

Snap-on Incorporated
2022 Fourth Quarter and Full Year Results
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CORPORATE PARTICIPANTS

Sara Verbsky – *Vice President, Investor Relations*

Nick Pinchuk - *Chief Executive Officer*

Aldo Pagliari - *Chief Financial Officer*

PRESENTATION

Operator

Good day, and welcome to the Snap-on Incorporated 2022 Fourth Quarter and Full Year Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, 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. Please note that this event is being recorded.

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

Sara Verbsky

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

As usual, we have provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the webcast viewer as well as on our website, snaon.com, under the Investors 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?

Nick Pinchuk

Thanks, Sara. Good morning, everybody. Well, it's been some year and quite a quarter. China knee-jerking from zero COVID and strict lockdowns to living with COVID in an unprecedented virus explosion, diminished but still continuing spikes in the supply chain, the ongoing Ukraine war, the reemergence of Brexit and now the rising shadow of a recession, echoing in almost daily public pronouncements. And thru it all, Snap-on delivered another in a long line of encouraging performances.

We'll go through it. Starting with the highlights of the quarter and the year, I'll give you my perspective on the results, the market environment, and our progress. And after that, as usual, Aldo will move into a more detailed review of the financials.

The fourth quarter was encouraging. We believe it emphatically demonstrated the continuing resilience of our markets and the capability of our operations to achieve in the face of difficulty, wielding the power of our product, our brand, our people, and our strategic position. It all combined to serve as clear evidence of what we already know: Snap-on is a unique and extraordinary operation. The results for the fourth quarter serve as more testimony to that fact, and they are an unmistakable demonstration of our

continuing momentum. Of course, we did witness differences from group to group and within the operations, but we believe the overall results are compelling. Fourth quarter sales of \$1 billion, \$155.9 million as reported, up 4.3% from 2021 included a substantial impact from unfavorable foreign currency of \$37.7 million, a 370 basis point headwind, and an organic sales increase of 8% over last year, and that represented a 22.7% rise over 2019. This now represents the corporation's tenth consecutive quarter above pre-pandemic levels. It's a trend of, I think, some significance in uncertain times like these.

From an earnings perspective, our opco operating income for the quarter, including the impact from unfavorable foreign currency, was \$248 million, up 6.8% compared to 2021 and 44.7% above the 2019 pre-pandemic level. The OI margin for the quarter, it was 21.5%, improving by 50 basis points over last year and 360 basis points over 2019. It's the same resiliency that's been demonstrated over the years as we paid dividends every quarter since 1939 without a single interruption or reduction. In fact, in November, our dividend was raised by 14.1%, marking the 13th straight year of increases. It's more testimony of Snap-on's consistent performance through varying environments. This is just another one of them.

For Financial Services, operating income of \$63.9 million was down from the \$67.2 million in 2021. That decrease reflected our forecasted return to more historical provision levels, but all while keeping delinquencies flat to last year. And our overall quarterly EPS reached \$4.42, \$0.32 or 7.8% above 2021 and up 43.5% compared with 2019. Well, those are the numbers.

Now to the markets. We believe that automotive repair remains very favorable. It makes sense. The average age of vehicles continues to increase. The complexity of repairs is rising steeply as new platforms enter the vehicle PARC, and enter they have, starting in dealerships. And we have seen a resurgence in dealership projects despite a still recovering supply chain. Changes in internal combustion, the rise of electric vehicles, and the expansion of vehicle autonomy have made dealerships eager for new equipment to support complex repair tasks of the evolving vehicle PARC, and we see it.

Projects and powertrains aside, dealerships continue to see healthy demand in repair, in maintenance and in warranty, driving the need for shop expansion and more technicians. You can see it in the macros: repair spending, technician numbers, technician wages, all up. Our dealership segment is expanding. And for our independent repair shops, confidence remains sky high across the board. Shop owners and managers confirm that demand for repairs, for technicians, and for complex skills are all rising, and our sales growth in that sector mirrors that enthusiasm. We believe we're moving into what can be called the golden age of vehicle repair, and our Tools Group and RS&I group are uniquely positioned with the product, the brand, and the people to take full advantage, even in the midst of turbulence. You can see it.

Now for the critical industries, where our Commercial & Industrial Group, or C&I operates. We continue to see progress but the group spans wide jurisdictions. And as such, various headwinds across the geographies and the industries have attenuated some of those gains. For geographies, Europe with the war and the reemergence of Brexit and China impacted by the COVID chaos were a stark contrast to relatively strong North American markets, a lot of variation. And the range in variability among sectors also continue to be a challenge. Natural resources, heavy-duty fleets, general industries and international aviation were robust, but the military area remain challenged. Overall, however, order demand for most of the critical industries has been strong, and we believe that's a great signal for C&I's future. So C&I does have challenges across the geographies and the segments, but we have made advancements, and we see opportunities for tomorrow.

Going forward, we believe we'll keep moving down our runways for growth, our wide runways for growth. And as we proceed, we're also fortified, as all of you have heard before, by our Snap-on Value Creation processes, safety, quality, customer connection, innovation and rapid continuous improvement, or RCI. They're the core processes that drive our ongoing progress, especially customer connection and innovation, growing our product line. You see, our franchisees and our direct sales force possesses a strategic advantage, standing face-to-face with professional techs, understanding their individual challenges, showcasing the solutions created by our powerful products and demonstrating their use.

Our resilient markets do represent a significant opportunity, and we are there to take advantage, up close and personal, like no one else, right where the jobs are done. And it's working. 2022 was a year of substantial headwinds, but our team prevailed, with the year achieving new heights. Sales up \$4 billion, \$492.8 million, up 5.7%, reflecting an organic gain of 8.7% compared to 2021 and a 20.2% organic increase versus 2019. The opco OI margin for the year was 20.9%, up 90 basis points from '21 and exceeding the pre-pandemic margins by 170 basis points. As reported, earnings per share for the year were \$16.82, up 12.7% from '21 and represented a rise of 35.5% from 2019. It's all evidence of the decisive and ongoing momentum that marked the year and the quarter.

