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SNA.N - Q3 2022 Snap-On Inc Earnings Call

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OVERVIEW:

Co. reported 3Q22 net sales of $1,102.5m, net earnings of $223.9m and diluted EPS of $4.14.

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PRESENTATION

Operator

Hello, and welcome to the Snap-on Incorporated Third Quarter 2022 Results Conference Call. My name is Caroline, and I will be your coordinator for today's event. Please note, this call is being recorded for the duration of the call. (Operator Instructions)

I will now hand over the call to your host, Sara Verbsky to begin the conference.

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

Thank you, Caroline. Good morning, everyone. Thank you for joining us today to review Snap-on's third 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 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 (inaudible) us on our website, snapon.com, under the Investors section.

These slides will be archived on our website along with a transcript of today's call. Any statements made during this call relative to management's expectations, estimates or beliefs or that otherwise management or the company's outlook, plans or projections are forward-looking statements and actions to 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 an 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 T. Pinchuk - *Snap-on Incorporated - Chairman, CEO & President*

Thanks, Sara. Good morning, everybody. As you know I'll start the call by covering the highlights of third quarter, I'm going to give you an update on the environment and the trends we see. I'll take you through some of the turbulence we encountered thinking about (inaudible) Aldo will provide a more detailed...

Unidentified Company Representative

He got a better game see how well dollar tree. Apparently they were unhappy with them leave in advance.

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

Story of the Snap-on core -- Apparently, we have some cross-talk we're hearing here. But the story of the Snap-on quarter is momentum overcoming challenges. Momentum rooted in the resilience of our market, the capability of our experienced team and the tactical and strategic advantage in our product, our brand and our models, all coming together to create considerable and ongoing strength. In effect, the third quarter once again demonstrated our ability to continue a trajectory of positive results despite the headwinds, and the numbers they say it so.

Our reported sales in the quarter of $1.1025 billion were up $64.8 million or 6.2% versus last year, including $39.1 million of unfavorable foreign currency. Organic sales grew 10.4%, with gains in every group, our ninth straight quarter of year-over-year expansion. And if you compare it to the pre-pandemic levels of 2029 -- 2019, you see a clear and unmistakable upward drive versus 2019 sales were up 22.3% as reported and 22.8% organically, continuing our positive trend and accelerating our expansion, demonstrating that we're only getting stronger every day.

I did say momentum. Quarter also bears the mark of Snap-on value creation processes, safety, quality, customer connection, innovation and rapid continuous improvement or RCI. Once again, they all combine to offer significant progress. And progress to what? Opco operating income of $223.5 million increased $22.2 million from last year, and the Opco operating margin was 20.3%, up 90 basis points from last year and rising 170 basis points over 2019.

For financial services and operating income of $66.4 million compared to the $70.6 million of last year, a decrease reflecting the forecasted return to more usual provision levels. And that result, combined with OpCo for a consolidated margin of 24.4%, up 20 basis points from last year and 120 basis point improvement from 2019. The quarterly EPS, it was $4.14, rising 16% over the $3.57 from a year ago and 39.9% over the $2.96 recorded in 2019, a significant gain. I said it before, and I'll say it again. We believe Snap-on is stronger now than when we entered this great withering, and the third quarter results are an unmistakable confirmation of that fact.

Well, those are the numbers. Now let's speak about the markets. Auto repair continues to remain strong. The key metrics are all favorable, spending on vehicle maintenance repair, the vehicle technician comp and technician wage is up, up and up again. It's no wonder, it's no wonder the repair industry is resilient. Repair spending is rising. The cars are more complex. They need more repairs, and it costs more. The technician count is at its highest point in 3 decades, and shop owners keep telling me they need more, many more.

Wages continue to grow, and they simply reflect the increased demand for the skills that are now necessary to complete critical repair [caps]. It's never been more evident that repairing a modern vehicle with the new technology is difficult. It's an exercise of extraordinary skill. And the salaries are rising to show it.

