Snap-on Incorporated

Second Quarter and Full Year Results

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CORPORATE PARTICIPANTS

Sara Verbsky – *Vice President, Investor Relations*

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Aldo Pagliari – *Senior Vice President, Finance and Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Snap-on Incorporated 2023 Second Quarter Results Conference call. All participants will be in a listen-only mode for the duration of the call. Should you need any assistance at that time, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please also note that this event is being recorded today.

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

Sara Verbsky
Thank you, Joe and good morning, everyone. We appreciate you joining us today as we review Snap-on's Second Quarter results, which are detailed in our press release issued earlier this morning. We have on the call 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've provided slides to supplement our discussion. These slides can be accessed under the downloads tab in the webcast viewer, as well as on our website snapon.com under the Investor section. These slides will be archived on our website along with the transcript of today's call.

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

Finally, this presentation includes non-GAAP measures of financial performance, which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding these 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?

Nicholas Pinchuk
Thanks, Sara. Good morning, everybody. Today, I'll start the call, as usual, by covering the highlights of the second quarter, and I'll give you my perspective on the environment and the trends we're seeing. Along the way, we'll cover the markets. They're encouraging, actually. I'll take you through the segments and the advancements we've made. Then Aldo will provide a detailed review of the financials.

We see the second quarter as a period of significance. Sometimes you see a performance where you break through to new heights and this is one of those times. I'm going to tell you why we believe that to be true. In some ways, though, it was similar, this period was similar to many periods we've seen over time. We continue to have significant headwinds and there's always turbulence, variation from market-to-market, but we believe it's our job to confront and overcome these obstacles. We did just that in the second quarter by wielding the strength of our advantages, executing on our strategic runways for growth, making the most of our runways for improvement and by relying on the skills and dedication of our people. Once again, it paid off. The numbers scream it so, but here they are.

As reported, second quarter sales of $1,191.3 billion were up 4.8% from 2022, including the impact of $8.3 million of unfavorable foreign currency translation. Organic activity was up 5.6%. The 12th straight quarter of year-over-year expansion beyond pre-pandemic levels. That's a trend that demonstrates, we believe, a solid consistency during pretty uncertain times.

Now let's talk about the earnings. OpCo operating income for the quarter, including the effects of unfavorable foreign currency, was $277 million, up 12.3% and our OpCo operating margin, the operating margin, it was 23.3%, up 160 basis points from last year. BOFFO! When I said new levels, I meant it.

For financial services, the OI of $66.9 million represented an increase of $1.6 million. It all combined to author an overall consolidated operating margin of 26.8%, up 130 basis points from last year. The second quarter EPS, it was $4.89, up $0.62 or 14.5% from last year's $4.27. I think I'll say it again— $4.89, up 14.5%. The productivity and profitability of Snap-on operations shining through as the supply chain viscosity diminished. We believe Snap-on is stronger now than ever before and the quarter's profitability makes that crystal clear. Well, those are the overall numbers.

Now let's speak to the market. Auto repair, again, this quarter, it's favorable. Miles driven are up. Spending on vehicle maintenance, up. Technician count, up. Technician wages, up. Consistently positive year-over-year trajectory across all the essential categories. The drivers in vehicle repair are fairly understood. The car parc is growing, getting older every year, and every year the tasks involved in maintaining and repairing the vehicle parc get increasingly complex, requiring more hours, greater skill, increased wages and more sophisticated tools, hand or power or data-driven tools. There's a significant need for more technicians and greater capabilities. The competition for that talent is growing and it's being reflected in the rising wages. At an everyday level, I think you can see this demand when you're trying to schedule a maintenance appointment, or just by visually seeing the abundance of cars and trucks in the repair bays or parked outside, crowded around the shops waiting for their turn to get in.

In fact, just this month, I was with a group of franchisees and customers in Bristol, Tennessee, at the NHRA Thunder Nationals, the drag races, and they energetically expressed their enthusiasm during our conversations. You could feel their optimism resonating with an appreciation for our products, our solutions and how we make work easier.

So we expect that the trajectory of vehicle repair is solid and will continue through the quarters and on into the years ahead. We believe that vehicle repair is a great place to operate and the repair information— our Repair Information Group and our Tools Group are well positioned to take advantage of that.

Now on to the critical industries where our Commercial and Industrial Group, or C&I, takes our business out of the garage and solves tasks of consequence where the penalty for failure is high, in a wide range of sectors, where custom tools are often required to get the job done. This is also the segment where we have the most significant international presence and the attendant variations from country-to-country with many versions of economic and social headwinds.

In the U.S., the landscape actually is pretty positive. We see progress across a number of sectors. Aerospace is strong. Increased demand in commercial aviation and momentum within space exploration. The military business was another strong quarter of growth, now better matching the actual needs. Natural resources continued to advance in oil and gas and wind after the uncertainty of the last fall. Energy repair is a positive place to be. Also big in the period was industrial transportation. Supply chain turbulence, I think, has raised the attention on rail and heavy-duty fleets. Society, now more than ever, sees the essential need to keep commercial supply moving and it's accruing positively for us.