Now the operating groups. Let's start with C&I. Fourth quarter sales of \$343.2 million for the group were down \$15.5 million versus last year, including \$21.2 million in unfavorable currency and a 1.7% organic gain. Our Specialty Tools division was a clear positive with double-digit gains. Precision is becoming essential every day, and our torque products are putting us right in the middle of that rise. Our critical industries also showed strength, especially in North America, propelled by growth in natural resources, general industries, and heavy duty, partially attenuated by lower military activity.

Outside North America, it was a different story. SNA Europe was down, and China was diminished. OI for C&I was \$47.9 million, down \$2.2 million primarily from the \$2.3 million in unfavorable foreign currency. The group's operating margin was 14%. It was flat to last year, but still represented an advance of 120 basis points over the pre-pandemic level of 2019, and that was against 50 basis points of negative currency and acquisition dilution.

The specialty torque business within C&I really is making significant strides. Torque is hot, and Snap-on has a widening array of new offerings to prominently participate in that trend, products like our new series of digital torque checkers. It's from our Norbar engineering team. You might remember we acquired Norbar a few years ago, our Norbar engineering team in England, more compact and easier to use, it helps technicians validate the accuracy of torque instruments close to the workplace, saving a lot of time. Our new checkers accommodate torque measurements from 5-inch pounds to 1,500-foot pounds and wrenches from a quarter inch to 1-inch, covering jobs from precision fasteners in a jet cockpit to a heavy-duty bolt on a giant oil rig, a wide range of applications. And its compact steel housing easily mounts in a variety of convenient locations at the point of issuing or in the pathway of the workflow, like tool cribs, aviation hangars and manufacturing cells, making torque checking an easy exercise.

With an accuracy of plus or minus 1%, our new checker increases process quality without work interruption, raises consistency in assembly activity and with a streamlined documentation feature, greatly improves the management of fastening in any application. The initial launch was well received by any operation that relies on precision torque, and there are a lot of them. And as you can imagine, the new checker is right on track to be a Snap-on hit product with sales of \$1 million in the first year. So it looks like it's a pretty strong product for us. C&I, mixed progress, challenged with headwinds, but it did have significant areas of improvement paving the way for future growth.

Now on to the Tools Group. Quarterly sales of \$542.7 million, up \$37.9 million, including 9.5% in unfavorable currency and a 9.6% organic increase, gains in the U.S. operation and continued expansion in the international networks. And it was all led by big ticket items, tool storage and diagnostics both with boffo double-digit gains. Operating earnings for the Tools Group were \$116.1 million in the quarter, \$5.6 million above 2021, and that included \$4.5 million in unfavorable currency. The operating margin was 21.4%, 50 basis points below last year, but that was impacted by currency and by product mix, but it was still a result of considerable strength.

Tools Group again represents the ongoing power and market leadership of our van network. It's written across the financials. And that positivity is clearly and boldly echoed in the voices of our franchisees. I can tell you; I was just at one of our annual kickoffs, it's unmistakable that they're pumped, enthusiastic and confident. They know they are growing. And they firmly believe there's more to be had. And our franchisee health metrics confirm all of that to be true. The quantitative trajectory relayed in that data supports every bit of the positivity—of the positive attitude.

And the franchisees expressed their excitement in more formal ways. During the quarter, we were recognized by the Franchise Business Review, which surveys franchisee satisfaction. And in its latest ranking in their publication, once again, latest annual ranking, that publication once again listed Snap-on as a top 50 franchise, marking the 16th consecutive year we received that award. And internationally, Snap-on was ranked #1, #1 in Elite Franchise Magazine's Top U.K. Franchises for 2023, finishing not only above the U.K.-only franchise systems, but also coming in ahead of a number of very popular global brands. Now that type of recognition reflects, I think, the fundamental strength of our van business, and it would not have been achieved without a continuous stream of innovative new products.

As part of that, Snap-on continues to lead the industry with great tool storage innovations designed to improve productivity and allow techs to personalize their workspace. We're the first to market with the LED PowerTop, brightly lighting the gleaming Snap-on tools like special jewels as each drawer is accessed. It's quite a sight. It enables the techs to show the pride in their work.

And building on that feature, in December we started shipping the first of our new IRIS tool storage units. It's a 68-inch special edition EPIQ roll cab, which allows the technician to adjust the drawer lighting with an infinite array of color selections. It is an eye-catcher, coated in storm gray paint paired with red trim, and besides its appearance, it also features for the first time a specially lit Snap-on logo nameplate. It's innovative, striking. And as for all EPIQ boxes, all of them, it screams functionality. The PowerTop and the PowerDrawer provide 10 electrical outlets and 4 USB ports throughout the roll cab that ensures that all the cordless tools, the lights, the accessories are charged and at the ready. It also features our unique speed drawer for smart, customizable tool organization. It's a very popular and productive feature in the shops. Convenience, productivity and distinction, the IRIS received an overwhelming reception, helping to drive the landmark tool storage quarter we had just recently. It shows that pride really is a powerful salesman. We show that every day.

Well, that's our Tools Group, booming in the U.S., progressing internationally, continuing the stream of new products, building the brand, enhancing the van channel, and moving forward with momentum.

Now for RS&I. In the fourth quarter, our RS&I Group results confirmed what we've been saying all along: Snap-on is well positioned for the ongoing rise in vehicle repair. RS&I sales in the quarter of \$437.9 million increased 11.6%, including \$9.5 million in unfavorable currency and a 14.3% organic gain. 14.3%, boomshakalaka! It was a great performance, and that rise was authored by double-digit increase in OEM dealerships as manufacturers continue to release new models, invest in new equipment, and implement essential tool programs. But our business in the independent garages also

expanded nicely, with double-digit growth in our undercar equipment and in our diagnostics and repair information products, twin pillars of strength. Shop owners need upgrades to follow the changing car PARC, and they now have confidence regarding their futures to act on that imperative and Snap-on is ready to help.