Auto repair is resilient. When I meet up with the people at the shop, as I often do, our franchisees and our technician customers, you can feel their exhilaration in the now and their confidence in the future. And they're making sure they can participate in that future by being ready with the tools they need.

Vehicle repair, it's a space filled with opportunity. You can hear it in the optimism in the voices of the shop, and you can see it clearly confirmed in Snap-on's performance. But it's not just the techs, shop owners are also a big -- shop owners and managers are also big players in the rise to repair. And our repair systems and information group or RS&I is positioned to take advantage. Everybody knows that cars are scarce. New and used. But for Snap-on, that doesn't matter. Repair and collision shops are busy. It's a tune we like very much. And it's evident in the rising sales of our undercar equipment and collision businesses, both strong.

You have a repair shop today, you see a bright future with changing technologies, and you want to be ready. New vehicles are being released with a greater variety of drivetrains than ever from internal combustion engines to hybrid to plug-in electric to full electric. And the range of options is growing. More driver assist, more vehicle automation, increasing vehicle complexity, and we're ready to help the repair shops keep pace with powerful products like a range of Fast-Track Intelligent Diagnostics, the ZEUS, the TRITON, the APOLLO handheld enabling repair at all levels, like our celebrated Mitchell 1 ProDemand repair information, our award-winning Tru-Point Advanced Driver Assistant Calibration System and our 3D alignment systems like the new Hofmann geoliner, all representing new technologies, and all [yielding] big databases deployed to make work easier in the shop. Vehicle repair looks more promising than ever and Snap-on is positioned to capitalize.

Now let's talk about the critical industries where the Snap-on roles -- the Snap-on brand rolls out of the garage solving tasks of consequence. This is where commercial industrial C&I operates with our broadest region into international markets, and with the locations impacted the most by the challenges of the day. I mean C&I is headwind headquarters supply changes or option, rising -- rises in commodity costs, uncertain fuel supply, currency fluctuations, continuing COVID lock downs. Troubled economies and war in Ukraine, well, C&I had it all. But it rolls to the occasion. And in the quarter, the group took some lumps in Europe, but over came with strong gains in North America and in Asia, despite the difficulties. And while the military sector is still down, C&I's critical industries -- the other C&I critical industries are all showing life.

So I describe our C&I markets as challenged in certain geographies but demonstrating continuing gains and having strong and ongoing possibilities going forward. And coupled with our auto repair related businesses, we believe there is clear and compelling opportunity along our runways for growth, enhancing the band network, expanding with repair shop owners and managers, extending the critical industries and building in emerging markets.

And in this quarter, we've seen that potential pay off nicely. At the same time, it's clear that we have ongoing possibilities on our runways for improvement. The Snap-on Value Creation processes. They've never been more important, helping to counter the turbulence of the day. Especially important is with customer connection, understanding the work of professional technicians and innovation, matching that insight with technology, driving new products.

And just this quarter, Snap-on was prominently recognized with 5 PTEN, Professional Tools and Equipment News, innovation awards. And we were also honored with 2 motor magazine top tool awards. An essential driver of our growth. is innovative product make work easier. And the awards, hard one. Our testimony that great Snap-on products just keep coming, matching the growing complexity of the task becoming more essential to technicians and driving our positive results.

Now let's turn to the segments. In the C&I group. Sales in the quarter of $356.8 million were up 1.5% or $5.4 million as reported versus 2021, including a $26.2 million or 7.9% organic uplift, operating progress across all divisions, which was offset partially by $20.8 million in unfavorable foreign currency. From an earnings perspective, C&I operating income of $52.3 million, including $2.1 million of unfavorable currency represents a decrease of $1.3 million compared to '21. The effects of volume gains were more than offset by the substantial impact of currency and by supply chain inefficiencies.

The OI margin was 14.7%, down from last year, but still representing the highest level since the rise of the significant supply turbulence. Compared with the pre-pandemic level, sales were up 7.7% organically, and the OI margin of 14.7% was up 30 basis points despite a 60 basis point negative impact of acquisitions and unfavorable currency.