Now, there are tepid spots across the globe. Places traumatized by the Ukraine war. We see that. Weaknesses in some of the Asia-Pacific operations. But one of the clear and large positives in the period is the general rise of critical industries and our industrial division is well positioned and it's taking advantage with its capability to customize products to a large number of applications, and it's working. Our critical industry teams are on an upward trajectory, utilizing their capability and the enhanced capacity to capture significant gains.

Overall, the story of Snap-on outside the garage looks quite promising and as we move forward, we'll continue to capitalize on that abundant potential. And as part of that, we'll keep engaging Snap-on value creation, customer connection and innovation, developing profitable new products and solutions, delivered by the insights and knowledge gained standing next to the customers right in the work place, and will drive RCI all over the enterprise, including in the Tools Group.

We will keep working to increase our franchisee’s selling capacity with efficient processes, with advanced training programs, with social media and digital content, and expanded manufacturing capacity to meet the rising demand, all combining to take full advantage of the opportunities and continue the positive trends we've seen into the future. Well, that's the market overview.

Now let's move to the segments. For the C&I Group, as reported sales rose 1.4%, including $5.6 million of unfavorable foreign currency. Organic volume was up by 3.0%. A quite strong performance in the Industrial Division was attenuated by shortfalls in some of our more challenged areas. Power Tools had smaller volumes as customers anticipated the arrival of new products in the third quarter. Our European-based hand tool business, SNA Europe and our Asia-Pacific operation demonstrated growth in several markets, but softness in Eastern Europe and currency pressure in Japan, the Yen was weak, was some offset.

But our Industrial Division isn't just growing in volume. The margins are strong and rising. Customized product is a wonderful thing. So C&I OI was $68.1 million, a 12.4% increase over last year and the operating margin was 16%, one of the highest ever for the group, representing a gain of 160 basis points over the second quarter of last year. The Industrial Division, wielding the capacity provided by our new building in Kenosha, registered significant sales progress.

In April, we discussed the recovery of the military business. In the military segment, in this quarter, we continued that momentum, capturing significant long-term contracts. Our product line, wide and effective, produced in the U.S., made the difference. So we believe things look promising for the military business and for all of our Industrial segments.

Beyond the Industrial Division, in C&I, our Specialty Tools operation continues to advance, meeting the need for precision with new torque products, covering a vast spectrum of clamping forces for challenging applications. Torque accuracy is rising in importance and Snap-on is ready to capitalize.

We are confident and committed to extending in critical industries and that conviction is anchored by the ongoing expansion of our lineup of innovative products, explicitly designed for particular tasks, offerings like our automated tool control, or ATC, enabled by proprietary digital imaging technology that scans toolbox drawers, recording in real time, which tools are required or are removed or replaced. It's an increasingly crucial feature for aerospace, for industrial manufacturing and for commercial transportation operations. Imagine working on a plane or a locomotive engine and unknowingly leaving a tool behind in the workplace. Not good, not good. This is a mistake that could result in a failure in any tight tolerance mechanism, one small item can be a huge problem. Well, ATC has an answer— keeping track of the tools, identifying missing items, tracing who signed them out and where they're to be used and giving the all clear when everything is returned, so the planes can take off.

Snap-on critical industries are on the rise and ATC is part of the reason. In the quarter, we released our next generation of ATC, a larger touchscreen to improve the shop productivity and upgraded processes with the latest technology for seamless integration with any central IT system. As you might expect, our customers were enthusiastic. Sophisticated products for complex problems. It's a winning combination for C&I and you can see it in the quarter's results.

Now on to the Tools Group. Organic sales grew 1.1%, which includes 60 basis points of unfavorable foreign currency, growth in the international markets and a slight improvement in the U.S. network. Based on our franchisee and customer feedback, like I said already, vehicle repair is robust, but in the period, our record demand met capacity constraints before our plant expansions were fully operational, limiting some of the potential possibilities and somewhat attenuating the volumes.

But for operating earnings, they rose in the quarter by $13.3 million or 10.7% reaching $137.7 million. That's almost double the pre-pandemic level. The operating margin was 26.3%, a rise of 240 basis points against 50 basis points of negative currency. Let me say that again, Tools Group OI margin was 26.3%. Boomshakalaka. This is an eye-popping number.

So the Tools Group had another positive quarter with substantial profitability. We are confident in the strength of our van network and that belief is born out of quantitative evidence, franchisee health metrics. We monitor them regularly, every quarter. And again, this quarter, they remained strong. So whether you're talking about— talking to the franchisees at Thunder Valley or looking at the numbers, vehicle repair does appear robust and continues to be so.

Now when you think of the Tools Group profitability, which is a pretty important subject this time, you think about hand tools. That high margin lineup was— that was up in the period and new products led the way. One example of successful innovation that came from another customer connection was a number of franchisees observed that diesel technicians struggled to access sensors on Class 8 semi-trucks— they were struggling to do that. So, to change the part without risking damage, the path had to be cleared by removing several other blocking components. Believe me, that's a time-consuming process and so, armed with customer connection insights, those customer connection insights, our engineers developed an innovative design, quickly produced a 3D prototype and confirmed that it solved the problem. That new tool, the SWR5 90-degree special crowfoot wrench is being made right now at our Elizabethton, Tennessee plant and it's getting a lot of attention. It really does make truck repair easier. The techs love it and we kinda like the margins.