RS&I operating earnings for the quarter were \$110.6 million, up 13.8%. And again, in the operating margin, it was 25.3%, rising 50 basis points over 2021, exhibiting our team's ability to navigate the turbulence, wielding Snap-on value creation, connecting with customers, launching innovation, executing RCI and doing what they're expected to do: keep raising profitability.

One example is our diagnostic business, double-digit growth, led by new products. Last quarter, we mentioned the launch of our game-changing handheld intelligent diagnostic unit, the Zeus+. Well, it's selling at a record pace. It's in hardware and in software subscriptions. It's a great unit that again raises the bar for an advanced repair, providing technicians with the powerful help in troubleshooting and diagnosing the most complex of vehicle repairs. Zeus+ makes those special challenges that take up so much shop time appear quick and easy, and the techs are noticing. RS&I, the repair shops are confident seeing a great future, and RS&I has the products to pave their way.

Well, that's our fourth quarter. Opco organic sales rising 8%, ten quarters of consecutive growth from pre-pandemic levels. Tools Group, demonstrating strength. Organic sales up 9.6% over last year, rising 33.2% from pre-pandemic levels. RS&I, products to meet the needs of the vehicles of today and of tomorrow, activity up 14.3% organically, gains in both OEM dealerships and independent shops. C&I, showing potential for growth despite international headwinds, strong momentum in the critical industries with much more to go. And it all drove a 21.5% operating margin for the overall enterprise, rising 50 basis points from last year and an EPS of \$4.42, up over every comparison. 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 billion, \$155.9 million in the quarter increased 4.3% from 2021 levels, reflecting an 8% organic sales gain, partially offset by \$37.7 million of unfavorable foreign currency translation. The organic sales increase this quarter reflects double-digit gains in the Repair Systems & Information Group, high single-digit growth in the Snap-on Tools Group and low single-digit gains in the Commercial and Industrial group.

From a geographic perspective, double-digit sales growth in both North and South America more than offset weaker demand in Europe. Consolidated gross margin of 48.5% improved 40 basis points from 48.1% last year. Contributions from the increased sales volumes and pricing actions, 40 basis points of favorable foreign currency effects and benefits from the company's RCI initiatives more than offset higher material and other costs. Again, this quarter, we believe the corporation through pricing and RCI actions continued to navigate effectively the cost and other supply chain dynamics of the current environment.

Operating expenses as a percentage of net sales of 27% improved 10 basis points from 27.1% last year. Operating earnings before financial services of \$248 million in the quarter compared to \$232.2 million in 2021 as a percentage of net sales. Operating margin before financial services of 21.5% improved 50 basis points from last year's fourth quarter.

Financial services revenue of \$88.3 million in the fourth quarter of 2022 compared to \$86.9 million last year. Operating earnings of \$63.9 million decreased to \$3.3 million from 2021 levels and included a

return to what we believe to be a more normal level of provisions for credit losses than those recorded last year. Consolidated operating earnings of \$311.9 million in the quarter compared to \$299.4 million last year. As a percentage of revenues, operating earnings margin of 25.1% was unchanged from last year.

Our fourth quarter effective income tax rate of 22% compared to 22.3% last year. Net earnings of \$238.9 million or \$4.42 per diluted share increased \$15.2 million or \$0.32 per share from last year levels, representing a 7.8% increase in diluted earnings per share.

Now let's turn to our segment results for the quarter. Starting with C&I group on Slide 7. Sales of \$343.2 million decreased from \$358.7 million last year, reflecting a \$5.7 million or 1.7% organic sales gain, which was more than offset by \$21.2 million of unfavorable foreign currency translation. The organic growth primarily reflects double-digit gains in the segment's specialty torque business as well as a low single-digit increase in sales to customers in critical industries. These gains were partially offset by a mid-single-digit decline in the segment's European-based hand tools business. With respect to critical industries, gains in sales to heavy-duty fleets, mining, and general industry more than offset lower activity with the military.

Gross margin of 37.7% improved 120 basis points from 36.5% in the fourth quarter of 2021. This was primarily due to increased sales volumes and pricing actions, benefits from RCI initiatives and 20 basis points of favorable foreign currency effects, partially offset by higher material and other input costs. Operating expenses as a percentage of sales of 23.7% in the quarter increased 120 basis points from 22.5% in 2021, mostly due to reduced sales in lower expense businesses. Operating earnings for the C&I segment of \$47.9 million compared to \$50.1 million last year. The operating margin of 14% was unchanged from last year.

Turning to Slide 8. Sales in the Snap-on Tools Group of \$542.7 million compared to \$504.8 million a year ago, reflecting a 9.6% organic sales gain, partially offset by \$9.5 million of unfavorable foreign currency translation. The organic sales growth reflects a double-digit gain in our U.S. business and a low single-digit increase in our international operations. The quarter benefited from robust demand for our recently launched Zeus+ diagnostic platform as well as our tool storage product line. Gross margin of 43.2% in the quarter declined 70 basis points from 43.9% last year. The year-over-year decrease is primarily due to 40 basis points of unfavorable foreign currency effects, increased sales of lower gross margin products and higher material and other costs. These declines were partially offset by benefits from the higher sales volume and pricing actions. As a reminder, the Snap-on Tools Group serves as a distributor for products such as diagnostics, which is made by our RS&I Group.

Operating expenses as a percentage of sales of 21.8% improved 20 basis points from 22% last year. Operating earnings for the Snap-on Tools Group of \$116.1 million compared to \$110.5 million last year. The operating margin of 21.4% compared to 21.9% in 2021.