Now we remain committed to extending in critical industries, the C&I sweet spot, and we'll keep strengthening our position to capture those opportunities as they arise and enabling that intent is our expanding C&I lineup of innovative products, designed specifically to make critical work easy.

One example is our brushless CDR9015 18 volt drill. It's newest member of our MonsterLithium family aimed at industrial manufacturing and repair professionals, enabling work with the toughest materials, 470-inch pounds of torque, enough to handle even hardened alloys, 2,000 RPMs, speed to get the job done quickly. And with heavy duty -- with the heavy-duty gearing and the enhanced cooling, this tool is rugged, durable, even in extreme use. The 9015 also offers an 18-speed clutch, a variable speed trigger, a 2-speed gearbox, all the -- all for precise control, a feature that's essential for serious drilling, for professional drilling. And the 18-volt battery with 5.5 hours ensures consistent output and extended run time in effect, less charging for a more efficient workday. Tools also fitted with a 100 lumen headline, helping technician works -- helping technicians work in dark environments just what's needed for those coal sub jobs. The CT9015 has got power, speed, precision and durability. It's a great tool and the techs know it. They've already made the new drill one of our $1 million hit products. So that's C&I: continued progress against the turbulence.

Now on to the Tools Group. The team just keeps driving upward, leaving the pre-pandemic levels behind by a wider distance every quarter. Sales of $496.6 million were up $25.2 million or 5.3% over 2021. Organic growth of $34.1 million or 7.4%, partially offset by $8.9 million of unfavorable foreign currency. The operating margin was 20.6%, down slightly, 20 basis points, but overcoming a 40 basis points of unfavorable foreign currency. Compared with pre-virus 2019, sales were $111.4 million or 28.9%, including a $113 million or 29.5% organic gain, and this quarter's 20.6% operating margin was up 680 basis points versus 2019, coming out of the pandemic stronger indeed.

So this group is responding to the challenges of the day, increasing its product advantage, fortifying its brands, further enabling the franchisees, guiding them to more selling capacity, and it's all working. You can witness it in any time you meet the franchisees. One big opportunity for that is our annual Snap-on Franchisee Conference, or SFC, held this year at the Gaylord Texan Hotel in Dallas. The theme was breaking barriers. It's a reminder of our record franchisee performance driving ever upward over the last 9 quarters, and it's a recognition of the clear opportunity to reach even greater heights going forward, almost -- yes, almost 8,000 individuals attended.

And I can tell you, they were pumped, excited by the products more than 3 football fields of our latest offerings were on display, all available for viewing, handling and ordering. And order they did setting new records that we can also offer a variety of training seminars, where franchisees were able to sharpen and expand their skills to selling the full range of our complex and broad product line. It's an important movement. We say we're working to expand the selling capacities are eventually, SFC is a big part of that effort, and Dallas was another great step forward to that end. You can bet. You can bet on it. Our entire team departed as this year's get together and Dallas indicated, energized and eager to extend the Snap-on difference, reaching new individual and collective levels of success throughout the base to come.

They left excited and strong. The Dallas SFC will lead to breaking barriers. The franchisees' enthusiasm for their businesses and their confidence in their future will make it so. During the SFC, the Tools Group presented the newest addition to the Snap-on ratchet lineup, our FLF80, a 3-inch drive extra-long locking flex head ratchet. This new innovation provides easy access to superior turning power. Our patented duality technology makes it stronger. And the 20-inch length, the longest in the category, provides even greater -- provides great ability to reach deeper in a crowded spaces, extending reach and increasing leverages. It's a great addition to any toolbox. And as an added bonus, the new patent-pending, self-cleaning feature vanishes dirt and grim ensuring that the flex head locks firmly in place at even -- at any angle even under high-stress applications. The F80 is a special offering: access, leverage and stability in 1 ratchet. The initial launch exceeded $1 million is to hit product and sales. And volume continues to move forward upward on a steep trajectory.