Profitable customer connection is one of the drivers behind the Tools Group success. And another example authored this quarter is our two-piece horizontal bushing adapter set, the BJP1, BKS2, these names are something. Techs at a Subaru dealership were— they were taking a lot of time to remove and install control arm bushings from suspension setups on the newer models. Our team assessed the procedure and designed two new adapters to integrate with our existing ball joint press and that enabled the fit for the new— a good fit for the new Subaru suspension and saved two hours in repair time per procedure. That's a big savings in the garage generated by customer connection and innovation.

A while ago, SNL's Roseanne Roseannadanna said, “It's always something,” and it's true. There are always new repair challenges, whether the powertrain is internal combustion, plug-in hybrids or EV platforms. Vehicle architecture is getting tighter, packed with more devices, creating additional accessibility constraints. It's all music to our ears. Our franchisees and engineers observe the work, identify complications and simplify the complex and multifaceted tasks to raise efficiency and keep the world moving and the attendant value is considerable. You can see that in the Tools Group profits.

Now one of the highlights of the quarter was the continuing growth of our big-ticket sales, a sign of technician confidence in the vehicle repair shop. Driving some of that trend was our latest tool storage unit, the KMP1023ZLT7, a 72-inch Master Series Roll Cab painted with a unique appearance scheme we call green envy, a bright green body paired with black trim. It stands out and makes a statement at any repair shop, but beyond the eye-popping optics, the box is also a productivity enhancing powerhouse, equipped with 14 drawers, including 3 spanning the full width of the unit, putting the most important tools of any size right at hand. It also offers our popular PowerDrawer, a dedicated space equipped with five power outlets and two USB ports for charging a full array of cordless accessories. For the hard to manage small parts, our 2-inch SpeeDrawer makes for easy organization with green envy color coordinated dividers, custom slots for components of various sizes. The box is already one of our hit products. It really energized franchisees and was well received by our customers. As I said, it helped keep the big ticket train moving.

Well, that's the Tools Group, strong profitability, built on solid foundations of innovative products and franchisee success mixed with a considerable portion of RCI gain. Now visible as supply— that RCI gain is now clearly visible as the supply chain turbulence recedes.

Now let's go on to RS&I. Sales as reported reached $452 million. That represented a $35.2 million or 8.4% increase. Gains in the equipment and OEM essential programs paired with— gains in equipment and OEM paired with our successful rollout of our new handheld diagnostic platform. The OI in the period was $110.4 million, up 14.7% or 15.4%— up $14.7 million or 15.4% and the operating margin was 24.4%, a rise of 140 basis points. Nice. Nice.

As we said, the vehicle repair environment is strong, offering significant opportunity and the second quarter results for C&I says it's so. The recent launch of our new SOLUS+ diagnostic platform was a big key to that success. Great new features, including a 2 second boot up, the fastest in the industry, and an 8-inch color touchscreen with 60% higher resolution, making it much easier for technicians to view in brighter lighting. It supports the latest in vehicle communication protocols and it offers access to SureTrack. That's our library of vehicle-specific real fixes, repair tips and commonly replaced parts that wields our proprietary database of 2.5 billion repair records and 325 billion vehicle events. SOLUS+, the franchisees have been positive, the customers have been excited and the sales have been robust.

New powertrains are driving the need for expanding product lines, including vehicle lifts, enabling independent shops and dealerships to accommodate the new models. In meeting this opportunity with advantage, part of RS&I’s success has been our undercar equipment division. It's one of the drivers behind RS&I's strong growth. Take our Challenger Lift Operation in Louisville. The plant offers thousands of SKUs matched to separate lifting tasks and the numbers have been growing to meet the specific challenges of EV lifting. And in the quarter, that facility hosted *Chief Executive Magazine*’s Smart Manufacturing Summit. The event underlined the power of product customization in driving expansion and the extraordinary ability of RCI to render that low volume production quite profitable. It's that approach that drove RCI's gains. OI up 140 basis points in the quarter and we expect that it will keep doing just that as we go forward throughout the group and all across Snap-on.

RS&I— improving position with repair shop owners and managers, growing OEM relationships, expanding the product offerings, wielding the RCI everywhere and it all combined to deliver substantial growth and strong profitability.

The Snap-on second quarter, continued opportunities in vehicle repair and critical industries, progress along our runways for coherent growth, and advancements down our runways for improvement. Overall sales increasing organically 5.6%. Margins strong in every segment. OpCo OI margin 23.3%, up 160 basis points overcoming unfavorable currency and EPS, $4.89, up versus all comparisons. It was another encouraging quarter.

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

Aldo Pagliari
Thanks, Nick. Our consolidated operating results are summarized on Slide 6. Net sales of $1,191.3 billion in the quarter represented an increase of 4.8% from 2022 levels, reflecting a 5.6% organic sales gain, partially offset by $8.3 million or 80 basis points of unfavorable foreign currency translation. From a geographic perspective, we experienced year-over-year organic sales growth in North and South America, as well as Europe, while sales in Asia-Pacific were down low single-digits, mostly due to weakness in the Yen contributing to less activity in Japan.

