally, I think it's the latter. I think that we would rather have it with our new products and then be bullish around those. I think it isn't so bald-faced. I mean, fundamentally I just want to come back to your original question. It would be a mistake to think that the costs weren't coursing through our numbers this quarter, because they are. And so, we have those and we're holding our own against those with pricing and with those, like I said, people - I think sometimes people don't realize how many new products we bring out. If you just look at the hit

products, and they're the ones that are the incandescent ones, a million dollars in the first year, we have two to three dozen every quarter.

And so we have a lot of opportunity in both those areas. And I think that's what allows us to maintain this and our - this ain't our first rodeo so we know how to manage this. I think our team knows, not me, I'm just a trained dog at the top of the heap here. But the thing is the guys know how to manage this such that they can bring, with the combination of direct pricing plus promotions plus the new products, they can manage that interface very well. That's what I meant about the strategic position, so we're not wringing our hands at all, David.

David McGregor: Right. Okay. Well, thank you for that offer that answer. I guess I wanted to also ask about the originations down 6%, are you seeing - and I notice the yields coming down a little bit on the portfolio as well, are you just seeing changes in patterns in terms of how new techs are using credit or how much of this is maybe just substitution of RA credit? You're just losing share to your franchisees on the credit front? And how much of it might just be alternative sources of credit as some others have talked about?

Nick Pinchuk: I don't think - I was just with the franchisees at the kick-off in Omaha, yeah. I got to go to Omaha, Aldo got to go to Orlando, you figure that one out, huh? In January.

David McGregor: Nice.

Nick Pinchuk: But I was with the group, and our franchisees don't think we're losing any share to other alternative sources. They just think, look, these guys are flush so they're willing to pay. I mean, if you looked at the numbers, the BLS data says that investments in repair are up double-digits on the year-over-year basis in both nominal and real basis. And the technician wages are up over 5% year-over-year. And the number of technicians out there are growing. So, I think you see this kind of a growing flush group of people and they're not - they're staying with RA, they don't want

to pay the interest. We think it's great because fundamentally the guys have debt capacity available when they need it.

The other factor is I think in this is that I never wanted to say this, I said I wouldn't last time, but if you look at the 53rd week last year, generally our stuff cuts off. But even if the franchisees go out for a day or two or three, they're going to generate more year-over-year originations because it happens in the field at some point. I don't know how much that accounts for, but you could knock down some of that. So, I don't think that's an unusual situation.

David McGregor: And then the credit origination's down 16.6, what - can you talk a little bit about what might've been happening there?

Aldo Pagliari: Well, I'd say – this is Aldo – I'd say if you'd take into account $10 million that I mentioned that that extra week allowed, we would've probably been up slightly, I'd say in the U.S. environment, down a little bit in international. International is not quite as robust as the U.S. I think we mentioned that as well, that we were up in the U.S. in terms of our sales versus international. And then if you look at the - even the contract originations, in 2020 we had more new start-ups, so there's a little bit more stable environment now with the franchisees. So there was less start-ups in the international arena in particular. And when you start up a franchise, David, many of the franchisees tend to like to lease vans and borrow from Snap-on Credit so that could affect it.

So, it's really, I don't want to just dismiss it and I always try to remind people that you're still in not a completely certain environment and we find over the time of history that people tend to buy lower price point items until certainty restores. So, I don't think tool storage has been as robust as you see in the revolving credit accounts and therefore you see more revolving action on the hand tools side.

David McGregor: That makes sense. Last question for me is just with respect to the share repurchase activity, and you talked about the fact that you just had another authorization from the board but activity in the fourth quarter really didn't change much year-over-year, roughly that $70 odd million, a good number for the full year by the way. So good activity there. But how do we think about share purchase here and why wouldn't you step up and just get a lot more aggressive here in terms of buying back your stock at these levels?

Aldo Pagliari: Well, we always think about things like that but if you look at the tunnel of time it averages between 2% and 3% of the outstanding share count, more or less, and it's hard to be an expert in this market. I have no idea if the advertising revenues of Facebook will impact Snap-on the next day when I get up and things of that nature. And I'm being extreme in that example, but we try to take a measured approach to it. It has its role. It's not the only solution in terms of how to use cash.

David McGregor: Right. Okay. Thanks very much, gentlemen.

Aldo Pagliari: Thanks, David.

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

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

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.