Beyond product, we spend time working to expand the franchisee's selling capacity, harnessing social media, improving product training, RCI-ing and the van operations. It's been effective. So capacity is clearly on the rise. And you can see it in the results. The Tools Group is on a very positive trend, ascending and leaving pre-pandemic levels well behind. And as we said in the SFC, it's breaking new barriers right now, and we believe it will all continue.

Now on to RS&I. Sales were sales of $414 million, were up $49.6 million or 13.6%, including $60.8 million or 17.2% organic uplift. Growth was weighted toward undercar equipment and sales for the OEM dealerships, but our information and diagnostics businesses were also players in the year-over-year improvement. RCI -- our RS&I operating earnings were $95.4 million representing a $12.1 million increase versus 2021, and the operating margin was up 10 basis points from last year to 23%. Compared with 2019, sales grew $91.3 million or (inaudible), including an $86 million or 27.2% organic gain.

Operating margin was down 280 basis points versus 2019, primarily reflecting the business mix and the acquisitions. But at 23%, it was still strong. We see significant potential in our size runways for growth, expanding Snap-on's presence in the garage with the coherent acquisitions and with a broad array of powerful products, and the industry experts feel the same. In fact, our TRITON-D10, Fast Track Intelligence Diagnostic units was just selected (inaudible) the top 2 award and rightly so. The TRITON type deal for shop owners and for general technicians, it provides a comprehensive system verification to identify troubles there -- troubled areas, and tools diagnostic testing to pinpoint repair actions and a powerful lab scope to confirm component level functionality, all in 1 package. The D10 advanced scoping -- the D10's advanced scoping capability helps users dig deep into the vehicle systems and evaluate performance with the comparative data, and it's Fast-Track Intelligent Diagnostics, greatly shortcut the work and streamlines the repair processes, making shops more productive, more profitable.

Unit also offers a rugged hardware exclusively designed for -- you expect this from Snap-on. The unit also offers rugged hardware exclusively designed for shop environments -- tough shop environment, a super fast, 2-second boot-up, and a 10-inch touchscreen. It all comes together for unprecedented reliability and speed and ease of use. It's a -- I'm telling you, the technicians will tell you, it's a (inaudible) product. And with the selection of the TRITON motor magazine and with the selection of the TRITON, motor magazines, now recognized Snap-on diagnostic units in 22 of the last 23 years, 22 of the last 23 years, we believe it's more testimony that RS&I is stronger than ever in shops and dealerships.

Well, that's the highlights for our quarter. Tools Group, strong progress. C&I recording a positive performance and an upward trajectory against the variations across industries and geographies. And RS&I, expanding profitable volume with repair shop owners and managers, staff on overall sales rising again, 10.4% and 22.8% organically versus last year and the pre-pandemic level, respectively, continuing clear and positive growth. Opco operating margins, are robust 20.3% rising again this quarter, up 90 basis points. EPS, $4.14 up versus last year and accelerated well beyond pre-pandemic levels. It was another encouraging quarter.

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

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

Thanks, Nick. Our consolidated operating results are summarized on Slide 6. Net sales of $1.1025 billion in the quarter increased 6.2% from 2021 levels, reflecting the 10.4% organic sales gain, partially offset by $39.1 million of unfavorable foreign currency translation. The organic sales gain this quarter reflects high single-digit growth in both the Snap-on Tools Group and the Commercial Industrial Group and double-digit gains in the repair systems and information group. This growth compares to the 8.4% year-over-year organic increase recorded last quarter.

From a geographic perspective, continued sales strength in the United States and several emerging markets more than offset weaker demand in Europe. Consolidated gross margin of 48.3% declined 190 basis points from 50.2% last year. Higher material and other costs were partially offset by contributions from the increased sales volumes and pricing actions as well as benefits from the company's RCI initiatives, and 30 basis points of favorable foreign currency effects. Again, this quarter, we believe the corporation through pricing, and RCI actions continue to navigate effectively the cost and other supply chain dynamics of the current environment.