Turning to the RS&I Group shown on Slide 9. Sales of \$437.9 million increased 11.6% from \$392.5 million in 2021, reflecting a 14.3% organic sales gain, partially offset by \$9.5 million of unfavorable foreign currency translation. The organic gain is comprised of double-digit increases in sales of undercar and collision repair equipment in activity with OEM dealerships and in sales of diagnostics and repair information products to independent shop owners and managers, including those diagnostic sales affected by the Snap-on Tools Group.

Gross margin of 45% declined 110 basis points from 46.1% last year, primarily due to a higher material and other input costs and increased sales in lower gross margin businesses. These declines were partially offset by benefits from pricing actions and savings from RCI initiatives as well as 80 basis

points of favorable foreign currency effects. Operating expenses as a percentage of sales of 19.7% improved 160 basis points from 21.3% last year, primarily due to benefits from sales volume leverage, higher activity in lower expense businesses and savings from RCI initiatives. Operating earnings for the RS&I group of \$110.6 million compared to \$97.2 million last year. The operating margin of 25.3% improved 50 basis points from 24.8% reported a year ago.

Now turning to Slide 10. Revenue from Financial Services of \$88.3 million, including a \$1.2 million of unfavorable foreign currency translation compared to \$86.9 million last year. Financial Services operating earnings of \$63.9 million, including \$900,000 of unfavorable foreign currency effects compared to \$67.2 million in 2021. Financial Services expenses of \$24.4 million were up \$4.7 million from 2021 levels, mostly due to \$4.8 million of higher provisions for credit losses.

While provisions have increased versus the historically lower provision rate experienced last year, we believe that the loan portfolio trends remain stable. For reference, provisions for finance receivable losses in the current quarter were \$12.8 million as compared to \$8.4 million in the fourth quarter last year, yet lower than the \$14.1 million and the \$16 million recorded in the fourth quarters of 2019 and 2018, respectively. As a percentage of the average portfolio, Financial Services expenses were 1.1% and 0.9% in the fourth quarter of 2022 and 2021, respectively. In the fourth quarters of 2022 and 2021, the respective average yield on finance receivables were 17.6% and 17.7%. In the fourth quarters of 2022 and 2021, the average yield on contract receivables were 8.6% and 8.5%, respectively. The blended yield for the portfolio was 15.7% in the fourth quarter of 2022, which is the same as last year.

Total loan originations of \$299.7 million in the fourth quarter increased \$43.4 million or 16.9% from 2021 levels, reflecting a 17% increase in originations of finance receivables and a 16.7% increase in originations of contract receivables. The increase in finance receivable originations reflects the continued strong sales of big-ticket items by our franchisees during the quarter.

Moving to Slide 11. Our quarter end balance sheet includes approximately \$2.3 billion of gross financing receivables, including \$2.0 billion from our U.S. operation. The total global gross portfolio is up 3.4% year-over-year. The 60-day plus delinquency rate of 1.6% for U.S. extended credit was the same as in 2021 and compared to 1.8% in the pre-pandemic period of 2019. On a sequential basis, the rate is up 10 basis points, reflecting the seasonal trend we typically experience between the third and fourth quarters. As it relates to extended credit or finance receivables, trailing 12-month net losses of \$43.8 million represented 2.44% of outstandings at year-end. While this was up 6 basis points from a year ago, it is 47 basis points lower than year-end 2019.

Now turning to Slide 12. Cash provided by operating activities of \$210.6 million in the quarter compared to \$222.7 million last year. The decrease from the fourth quarter of 2021 primarily reflects a \$36.5 million increase in working investment, partially offset by improved net earnings. Net cash used by investing activities of \$67.9 million included net additions to finance receivables of \$47.3 million and capital expenditures of \$22.7 million.

Net cash used by financing activities of \$145.8 million included cash dividends of \$86.0 million and the repurchase of 284,000 shares of common stock for \$65.3 million under our existing share repurchase programs. As of year-end, we had remaining availability to repurchase up to an additional \$362.4 million of common stock under existing authorizations.

Turning to Slide 13. Trade and other accounts receivable increased \$79.4 million from 2021 year-end. Days sales outstanding of 61 days compared to 58 days at 2021 year-end and to 67 days as of the pre-pandemic year end of 2019. Inventories increased \$229.3 million from 2021 year-end. On a trailing 12-month basis, inventory turns of 2.5 compared to 2.8 at year-end 2021 and to 2.6 turns as of year-end

2019. The growth in inventory primarily reflects higher demand, including inventories to support new products. Additionally, given the dynamics of the current supply chain situation, our level of safety stocks and in-transit parts, components and raw materials are up, as are year-over-year costs associated with finished goods.

Our year-end cash position of \$757.2 million compared to \$780 million at year-end 2021. Our net debt to capital ratio of 9% compared to 9.1% at year-end 2021. In addition to cash and expected cash flow 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 2023. We anticipate that capital expenditures will be in the 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 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?

Nick Pinchuk

Thanks, Aldo. Well, that's our quarter and our year. I would say we can characterize particularly the fourth quarter as a period where the hits just kept on coming: sporadic supply shortages, war, Brexit, lockdowns, virus explosion and a constant drumbeat of recession warnings that served up bad news for breakfast every day. You can also describe the recent path as a time when Snap-on clearly demonstrated the resilience of its markets and the power of its businesses.

C&I. Engaging the full range of challenges across sectors and geographies but overcoming, growing 1.7% organically, registering an OI margin of 14%, flat to last year, reflecting the turbulence of the moment but up 120 basis points from pre-pandemic levels.

The Tools Group. Big ticket items surging, organic sales growing 9.6% overall, OI margin at 21.4%, up big from pre-pandemic levels, down from last year but primarily due to 40 points of negative currency and a similar impact from less favorable product mix. Still strong.

RS&I. Success in both OEM dealerships and independent shops, sales up 14.3% organically and an OI margin of 25.3%, up 50 basis points from last year. We said we're well positioned for the comeback in repair shops, and RS&I is showing just that.