Consolidated gross margin improved 200 basis points to 50.7% from 48.7% last year as gross margins expanded across all of our operating segments. Contributions from increased sales volumes and pricing actions, lower material and other costs, and benefits from the company's RCI initiatives, were partially offset by 30 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of net sales of 27.4% compared to 27% last year. The increase of 40 basis points is primarily due to increased investment in personnel and other costs. Operating earnings before financial services of $277 million in the quarter compared to $246.6 million in 2022. As a percentage of net sales, operating margin before financial services up 23.3%, including 30 basis points of unfavorable foreign currency effects, reflects an expansion of 160 basis points over last year.

Financial services revenue of $93.4 million in the second quarter of 2023 compared to $86.4 million last year, while operating earnings of $66.9 million compared to $65.3 million in 2022. Consolidated operating earnings of $343.9 million in the quarter compared to $311.9 million last year. As a percentage of revenues, the operating earnings margin of 26.8% reflects an improvement of 130 basis points from 2022.

Our second quarter effective income tax rate of 22.9% compared to 23.8% last year. Net earnings of $264 million or $4.89 per diluted share, including $0.09 share impact from unfavorable foreign currency, reflected an increase of $32.5 million or $0.62 per share from 2022 levels and represented a 14.5% year-over-year increase in diluted earnings per share.

Now let's turn to our segment results for the quarter. Starting with the C&I Group on Slide 7. Sales of $364.2 million increased from $359.1 million last year, reflecting a $10.7 million or 3% organic sales gain, which was partially offset by $5.6 million of unfavorable foreign currency translation. The organic growth primarily reflects a double-digit gain in sales to customers in critical industries, partially offset by declines in power tool volumes.

With respect to critical industries, sales to the military were robust, as was activity in the aviation and heavy-duty sectors. Gross margin improved 220 basis points to 39.5% in the second quarter from 37.3% in 2022. This is largely due to increased volumes in the higher gross margin critical industry sector, pricing actions, lower material and other costs, and benefits from RCI initiatives. These improvements were partially offset by 40 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of sales increased 60 basis points to 23.5% in the quarter from 22.9% in 2022, mostly due to increased sales and higher expense businesses. Operating earnings for the C&I segment of $58.1 million compared to $51.7 million last year. The operating margin improved 160 basis points to 16% from 14.4% last year.

Turning now to Slide 8. Sales in the Snap-on Tools Group of $523.1 million compared to $520.6 million a year ago, reflecting a 1.1% organic sales gain, partially offset by $3.2 million of unfavorable foreign currency translation. The organic sales growth reflects a mid-single-digit gain in our international operations and slightly higher sales in our US business. Higher sales of hand tools and big ticket items in the quarter were partially offset by lower sales of power tools.

Gross margin improved 300 basis points to 49% in the quarter from 46% last year. This increase is primarily due to higher sales volumes and pricing actions, lower material and other costs, and benefits from RCI initiatives, partially offset by 50 basis points of unfavorable foreign currency effects. Material costs benefited from reduced expenses for various steel types used in our product offering. Operating expenses as a percentage of sales went up by 60 basis points to 22.7% from 22.1% last year, primarily due to increased investment in personnel and other costs.

Operating earnings for the Snap-on Tools Group of $137.7 million, including $3.6 million of unfavorable foreign currency effects, compared to $124.4 million last year. The operating margin of 26.3%, including 50 basis points of unfavorable foreign currency effects, compared to 23.9% in 2022, reflecting an improvement of 240 basis points.

Turning to the RS&I Group shown on Slide 9. Sales of $452 million compared to $416.8 million in 2022, reflecting an 8.5% organic sales gain, partially offset by $300,000 of unfavorable foreign currency translation. The organic increase is comprised of a double-digit gain in sales of undercar and collision repair equipment, a high single-digit increase in activity with OEM dealerships, and a mid-single-digit gain in sales of diagnostic and repair information products to independent shop owners and managers.

Gross margin improved 180 basis points to 45% from 43.2% last year, primarily due to increased sales volumes and pricing actions, lower material and other costs, and savings from RCI initiatives. Operating expenses as a percentage of sales went up by 40 basis points to 20.6% from 20.2% last year, primarily due to increased personnel and other costs.

Operating earnings for the RS&I Group of $110.4 million compared to $95.7 million last year. The operating margin improved 140 basis points to 24.4% from 23% reported last year.

Now turning to Slide 10. Revenue from Financial Services increased $7 million to $93.4 million from $86.4 million last year, reflecting the growth of the loan portfolio. Financial Services operating earnings of $66.9 million, including $200,000 of unfavorable foreign currency effects, compared to $65.3 million in 2022.

Financial Services expenses were up $5.4 million from 2022 levels, including $4.9 million of higher provisions for credit losses. The year-over-year increase in provisions reflects both the growth of the portfolio as well as a return to what we believe to be a more normal pre-pandemic rate of provision. Sequentially, the provision for credit losses decreased by about $500,000.

For reference, provisions for finance receivable losses in the current quarter were $13.7 million as compared to $9.1 million in the second quarter last year. In the second quarters of 2019 and 2018, provisions for losses were $11.9 million and $13.6 million, respectively.