Operating expenses as a percentage of net sales are 28% improved 280 basis points from 30.8% last year. The improvement is primarily due to sales volume leverage and savings from RCI initiatives. Operating earnings from -- before financial services of $223.5 million in the quarter compared to $201.3 million in 2021. As a percentage of net sales, operating margin before financial services of 20.3% improved 90 basis points from last year. Financial services revenue of $87.3 million in the third quarter of 2022 was unchanged from last year. Operating earnings of $66.4 million decreased $4.2 million from 2021 levels, primarily as a result of higher provisions for credit losses than those recorded last year.

Consolidated operating earnings of $289.9 million compared to $271.9 million last year. As a percentage of revenues, the operating earnings margin of 24.4% compared to 24.2% in 2021. Our third quarter effective income tax rate of 21.6% compared to 23.7% last year. The lower rate in the quarter was primarily due to tax benefits realized from the favorable settlements of income tax audits. Net earnings of $223.9 million or $4.14 per diluted share increased $27.7 million or $0.57 per share from last year's levels, representing a 16% increase in diluted earnings per share.

Now let's turn to our segment results, starting with C&I group on Slide 7. Sales of $356.8 million increased from $351.4 million last year, reflecting a $26.2 million or 7.9% organic sales gain, partially offset by $20.8 million of unfavorable foreign currency translation. The organic growth primarily reflects double-digit gains in the segment to Asia Pacific operations and specialty tools business as well as a low single-digit increase in sales to customers in critical industries. Lower activity with the military was more than offset by gains in aviation, mining, power generation as well as in oil and gas.

Gross margin of 36.9% declined 130 basis points from 38.2% in the third quarter of 2021. This is primarily due to increased material and other input costs partially offset by benefits from the higher sales volumes and pricing actions and 20 basis points of favorable foreign currency effects.

Operating expenses as a percentage of sales of 22.2% in the quarter improved 70 basis points from 22.9% in 2021, primarily due to the effects of sales volume leverage. Operating earnings for the C&I segment of $52.3 million compared to $53.6 million last year, the operating margin of 14.7% compared to 15.3% a year ago.

Turning now to Slide 8. Sales in the Snap-on Tools Group of $496.6 million increased 5.3% from $471.4 million in 2021, reflecting a 7.4% organic sales gain, partially offset by $8.9 million of unfavorable foreign currency translation. The organic sales growth reflects a high single-digit gain in our U.S. business, which was partially offset by a low single-digit decrease in our international operations, the latter largely reflecting weakness in the United Kingdom.

Gross margin of 44.9% in the quarter declined 90 basis points from 45.8% last year. The year-over-year decrease is primarily due to higher material and other costs, and 40 basis points of unfavorable foreign currency effects, partially offset by benefits from increased sales volumes and the pricing actions. Operating expenses as a percentage of sales of 24.3% improved 70 basis points from 25% last year, reflecting the benefits from higher sales volumes and savings from RCI initiatives. Operating earnings for the Snap-on Tools Group of $102.2 million compared to $98.2 million last year. The operating margin of 20.6% compared to 20.8% in 2021 and to 13.8% in the pre-pandemic third quarter of 2019.

Turning to the RS&I Group shown on Slide 9. Sales of $414 million compared to $364.4 million a year ago, reflecting a 17.2% organic sales gain, partially offset by $11.2 million of unfavorable foreign currency translation. The organic gain is comprised of double-digit increases in activity with OEM dealerships, and in sales of undercar and collision repair equipment, and a low single-digit gain sales of diagnostic and repair information products to independent shop owners and managers. Gross margin of 42.9% declined 390 basis points from 46.8% last year. This is primarily due to higher material and other input costs and increased sales and lower gross margin businesses. These declines were partially offset by benefits from pricing actions and savings from RCI initiatives as well as 40 basis points of favorable foreign currency effects.