And the credit company. OI down, but finance originations growing a strong 17%, and all of it authored strong numbers for the corporation. Organic sales up 8% versus last year, 22.7% versus pre-pandemic levels. OI margin of 21.5%, up 50 basis points compared with 2021 and 360 basis points over 2019. Full year organic sales were up 8.7% and the OI margin for the year was 20.9%, a rise of 90 basis points. And finally, EPS for the quarter up \$4.42, up 7.8% versus last year and 43.5% versus pre-pandemic levels.

The hits did just keep coming, but Snap-on overcame. We exited the year stronger than when we entered, and we left the quarter in December with greater position and strength than we had in early October. We do have momentum, and you can see it in the numbers. We believe our markets will remain resilient, offer ongoing and abundant opportunities, and with our inherent advantages, the breadth and quality of our products, the unique and aspirational nature of our brands, and the considerable capabilities of our experienced team, we believe we will maintain momentum and extend our ongoing positive trajectory throughout 2023 and well beyond.

Now before I turn the call over to the operator, I want to speak directly to our franchisees and associates. I know that many of you are listening. You are the people of work, the individuals whose contributions collectively fostered these results. As I look back over the quarter, over 2022, and in fact over the past three years, it's clear your efforts, as you met the justifiable fear with extraordinary vigilance, helped keep our society and our company from disintegrating while we engaged and prevailed against the COVID. We often say that Snap-on people are unique, special, and consistently make a difference. The past three years have clearly proved it's so. For your ongoing achievement in the past quarter and many others, you have my congratulations. For your continued dedication in enabling the work of our society, you have my admiration. And for your confident commitment to Snap-on and its future, you have my thanks.

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

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we'll pause momentarily for the first question.

And our first question today will come from Luke Junk with Baird.

Luke Junk

Good morning. Thanks for taking my question. I apologize if any of this has been covered in the prepared remarks. I joined the call a little bit late this morning. First question—

Nick Pinchuk

It was really good!

Luke Junk

Thanks, Nick. That's a helpful summary. I'll dive into a margin-related question to start with. And what I'm wondering is, now we've got several commodities, including steel that are off of their highs that we saw in 2022, and can you just help us understand how that might start to flow into your P&L this year, especially in the Tools Group? I know that typically there's at least a couple quarter time lag that's associated with that. Is that still a good way to think about it? And at the same time, still broader inflationary pressures out there. If you could also comment on your approach to pricing as we begin 2023. Thank you.

Nick Pinchuk

Yes, I'll answer the last question first. I think our approach to pricing as we see the situation when we meet the individual timing, like the individual quarters, I think you're going to see a mixed result. You said it correctly that things work its way and some kind of lag into your P&L as you go forward in terms of the pricing. If you look back, you do see a mixed review in, say, steel, for example. Hand tool steel is down some, it's not down to pre-pandemic levels, but tool storage steel is down closer to pre-pandemic levels. So, you see some variation in that. And it doesn't look like they're going to go back up. It looks like you're going to, I would expect to see them, if they go to pre-pandemic levels, maybe that's equilibrium. But if you're above that, we kind of expect it to kind of go downwards.

And you'll see that work its way through and give us some relief going forward. But the timing of that is

a little uncertain based on what you said, associated with the lag. The big impact from the supply chain for us has been the availability of certain items. And so sometimes, even today, even as the supply chain is regularized, you can't find certain things, and you have to go out in the spot market and get it. This particularly bedevils C&I, Tools Group less so, but it's impacted some of the RS&I things from time to time. So supply chain, I would say, in terms of a negative factor is abating but not disappearing as we go forward. That's what I see. So, it's taken some pressure off. It's hard for me to predict, though, about certain supplies that could come up at any time. So, you see that kind of situation.

Luke Junk

Thanks for that, Nick. My follow-up question is around credit. So if you look at credit performance, I mean, it's been very good if we look at delinquency rates in the back half of the year versus normal seasonality that's in the context of what's becoming clearly just more macro risk, generally speaking, originations trending higher. How do you balance credit in 2023 between managing the risk side and pushing on what does seem like it could still be an incremental growth driver for the Tools Group given where we're coming from?

Nick Pinchuk

Well, look, we don't change our policies in terms of risk based on the externals so much. We don't raise or drop the credit standards associated with do we need sales or not. We pretty much focus on the same customer and look at it in the same way going forward.

I think what you're seeing in rise of originations, it has nothing to do with necessarily the credits to the customers. I think everybody says that professional technicians have had a pretty strong balance sheet for some time. I think what you've seen is a combination of compelling product and our technicians seeing the great opportunities they have: demand for technicians up, wages up, and the repair systems up. You can see it in the macros sort of getting more confident to invest in big-ticket items. I think to the extent you see originations, that's not driven by any credit policy, that's driven by the big ticket items. And whether we use credit or not will be dependent on how well the products are selling in the marketplace.

Now right now, the thing about it is, is that if you have big ticket items leading the way in a robust quarter, and they were up double digits-- "*boffo*" was the word I said. I think that says a lot for confidence because what my experience is, and I've been here a while, my experience is that when things start to look gloomy a little bit in professional technicians, the need doesn't go away but they tend to shift more to shorter payback items, not big ticket items. That's what happened in the great financial recession. So the fact that we had a big ticket boom, I think, gives me a lot of great confidence in our future.

Luke Junk

I will leave it there. Thanks for the color, Nick.

Nick Pinchuk

Sure.

Operator

And our next question will come from Elizabeth Suzuki with Bank of America. Please, go ahead.

Elizabeth Suzuki

Thank you, guys. The automotive repair industry has arguably had some benefit from the surge in used vehicle values that caused some older vehicles to stay on the road for longer and vehicle owners to invest in maintenance. So, I guess as used vehicle values are falling and potentially some more new

vehicles start to get on the road and get into dealerships, I mean is Snap-on agnostic to that shift in vehicle aging?