In addition, our gross worldwide extended credit or finance receivable portfolio has increased 9.1% year-over-year and we believe the delinquency in portfolio performance trends currently remain stable. In the second quarters of 2023 and 2022, the respective average yields on finance receivables were 17.6% and

17.5%. In the second quarters of 2023 and 2022, the average yields on contract receivables were 8.6% and 8.5%, respectively.

Total loan originations of $326.3 million in the second quarter represented an increase of $18.7 million or 6.1% from 2022, levels reflecting a 5.7% increase in originations of finance receivables and an 8.3% increase in originations of contract receivables. Gains in extended credit originations in the U.S. were led by franchisee sales of diagnostic products, including our recently launched SOLUS and ZEUS platforms.

Moving to Slide 11. Our quarter-end balance sheet includes approximately $2.4 billion of gross financing receivables with $2.1 billion from our U.S. operation. The 60-day plus delinquency rate of 1.3% for U.S. extended credit compares to 1.4% in 2022. On a sequential basis, the rate is down 20 basis points, reflecting the seasonal trend we typically experience in the second quarter. As it relates to extended credit or finance receivables, trailing 12-month net losses of $46.4 million represented 2.45% of outstandings at quarter end, which is down slightly from the 2.46% reported at the end of last quarter.

Now turning to Slide 12. Cash provided by operating activities of $270.3 million in the quarter compared to $140.8 million last year. The improvement, as compared to the second quarter of 2022, primarily reflects lower year-over-year increases in working capital investment and higher net earnings.

Net cash used by investing activities of $94.6 million included net additions to finance receivables of $68.6 million and capital expenditures of $25.8 million. Net cash used by financing activities of $136.5 million included cash dividends of $85.9 million and the repurchase of 359,000 shares of common stock for $94.8 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional $336.7 million of common stock under our existing authorizations.

Turning to Slide 13. Trade and other accounts receivable increased $25.1 million from 2022 year-end. Days sales outstanding of 61 days was the same as 2022 year-end. Inventories increased $13 million from 2022 year-end and on a trailing 12-month basis, inventory turns of 2.4x compared to 2.5x at year-end 2022.

Our quarter end cash position of $871.3 million compared to $757.2 million at year-end 2022. Our net debt-to-capital ratio of 6.5% compared to 9% at year-end 2022. In addition to cash and expected cash flow from operations, we have more than $800 million available under our credit facilities. As of quarter end, there were no amounts outstanding under the credit facility and there were no commercial paper borrowings outstanding.

That concludes my remarks on our second quarter performance. I'll now briefly review a few outlook items for 2023. We anticipate that capital expenditures will approximate $100 million. In addition, we currently anticipate that our full-year 2023 effective income tax rate will be in the range of 23% to 24%.

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

Nicholas Pinchuk
Thanks, Aldo. Well, that's the quarter. RCI shining through as the supply skies clear to show the new levels of performance. Vehicle repair continuing its strength. Critical industry is accelerating. RS&I growth, both in dealerships and independent shops, advances in helping customize shops to new vehicles. OI margin, 24.4%, up 140 basis points.

Tools Group, growth attenuated, but strong new products, solving specific problems, creating extraordinary value and an OI of $137.7 million, almost double pre-pandemic levels and OI margins of

26.3%, up 240 basis points, overcoming 50 basis points of unfavorable currency.

C&I extending in the critical industries. Wielding new capacity. Achieving broad growth and an OI margin of 16%, 160 basis points over last year, also overcoming unfavorable currency.

Snap-on Credit, profits up, originations rising, indicating broad confidence in vehicle repair, and it came together for an attention-getting overall performance.

Snap-on organic sales rising 5.6%, an OI margin of 23.3%, up 160 basis points, and an EPS of $4.89. New levels indeed.

It was an encouraging quarter and we believe that these results, representing new heights, highlight the opportunities in our markets. They're essential, demonstrate the power of our approach. It creates extraordinary value solving, the critical, And, most of all it confirms the strength and reliability of our team -- capable and battle-tested -- to wield our Snap-on value creation processes – safety, quality, customer connection, innovation and rapid continuous improvement, all to overcome challenges and drive the corporation higher. We expect that our decisive advantages, those decisive advantages in opportunities, in approach, and in people, will author a continuing upward trajectory even beyond these levels throughout the remainder of this year and on into 2024.

Now before I turn the call over to the operator, I want to speak directly to our associates and franchisees, the Snap-on team. I know many of you are listening. These results do represent new heights, but more than that, they are ringing testimony to your unwavering focus on moving our enterprise forward. For your extraordinary achievements, hard won, you have my congratulations. For the capability you demonstrate every day, you have my admiration. And for the unshakable confidence you hold in our path forward, you have my thanks.

Operator?

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press the star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press the star then two.

At this time, we will take our first question, which will come from Scott Stember with ROTH MKM. Please go ahead.

Scott Stember
Good morning and thanks for taking my questions.

Nicholas Pinchuk
Sure.

Scott Stember
Nick, you talked about in tools that there was, it sounded like your ability to meet demand in certain areas was not met because of production. Can you maybe talk about that and maybe tie that into the decline that you talked about in power tools?