Operating expenses as a percentage of sales of 19.9% improved 400 basis points from 23.9% last year, primarily due to benefits from sales volume leverage, higher activity and lower expense businesses and savings from RCI initiatives. Operating earnings for the RS&I Group of $95.4 million compared to $83.3 million last year. The operating margin of 23% improved 10 basis points from 22.9% reported a year ago.

Now turning to Slide 10. Revenue from financial services of $87.3 million, including $1 million of unfavorable foreign currency translation was unchanged from last year. Financial Services operating earnings of $66.4 million, including $800,000 of unfavorable foreign currency effects compared to $70.6 million in 2021. Financial Services expenses of $20.9 million were up $4.2 million from 2021 levels, mostly due to $3.7 million of increased provisions for credit losses. While provisions have increased versus the historically lower provision rate experienced last year, we believe that loan portfolio trends remain stable. As a percentage of the average portfolio, Financial Services expenses were 0.9% and 0.8% in the third quarter of 2022 and 2021, respectively.

In the third quarters of 2022 and 2021, respective average yield on finance receivables were 17.7% and 17.8%. In the third 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 15.8% in the third quarter of 2022, which is the same as last year. Total loan originations of $300.2 million in the third quarter increased to $30.9 million or 11.5% from 2021 levels, reflecting a 12.5% increase in originations of finance receivables and an 8% increase in originations of contract receivables.

Moving to Slide 11. Our quarter end balance sheet includes approximately $2.2 billion of gross financing receivables, including $2 billion from our U.S. operation. The 60-day plus delinquency rate of 1.5% for the United States extended credit compared to 1.4% in 2021 and 1.7% 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 second and third quarters. As it relates to extended credit or finance receivables, trailing 12-month net losses of $42.2 million represented 2.41% of outstandings at quarter end, and were down 7 basis points as compared to the same period last year.

Now turning to Slide 12. Cash provided by operating activities of $129.9 million in the quarter compared to $186.4 million last year. The decrease from the third quarter of 2021 primarily reflects a $63.5 million increase in working investment. The change in working investment dollars is largely driven by greater demand, resulting in increased receivables and higher levels of inventory this year. In addition to demand-based requirements, the inventory increase also reflects higher in-transit inventory amounts as well as incremental buffer stocks associated with the supply chain dynamics in the current macro environment.

Net cash used by investing activities of $57.9 million included net additions to finance receivables of $38.2 million and capital expenditures of $20 million. Net cash used by financing activities of $120.7 million included cash dividends of $75.7 million and the repurchase of 228,000 shares of common stock for $50.2 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional $396 million of common stock under existing authorizations.

Turning to Slide 13. Trade and other accounts receivable increased $56.7 million from 2021 year-end. Days sales outstanding of 60 days compared to 58 days at 2021 year-end. Inventories increased $151.3 million from 2021 year-end. On a trailing 12-month basis, inventory turns of 2.6 compared to 2.8 at year-end 2021 and 2.6 as of the pre-pandemic third quarter of 2019. Our quarter end cash position of $759.3 million compared to $380 million at year-end 2021. Our net debt-to-capital ratio of 9.3% 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 quarter end, there were no outstanding amounts under the credit facility, and there were no commercial paper borrowings outstanding.

That concludes my remarks on our third quarter performance. I'll now briefly review a few outlook items for the remainder of 2022. 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 U.S. tax legislation, that our full year 2022 effective income tax rate will be in the range of 23% to 24%.

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

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

Thanks, Aldo. Well, it was quite a quarter. A staggering number of media pieces have exhaustively documented the modern-day hydro turbulence that marks this period. So we all know the challenges are many, and they're substantial. But despite the headwinds, Snap-on stayed on the mod train, and that momentum shines through in the quarter across all our groups, all of them. C&I, growing 7.9% organically, extending its position in the critical with robust gains in North America and Asia Pacific, overcoming the variations in Europe, registering an OI margin of 14.7%, the strongest since the supply chain disruptions began in earnest, demonstrating continuing progress.