Nick Pinchuk

Yes, really, I think we serve the dealerships just as well. I mean, you could argue that older cars have more repairs and maybe be entitled to that. But in reality, it's a long-wave event, Liz. The fact that used cars were being held longer, we don't really think that makes that much a difference. We followed it for years. And when you look at a year or a quarter when, let's say, scrappage is up or scrappage is down, it doesn't seem to affect the numbers at all.

So, for us, I think if you said, okay, the car PARC is going to get younger over time, then that would be some pressure on repair. But the car park has gotten older every year since 1980. So I don't think that's going to change very much. And I would not put the shift to used cars as much of a factor in the strength of the automotive repair market from our perspective. So I think any change from that is not going to make a difference, really. And we do serve the dealers. Revenue from the dealerships in the Tools Group actually almost dead-on reflects the amount of repair that they have as a percentage of the total repair done in the country. So, we're kind of agnostic between dealerships and independent repair shops.

Elizabeth Suzuki

Got it. Okay. That makes sense. And then just a question on capital allocation. And I'm curious to get your thoughts on the company's current appetite for M&A and which segments you feel are potentially more fragmented and where Snap-on could continue to roll up smaller businesses and what the pipeline might look like currently.

Nick Pinchuk

Well, look, I think we have a pipeline. We have a number of prospects we always look at, but what we do is we look to say we have runways for growth, enhance the van channel, expand with repair shop owners and managers, extend to critical industries and build in emerging markets. And we're always looking for something that's operating in the critical task space, where the penalties for failure are high, in other words, not DIY, but professional space, that can advance our position along one of those runways. There isn't much in the Tools Group because the Tools Group is already in a strong position there and it doesn't need too much. And in emerging markets—maybe in emerging markets now that's going to start opening up with all the turbulence that's been floating around there. But our two sweet spots in this have been in expand with repair shop owners and managers, that's adjunct to RS&I, or extend to critical industries.

And when we look there is give us a product that gives us more to sell to those customers or a new technology that's important to the customers or gives us a presence with customers. So, for example, I mentioned Norbar. Norbar is an acquisition, which got us bigger in torque. It's critical. It's a technology we could use some help in at the top end. So we acquired it and it was a great success story. You can see the same kind of thing in RS&I with the acquisitions of Dealer-FX, where we wanted to beef up our software position in dealerships. One, because it's a profitable situation; but two, because it gives you a strategic advantage in terms of the visibility of new products that are going to enter the market just as you talked about, the new products, you get a better view of it. So that's the kind of thing.

So, things that will advance us down those runways for growth are things we have money for, and we have no shyness about acquiring things. big or small. But we're careful. We take care of our money. So, we don't transform the company. We're looking for coherent acquisitions. And there are a bunch of those. But sometimes when we look at something that is only 30% what we do or sometimes it isn't where we thought it was and we decided we don't want to have it, other times we do. In case of Norbar,

Dealer-FX, we thought positively.

Elizabeth Suzuki

All right, great. Thank you, Nick.

Nick Pinchuk

Sure.

Operator

And our next question will come from Scott Stember with MKM Partners.

Scott Stember

Good morning, guys, and thanks for taking my questions.

Nick Pinchuk

Sure, Scott.

Scott Stember

Nick, you talked about the big-ticket items really driving the show for the Tools Group, but how did the hand tools perform in the quarter?

Nick Pinchuk

Hand tools were flat. So hand tools had been booming. They were like going wild in the last year and the first part of this year, and believe it or not, they're the highest margin business in the hand tools. And so, they're great. But when they back down a little bit, that puts a little margin pressure on them in the Tools Group. Flat is okay, though because they're really still strong. But tool storage is a great margin business, and that was up strong double-digit-- in fact, best tool storage ever. In fact, I had a guy telling me, I was out talking to the sales guy, and he told me he could sell every tool storage unit I could build for him. Our backlog is exploding in tool storage. So, we can sell a lot of them. And that doesn't have much effect on margin.

The real margin, the source of the margin comment here was diagnostics. Diagnostics makes a lot of money for the corporation, but the Tools Group shares the margin with RS&I. Remember, RS&I makes it and sells it to the Tools Group. So, from a pure Tools Group orb when you're looking at diagnostics, that margin is a lower one for them. And so the flatness of hand tools and the rise in diagnostics created that margin pressure that moved it down somewhat in this period. But we thought this is great. It's one of the reasons why we're at 21.5%, one of the reasons why RS&I was up 50 basis points, you see, because diagnostics sells well for them. So that's sort of the way.

The other thing, as I said before, I want to emphasize, boy, I think it's a good sign for the future that big ticket is strong. Now you might argue, okay, diagnostics had a special case because we launched the Zeus, and it's the best thing since sliced bread and everybody loves it. But the fact that tool storage is selling well really indicates an underlying confidence in the customer base, which speaks well for our situation.

Scott Stember

Got it. And then just last question. What's the relationship of sell-in versus sell-through off the van?

Nick Pinchuk

Yes. Look, we look at these things. They're about in the range where we like to see it, about sort of

equal. So, when you look back from sell-in to sell-out, we see that being about balanced. Now it always goes up and down a little bit every quarter, but this is kind of in the range. I think this quarter, it's about equal.

Scott Stember

Got it. Thanks again.

Nick Pinchuk

Sure.

Operator

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

David MacGregor

Good morning, gentlemen.

Nick Pinchuk

Good morning, David. How are you doing?

David MacGregor

I'm well, Nick. You're continuing to expand the lexicon of the contemporary CEO, boomshakalaka—that's impressive.

Nick Pinchuk

I had to do something special.

David MacGregor

Listen, let me ask you about your balance sheet. Your working capital investment continues to grow. I can appreciate you've got more inventory in transit and safety stock. But can you talk about your plans to harvest that cash? And is the inventory accumulation concentrated within specific lines of business or specific products? And how much of that is tool segment versus the other two segments?