Nicholas Pinchuk
Sure. Sure. I think they're semi-related, but here's the thing. I probably said 12 times in this pitch. We think the market is robust. So you're not seeing the market in those numbers. The situation simply here is rooted in hand tools and tool storage, primarily, where generally the mix of products we got exceeded our capacity. We expected a certain mix. We got a different mix and part of that was the people saying well, power tools is going to launch in the future new products and therefore, power tools is not so popular and it was down in the quarter, anticipating those power tools. So we bumped up against capacity, particularly around the more customized models, which are more difficult to build and more difficult to turn out. So that's pretty much what it was.

Fundamentally, if you look at power tools— tools in the quarter, hand tools, biggest ever, biggest ever and you look at tool storage, not only does the tool storage factory have to supply some— and hand tools are some of this, but tools storage, not only does the tool storage factory have to supply the Tools Group, but when you see the acceleration associated with the critical industries that they have boxes as well and they were expanded. So it put a lot of pressure on those factories.

So we weren't able to follow the market, but we had anticipated expansion. Those expansions are starting to be ready now. So the hand tools plant in Milwaukee— we have about two-thirds of the expansion will be ready this month and in the fourth quarter, the rest of it will be ready. The Elizabethton tool storage— not tool storage, but the hand tool plant in Elizabethton will have its expansion in the end of the third quarter and the fourth quarter, expanding space and the expansion in Algona, our tool storage business, is starting to get in place the end of this month.

So we're expanding the capacity. It’s just that in this quarter, the mix of the products pretty much somewhat reflective of power tools being down and therefore, filling that in with customized products bumped up against demand.

Scott Stember
Got it. Okay. And as far as sell into the vans, sell-through, it sounds as if probably—

Nicholas Pinchuk
It was pretty good. It was above our numbers like it has been for a couple of periods. We like to say that over time, that's all going to even out, but in this quarter, the sell-through– sell off the van, we say, was better.

Scott Stember
Okay. And you would expect that to balance out as your supply…?

Nicholas Pinchuk
Yeah, over time— it always balances out. A quarter doesn't mean that much in that situation, but what I'm trying to say is that we still think that demand is pretty strong. You see that when you talk to franchisees and customers themselves. The whole idea, Scott, is big ticket items are an indication of confidence usually in this market.

I suppose it isn't for sure, but generally, in our history, when we've seen big ticket items sell and they did— originations were up and tool storage had— I think one of its best quarters ever, if you put industrial and tools together. That indicates that customers are willing to enter into those longer payback items. We also saw a nice range of diagnostics numbers this quarter. So those big ticket items really look good, positive sell-through and so that indicates the technicians are willing to enter into those longer payback items and that says they think, at least, that the market is good.

Scott Stember
And just to be clear, sales off the van are stronger right now than—

Nicholas Pinchuk
Yes.

Scott Stember
—into the channel. Got it. All right, that's all I have for now. Thank you.

Nicholas Pinchuk
Okay.

Operator
Our next question will come from Christopher Glynn with Oppenheimer. Please go ahead with your question.

Christopher Glynn
Yes, thanks. Good morning. I had a question on the gross margin, which was very strong. You mentioned supply chain clearing. Is that more or less recovered now or does supply chain trends…?

Nicholas Pinchuk
Not completely but more or less. Every time I have a review, somebody brings up something that says they got some spot buys still coming through, but in general, like I said, the skies have cleared. We're going to get a little more benefit, but most of it is out now.

Our big problem was, of course, everybody saw commodity prices go up and freight prices go up, but the big problem for a company like us is we had to spot buy things in a lot of situations, which we're paying 2x or 3x sometimes what the original price was and so that ends up going in inventory.

Chris, just think about it. If you have in trouble getting stuff, you tend to overbuy it sometimes because you want to have it in stock because you want to deliver as the first priority. So you get yourself in that situation and so you're seeing that clear. So what happens in that situation, the advances in new value products and the RCI we've been doing all this time starts to shine through.

Christopher Glynn
Great. Thanks for that. Given the expansion at SOT over the past few years and your bandwidth capacity to sell, you've, I think, grown your actively serviced technicians. I'm wondering, does that reopen the gate to add franchisees and was U.S. franchisee count — is that pretty stable, as I understand it to be?

Nicholas Pinchuk
It's pretty stable. We're down a few franchisees this quarter, but not many. It's not a factor for government work, Chris, but— and we're probably not going to add people. We believe that our franchisees sell more because we tell them, “You're our guys and if we do well, so will you,” and so we believe that subdividing their opportunity probably isn't the best alternative.

Now we think we have the world covered. We have, what, 3,400 franchisees around the country. So we think we have most of the places covered. I suppose there's the odd place that we might find that we'd add one or two, but really, that's not going to be a program for us. Our way up is to get the guys to be more aggressive and in this instance, to be able to deliver better. We're expanding our capacity, so that should relieve some of the problem, but it's a happy problem, actually, to have people saying, “We're waiting for your tool storage products.”

Christopher Glynn
Yes. And is franchisee turnover still stable?

Nicholas Pinchuk
It's still about the same. It's about the same. I think it's about 10% and you'd say, Chris, what 5% of that is retirements. You'd say 5% is guys pretty much— every year, you'll get that and so 10% is pretty stable. It had been higher sometimes, but now, last multiple quarters has been stable— about that number.

Christopher Glynn
Great, thanks.