The Tools Group. We believe the franchise network is stronger and more capable than ever. Sales up 7.4% organically. OI margins 20.6% down 20 points, but against 40 basis points of unfavorable currency and representing a rise of 680 basis points above 2019. RS&I aggressively expanding with repair shop owners and managers, growing organically 17.2% over last year and 27.2% over the pre-virus era. And the OI margin was a strong 23%, and it all ends up to ongoing and ongoing upward trend for the corporation. Activity rising 10.4% organically versus last year and up 22.8% compared with 2019. OI margin for the corporation was 20.2%, up 90 basis points from last year and 170 basis points above the pre-pandemic level. And 1 final testimony to (inaudible). The EPS was $4.14 a significant gain of 16% versus 2021 and 39.9% over 2019. It was an encouraging quarter, and we are convinced it's an extremely promising future. You see, we believe that the resilience of our markets, coauthored by critical tasks and changing technologies will drive opportunity against the in. We believe that our strength in customer connection and innovative products and in the special power of our brand, will position Snap-on to fully participate in those possibilities. We believe that the considerable capability of our experienced team can navigate to any turbulence, and we believe that these are unique advantages that will maintain our substantial momentum, breaking barrier after barrier, reaching new highs through the remainder of this year on into 2023 and well beyond.

Before I turn the call over to the operator, I'll speak directly to our franchisees and associates. As always, I know many of you are listening in. The encouraging performance, we detailed here today, was made possible only by your individual and your efforts and your collective actions for your extraordinary success in authoring another strong Snap-on quarter, you have my congratulations. For the unique skills and capabilities you're display and overcoming the challenges of these days, you have my [aberration], and for your unwavering confidence in our future and your continuing commitment to our team, you have my thanks.

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

QUESTIONS AND ANSWERS

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

Caroline, can we please take our first question.

Operator

Yes sure. So we will take the first question from line Gary from Barrington.

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

A couple of things here. Could you, first of all, quantify how much currency impacted EPS this quarter?

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

It was $0.09, Gary.

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

$0.09. $0.09.

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

Okay. And then Nick, you mentioned that there was some pretty good robust order flow out of the conference that you had this year. Can you maybe give us a quantifiable range of what that was year-over-year? And then where was there really particular interest in the part of the franchisees and specific Tool Groups? Was it storage, diagnostic, just general households, whatever.

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

I'll tell you that I heard -- I heard like somebody mentioned double digits versus last year. But look, I want to quickly say, these are orders. They're not sales, people order. And so we had a pretty robust pretty robust number. And I don't like to say the real amount here, the exact number. It was pretty good. It's dangerous to extrapolate because they are orders. But orders of that level are better than the poking an eye with a sharp stick, I'll tell you that. So we feel pretty good about this. Where it was ordered, I think tool storage was terrific in this quarter. Hand tools were very strong. And the big packs did pretty well. Big pack is kind of a comprehensive thing that people order. So we saw in those categories. I think everything did pretty well. But the big ticket items were kind of good in this particular quarter. I'd say we're (inaudible) in the SFC as they were in the quarter, big ticket items were strong enough.

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

Okay. And then you're kind of breaking up there, but I think...

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

I'll say it again. Big orders. They were big order, something like double-digit. but they're orders. And secondly, generally, I think if you ask me to make a couple -- I think the big ticket items were pretty strong for us. And -- but generally, we have these things, Gary, called big packs where franchisees order comprehensive arrays of tools, hand tools and so on. And so they were also pretty strong. So hand tools are pretty good.

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

Okay. And then just one last one, if I may. In terms of diagnostics, are your diagnostic tools at this point, fairly drivetrain agnostic? Or do you actually have a specialized diagnostic product that is just systemic to electric vehicles.

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

No, no, no. We would probably not do that. We would probably have -- we would put them in -- we would put all types of drivetrains in 1 tool. You wouldn't necessarily have one because you do it now. You have hybrids and you have -- you'd have -- you have anything in the product. The beauty of the diagnostic unit is you can repair anything. So part of the ideas you plug it in, no matter what the car is, the model, the make, the type of thing. And so you try to have that in terms of comprehension around, in that situation. And we have the best -- we are the best, certainly in terms of comprehensive data. Coverage is (inaudible)

Operator

We will take the next question from line of Bret Jordan from Jefferies.