Nick Pinchuk

I like our inventory because we have a lot of faith in the future, but Aldo has got to answer a question, so I'll let him say something here. Aldo, why don't you say something?

Aldo Pagliari

Well, David, if you're looking year-over-year, yes, the Tools Group makes a major portion of it, but it's not all of it. But actually, the Tools Group has their inventories kind of reflective of the fact that they've had very consistent organic growth. And therefore, I think it's suitable. If you look at some of the other areas where we're investing, I mentioned in my prepared remarks, it's not insignificant the amount of money that's tied up in in-transit inventory and safety stocks. Again, Snap-on has made a strategic decision to err on the side of availability. So that is priority #1. So, a long answer to your question, we think the inventory is appropriate given the opportunities we see in front of us and the fact that we don't want to miss on the opportunities that present themselves as we go forward and not have disruption from the supply chain.

Now again, Snap-on is blessed, for lack of a better word, with we're not a typical consumer retail-oriented company, and therefore, we're not subject to the fashion sense, as I like to say, many other companies have to be concerned about. So our product doesn't really obsolesce on the shelf, so to speak. I mean, yes, you have to update the algorithms in a diagnostic unit or an alignment machine, but

pretty much we feel pretty confident that making an investment in inventory is going to pay off and being able to capture sales in projects or programs that manifest themselves as we go forward.

David MacGregor

I can appreciate that you need that inventory to support the sales activity, but it continues to grow. And I guess the question is, at some point, do you have enough? And at what point if any, is there an opportunity to harvest that cash? Or is this kind of a structural step-up?

Aldo Pagliari

There's probably opportunities to harvest it, David, you're absolutely right, but I wouldn't model it that way. In other words, I just told you what our strategic decision is. And trust me, you can have even more inventory, you will never have exactly the right thing at the right time. So you have to be prepared to have a flexible factory and a flexible distribution center because of 80,000 different SKUs, impossible to forecast with the accuracy you would like. And then you multiply the statistical probability of having them when you have to put arrays of kits that could have 100 to 200 pieces together, and you can see what drives the need for a lot of products. And then on top of it, you have spare part requirements sometimes imposed by regulations. So if you're going to sell machines that have a life of 10-plus years such as lifts and alignment machines, tire changers, wheel balancers, there's obligations behind the scene to keep ample supplies of spare parts on hand.

So you put that all together, and again, we will err in favor of availability. There could be opportunities to harvest. I'm just saying that we don't model ourselves cash flow growth from reduction in inventories, even though that certainly is theoretically possible.

David MacGregor

Good. Let me ask you about growth, and you mentioned the improving supply channels. How much of the growth in each segment would you estimate is driven by shipping from backlogged orders rather than new orders?

Nick Pinchuk

Well, look, certainly isn't much say in the critical industries. So, our backlog just keeps growing there. That's because they keep being bedeviled by the supply chain disruption. That's sort of the thing I was saying. Our backlog is really strong there. And I don't think much is in the Tools Group. Our backlog in tool storage is at all-time high, and we're actually expanding two of the plants in the Tools Group this year to try to keep up with this whole situation. You can look in different places like you'd be entitled to the idea that, geez, I think Europe is a little bit under the weather. So you see that kind of thing there, but the U.S. seems to be booming to me.

So, I don't know. It seems to me as though I think you can look at it that way, the U.S. is pretty strong. And look, we have real confidence in the future. That's why we're expanding our capabilities here. If I could expand more tool storage, I would tomorrow. I think I said before, one of the top sales guys said he could sell everything I could give him. So I think we're sitting on some pretty good strength in that situation. So I think you called it book-to-bill last time. I think that's pretty healthy in the U.S., a little more turbulence in Europe.

David MacGregor

Last question. Okay. Thanks, Nick, last question for me. Just the 10-Q is not out yet, so, Aldo, maybe if you could just give us the finance receivable charge-offs. And then just how were overrides this quarter?

Aldo Pagliari

Overrides are not as dynamic as what they've been in the past. Again, that decision is made with the franchisee. They've been a little bit more conservative compared to the 2016 to 2019 window. We still think personally that it's a good bet because we have a lot of metrics behind in process that kind of gives a higher sense of collectibility on things like that as compared to other companies that might be more upstart, so to speak, when it comes to lending to the credit profile of mechanics.

But to directly answer your question, overturns returns are not as high as what they've been in the pre-pandemic world. And the charge-offs, I think I made a remark in my prepared remarks. The charge-offs, if you look at the provisions, they're actually narrower. I think we're about 4-point, what was it, \$4.4 million difference in the rate of provision. The differential between charge-offs is actually less than that. What drove the provision up a little higher is actually with the significant increase in originations. We, from experience, have to book extra reserve provisions because of that because while everything starts out well, you know there's going to be a need for some reserves. So, the fact that you had high originations in the quarter actually drives a higher provision as well. So probably the increase year-over-year is about \$1.1 million or so of higher provisions just associated with higher originations.

David MacGregor

Right. You provisioned pretty aggressively back in 2020, which was to your credit, but you've been working that down with charge-offs exceeding provisions for 8 of the 9 last quarters. So, kind of getting back now to pre-pandemic level.

Aldo Pagliari

No, no, that's what makes the comparison tougher now, David. Exactly right. Probably by the end of Q1 of 2022, the reserve was probably reduced because we finally realized we didn't need as much as what we had provided for in 2020 and 2021. And that's why I like to use the expression, we're returning to a more normalized rate of provision, and that's what you kind of see now.

David MacGregor

Thanks for taking my questions.

Nick Pinchuk

Sure. Have a good day.

Operator

Our next question will come from Bret Jordan with Jefferies.