Operator
Our next question will come from David MacGregor with Longbow Research. Please go ahead. David MacGregor, your line is open.

David MacGregor
Here we go. Sorry about that, it was on mute. Good morning, everyone.

Nicholas Pinchuk
Good morning.

David MacGregor
Maybe a question for Aldo, but obviously, some huge incremental margins in both Snap-on Tools and in C&I. You referenced the raw material benefit. So, we were expecting to report good margins, but these were certainly above what we were anticipating. How much of this price cost carries forward into 3Q and 4Q? Could you just talk about the trajectory?

Nicholas Pinchuk
I could let Aldo— Okay. Aldo agreed— Okay, you can answer the question, Aldo. Go ahead.

Aldo Pagliari
No. I think, David, I think most of the pricing actions, a bulk of them, a lot ocurred in the rearview mirror. So what you have now, as Nick has mentioned already, when you attenuate the incremental cost of spot buys, they’re not gone completely, but they're greatly reduced. And steel, different grades of steel at different prices, but particularly cold rolled steel, which is used in our tool storage products, has come down and we're able to hold on to the price that was set beforehand. Therefore, the benefit of material cost reductions accrued to the margin. So that's what you're seeing and yes, I think that with a brand like Snap-on and the power of our approach to the market and the demand that Nick described that's out there, I expect that we'll be able to retain these types of margin performance as we move forward. Nothing's guaranteed, of course.

Nicholas Pinchuk
I was watching a show last night and somebody said on the show, it was movie and said, “Electronic prices only go down.” Snap-on prices only go up. We don't drop our prices. I mean it's [indiscernible] because you've got all the promotions and everything. It's hard to put your finger on it, but generally, I don't see us surrendering that too easily.

David MacGregor
Can I just ask how much of that margin benefit, that incremental margin, was a result of the capacity constraints forcing the mix towards more customized tools because that sounds like that's fair

[indiscernible] new capacity.

Nicholas Pinchuk
I don't know. There could be some of that in there. Certainly, the big factor, though— there could be some of that. You're probably right. There's some of that, but the big factor, I think, is the improvements in the face of the idea of no more spot buys, no more of those huge spot buys. So you're seeing that.

Actually, we've been making improvements better than we have been showing for some time because of the material cost and so what you see that is abating. So you're seeing a lot of that. So basically, I don't know where I put it on the foot of more customized product. We did sell a lot of customized products, so that works but we don't necessarily want to back off it.

So when you do have capacity constraints, you do tend to go to that, but on the other hand, when you got capacity constraint, you spend a little more money. You're looking at the SG&A and stuff like that. SG&A is up a little bit and it takes you a little bit to manage through that. So you got some goes ins and goes out there, but there's a factor. But the big factor is RCI.

David MacGregor
So let me just ask you about the organic growth of Snap-on Tools because you report 1% organic growth. When you were talking about the Snap-on Tool gross margin, you say both volume increases and price gains as drivers. So how do we reconcile the volume increases and price gains that you referenced in the gross margin story with the 1% organic growth and essentially flat in the U.S.? Do we just take away from that, that the gross margins were essentially all cost reduction as opposed to revenue growth?

Nicholas Pinchuk
Well, some of this can be plant to plant and production line to production line, but I think you can say in aggregate, that's probably true. That's probably true. You don't get much wind in your sails from that kind of increase. It's not zero though. It's not a zero increase. And so you get some of that. You have some international businesses that came back in this situation. So we had some things happen in that situation. but that's got to be the case. You didn't get that much volume.

David MacGregor
Yes. Last question for me because we're getting at the top of the hour here, but what's the trend in the total number of active stops across the Snap-on system in the U.S?
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Nicholas Pinchuk
Active stocks, meaning what?

David MacGregor
Stops. I mean a number of actual customer locations. I know you track that. So I'm just wondering what's the trend there in terms of the total number of stops?

Nicholas Pinchuk
I don't have that number right here, but my feeling is it's moving upwards, but we don't really count the stops so much as we count the technicians and the technicians are growing. So we're getting more technicians.

David MacGregor
Great, thanks very much. Thanks for taking the questions.

Nicholas Pinchuk
Yes.

Operator
Our next question will come from Luke Junk with Baird. Please go ahead with your question.

Luke Junk
Good morning. Thank you for taking the questions. Nick, Aldo, good to talk. Nick, first question, I'm just wondering the capacity constraints you ran into the Tools Group this quarter. How that might play out in the near term versus the mix of business that you'd expect in the third quarter and what would typically be little bit of a seasonal decline sequentially and if I listen to the cadence in terms of things coming online either end of this month or into the early part of the fourth quarter, it sounds like you think you'll be in a better position in the fourth quarter overall from a supply chain standpoint. Am I hearing that right Nick?

Nicholas Pinchuk
Sure. We think the fourth quarter— as I've said, probably on every one of these calls in the second quarter, that the third quarter is always kind of squirrely because you've got the franchisee conference, then you got vacations, which if franchisees take long vacations that can affect it a little bit or they take short vacations also can affect it. So you have that in place what the Snap-on franchisee conference occurs. Now we might be seeing some little bit of anticipation for that as we did in the power tools.