Patrick Buckley

This is Patrick Buckley on for Bret Jordan. In the C&I business, are there any other areas internationally to highlight? You've spoken about a bit here with the European hand tools. But is the weaker economic environment, the main drag there or is something else driving that?

Nick Pinchuk

It's the weaker economics. The U.K. has got a whole bunch of problems, the revolving-door prime ministers and so on, and that kind of thing, and it tends to be more organized around the Northern parts of that business. I think driven in the fourth quarter pretty much by a lot of angst, I was in Europe in the fourth quarter, over the fuel situation, and that weighed heavily on the people. And I think the whole idea that the recession is coming, the recession is coming there has kind of hit them.

You have China who-- It's chaos in China. I mean, those guys went from being six weeks in their apartments to all of a sudden to let everything go, come to work with COVID. And three-quarters of the

population, some people say, got COVID. So I think standstills because of the lockdowns in various cities and standstills because everybody is getting it. So that thing has been afflicted. So, I'm not sure how quickly it comes back. So, you have that.

The other international markets like other parts of Asia, like Southeast Asia seem pretty good in that situation. So I think it's just COVID in Asia, particularly China, and the general sort of combination of recession is coming, fuel angst in England, reemergence of now we're out of COVID, the Brexit problems reemerge and the whole idea of the war is there kind of cast a pall over Europe. Although lately, I just heard some data that said that GDP is going to grow in Europe higher than other places, I don't know. I'm from Missouri on that one. I think Europe is a little weaker than maybe has been reflected in that.

And then one other thing you do see, I think I said this before, we have a strong demand in the critical industries. If we could source a little better, if we didn't have the varying disruptions of what's in supply, we would have been much stronger in this quarter and in past quarters. So one of the things that casts an overhang on the sales and puts a hang on the margins because of you have to pay for the spot buys and they don't always come in. And that's really in the critical industries where if you don't realize, there is our custom kits with maybe 200 or 300 items in them, and they must be shipped complete. So if you don't have 1 or 2 of them, we can't ship.

Patrick Buckley

Got it. That's helpful. Thank you. And then maybe could you talk a bit more on the subscription side of the RSI business? How sizable is that today? And how does the growth outlook there compared to the second?

Nick Pinchuk

The growth outlook is pretty good. the subscriptions are going up. I mean, they're going up through the roof. But the thing is, remember that, you may or may not realize this, that the former version, and still we do some of this is, we would sell what we call, not subscriptions, but titles. So every six months, we come out with a new software addition, and technicians could buy it for their diagnostic unit or not. And we're transitioning from that sort of every six months or every year pop to, okay, pay me every month. And so, there's some balance in that.

But software is growing in the situation, and we can see some positivity in that regard. And so that's one of the things that is starting to help out the RS&I margins. In fact, I think we want to make sure we focus more on that going forward. So I think that's one of our great opportunities. We see a lot of opportunity in things like dealership software and independent repair shop software. And the Mitchell 1 business, which we didn't mention in this, is still growing like clockwork. It's growing nicely and its profitability is strong. It's just not up in the double-digit range, but the subscription business is growing nicely.

Patrick Buckley

Great. That's all I have. Thank you.

Nick Pinchuk

Sure.

Operator

And our next question will come from Ivan Feinseth with Tigress Financial Partners.

Ivan Feinseth

Thanks for taking my questions, and congratulations again on another great year and a great quarter.

Nick Pinchuk

Thank you.

Ivan Feinseth

So, I have just two questions. One, as far as new product development, where do you see going, as car onboard ADAS systems continue to grow increasing diagnostic and calibration capabilities inside, let's say, Apollo and Zeus? And then also the CEO of General Motors has said many times she envisions \$50 billion in revenue coming from software and subscriptions, especially as cars have increasing software-defined functionality. And the dealerships will have to become an integral part of that equation. So how do you see that benefiting dealer—

Nick Pinchuk

Well, I think it benefits us greatly because look, it isn't a \$50 billion example, but we do have examples associated with just what you said, ADAS, the advanced driver assistance systems, and the calibrations associated with that. That's sold, enabled both through our diagnostics, like you said, like Zeus and Apollo in those, and it's enabled through our undercar equipment business. And those are the two businesses that paced the RS&I group, they were both up nice double digits. And really the software and the physicals associated with calibration have been helping drive the situation in undercar equipment and the input around ADAS systems in Mitchell 1 and in the diagnostic systems has helped drive their attractiveness.

And as more of that goes in, those products are going to get more and more essential to the technician. You see, what you're saying, I think another way to talk about this, Ivan, is this, is that right now, let's say, if you look at the total car PARC, like maybe 45% of the repairs require a diagnostic unit. But if you look at new units, it's like 80%. And as software starts to rise, more and more of the places where we have leadership in terms of repair information and in the software that's going to wield that information and the calibration will be important for us. And that's all making money for us now. And the wider it gets, the more we're going to have in that situation.

So, we're developing products along that line. One of the things that you don't even think about is in collision. I think you know this very well. But the thing is right now, new cars are like a neural network of sensors. And if they get dinged, you get your bumper dinged, it's a major operation to recalibrate it and reseal the sensors and so on. And that's driving a lot of the undercar activity in RS&I. So, we're already seeing that. And so, we're focusing on that stuff as well. A big portion of our business now, or development now is associated with software. And you're going to see that we're going to focus on it more and more as we go forward.

Ivan Feinseth

I believe software sales is going to be an increasing opportunity for you, so I'm excited for it.

Nick Pinchuk

Yes. We're going to make sure we get big focus on it. But I think we already have a pretty good position in it. We just see as it develops, these are going to create opportunities that are going to lay out there in front of you.

Ivan Feinseth

Thanks again and congratulations again.

Nick Pinchuk

Thanks a lot, Ivan. Take care.

CONCLUSION**Operator**

And this will conclude 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 on [snapon.com](https://www.snapon.com). As always, we appreciate your interest in Snap-on. Good day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.