Certainly, power tools is not going to be affected by capacity. I don't think. So those new launches shouldn't be affected by capacity and the capacity is coming online. So we'll see how efficacious that is. We tend to be pretty good in putting these things in place. So I think you'd be right that the fourth quarter would be where we'd be hitting on more cylinders.

Luke Junk
And then for my follow-up, just hoping you could comment on the trends that you saw in C&I. You mentioned Europe briefly and Asia, you highlighted the weakness that you saw in Japan. Hoping you could just expand on Europe more broadly and Asia-Pacific, excluding—

Nicholas Pinchuk
Actually, the European business was up in RS&I and interestingly, the UK and the Tools Group came off of probably— it was flat on its back last year, I think. So it came back some, but the C&I business was a little bit up and down in Europe. So one of the things that was positive was critical industries. So the critical industries in C&I, boy, volumes and margins, new capacity in place, smoking, but the other business is up and down. European hand tool-based business in a number of different environments like the Nordics and so on, probably affected by concerns over the war and so on. That is a little bit up and down and not very robust. I don't know where that's going, to tell you the truth. Your guess is as good as mine. I think we're well positioned, but I do think there are macros there that are hard to predict.

In Asia-Pacific, boy, it's hard to find too many areas that aren't— maybe India you would say is doing well, but generally, a lot of areas seem to be having trouble creating a recovery from the COVID for a number of reasons. China, I think it's well documented. Everybody talks about China. We're holding our own in China, but Japan, the currencies make a little different. The yen is pretty weak versus the U.S. dollar and has been for a while, and it's weakened recently versus the RMB.

So products into Japan are not so competitive in some cases. So that weakens that and the market itself is down somewhat. So you're seeing those kinds of things play out. I think Asia will start to work its way out because I don't think it has a long-term problem like the war or like some concerns over— or where they're going to get their fuel or energy. So I think that fixes itself more quickly than Europe. I think in

Europe, I'm not sure where it's going.

Now the auto repair business in Europe in terms of the repair shop owners and managers is pretty good, particularly collision. The industrial business, pretty good; the critical industries business, but the basic up and down the street business and our tools business, kind of [audio disruption].

Luke Junk
Okay, I will leave it there. Thanks, Nick.

Operator
And our next question will come from Gary Prestopino with Barrington Research. Please go ahead with your question.

Gary Prestopino
Hey, good morning, everyone.

Nicholas Pinchuk
Good morning, Gary.

Gary Prestopino
Nick, I know we've talked about this ad nauseam, but I'm a little bit confused here about what's going on in the Tools Group. Could you maybe just talk about the product segments where you had these capacity constraints? I think you mentioned tool storage, but what other products were you having or segments where you're having issues with capacity constraints?

Nicholas Pinchuk
Hand tools. Hand tools is at an all-time high and some particular products are at an über all-time high, like certain versions of the sockets. And so when you got those sockets, sometimes your promotion is ready to go on a particular array of sockets as kind of a new package that will address a certain problem and you just don't have the capacity for, say, half of the package. So that's what happened to us in this situation.

So it's basically those guys bumping up against it and then over the top in tool storage, the industrial business starting to expand its capacity and being able to source more of other products from other people and so on, and break— basically, the industrial business had been bound up in a Gordian Knot of shipments. I talked about it many times in the quarter. They cut that Gordian Knot this quarter and started to ship more and that created more demand on the tool storage and hands tool plant as well.

Gary Prestopino
Okay. And then as we work through the year, you're bringing on capacity and this should alleviate as we work through that?

Nicholas Pinchuk
It should. Yes. We've been saying this for a long time. It's just the particular ordering— this ordering pattern in this quarter bumped us up against it quicker than we thought. That's simply it.

Gary Prestopino
Were the hand tools typical run-of-the-mill hand tools or were they more, like you said, customized? I'm just trying to understand how—

Nicholas Pinchuk
No, they were not so much the standard-standard, but there's a lot of lower run,…by that I mean shorter production run hand tools in these kinds of mixes and when you get into them, they eat up a lot of capacity. You see what I mean because you got to stop and start the machines and so on. So it's not a linear thing necessarily. If it was just standard-standard products, we probably could have shipped out of inventory if we needed to, but these other products make it difficult.

But we saw this coming. It was just this particular one with the—the idea that people weren't buying as many power tools because they're waiting for the new stuff shifted the mix towards these— even more towards hand tools and power tools. I mean tool storage.

Gary Prestopino
Okay. I just want to understand what's going on there. And then over time, as things have evolved here, do you have any numbers or metrics you can circle around? What percentage of what you're doing in the tools or even across the whole company is going into collision repair versus mechanical repair?

Nicholas Pinchuk
Well, let's put it this way. I would say collision repair is about— let me think about this. Equipment, the undercar equipment business, is about one-third of RS&I, and I would say about maybe 20% to a quarter of that is collision repair. That kind of ballpark and growing, though because equipment has been growing double-digits for some time. It was up double-digits again and its margins were up nicely again.

Gary Prestopino
Okay, thank you.

CONCLUSION

Operator
This concludes our question-and-answer session. I'd like to turn the conference back over to Sara Verbsky for any closing remarks.

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

Operator
The conference has now concluded. Thank you very much for attending today's presentation. You may now disconnect your lines.