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

All right. Nick, you talked about RCI opportunities at the van level, I think, in the prepared remarks. Could you talk about maybe in greater detail what you're doing there?

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

Well, there's a couple of things. I mean one of the things we're getting better at applying social media. So the idea behind social media, it's a big RCI opportunity because the better we can pre brief the customers. So when we enter the shops, the customer kind of knows the product -- he knows the -- and we have a lot of promotions. So he knows the promotion. So the franchisee can spend his limited time with that particular individual, customizing why those characteristics mean a lot to them, and he can use them. And so that is really 1 huge thing. It's one of the things that we're getting better at day-by-day, but it has driven some of our capabilities in those kinds of situations.

There's other things in terms of collections, in terms of taking inventories on the vans in terms of adjusting the computer system. So it's easier to use and quicker those kinds of things in ways in which they can status their orders, which is a big deal these days because you've got a lot of people clamoring for product, and they're looking for it. So those are the kinds of things.

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

Okay. And then all the -- a quick question on the Financial Services. You've mentioned sort of higher provisions. Could you talk about maybe what you're seeing, a cadence of what you're seeing as far as the credit books are the mechanics -- I mean, obviously, the wage growth has been great, but is there sort of broader pressure on the credit side.

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

Bret, good question. We actually saw exceptionally strong performance in 2020, 2021. You read about it from other people as well that people service their debt in a more aggressive fashion, bringing it down, people were more current than ever in servicing debt. So we had unusually low provisions in 2021 and in 2020 in the back half of 2020. What you see now is kind of a return to a more normal pace. And even in the quarter, based on comparing it to '17, '18, '19, the rate of provision is still less than that era. So in the quarter, they're performing well. I mean it's a very typical performance that we're seeing. And all the leading indicators still give rise to the fact that we think we'll do okay in the credit company.

Operator

We will take the next question from the line Scott Stember from MKM Partners.

Scott Lewis Stember - *MKM Partners LLC, Research Division - Executive Director*

Can you talk about sell-in to the channel, the van channel versus sell-out? Is it fair to assume that things are pretty much one for one? Or was there any coming (inaudible)

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

Yes. It varies from time to time, but this quarter was sort of right on, pretty much the same. Maybe even I'd say right up. Maybe even a little better, but not -- for government work, you can say, sell-in, sell-out was about the same.

Scott Lewis Stember - *MKM Partners LLC, Research Division - Executive Director*

All right. And then RS&I talk about undercar equipment. Can you maybe give a little more granularity? Was that related to collision repair? Or was that just everything?

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

Actually, everything is selling in undercar. It's one of the things that (inaudible) collision repair is a start in this era. I think it's driven by the idea that collision, the cars now has that neural network of sensors. So every time if you just dent your bumper, it's thousands of dollars of repair because you've got to recalibrate everything and so on. So collision shops kind of upgrades to take advantage of that to be actually be able to effectively, not only be store shape but put things back into operating performance. But also the other businesses we're selling via the other products like lifts, just basic lifts, which you would think would be the most vanilla of products in the situation are selling quite well.

So I think it's on collisions as the situation, but also repair shops in general are seeing the future, and they are pumped about this. Like I said, I think even the dealerships are starting to get over the idea, they don't have cars to sell and are turning to repair.

Scott Lewis Stember - *MKM Partners LLC, Research Division - Executive Director*

Got it. And just last question. Obviously, you guys have put up some stellar results the last couple of years, but the uncertainty for next year with a recession. Could you just give us an idea of what we should look at for a potential canary in the coal mine that we need to look at that will give us an early warning sign?

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

Well, first of all, I have to say, though, I think when you walk in the garage, you don't hear a recession. It's like when you watch the -- when you watch the programs like Squawk Box in the morning, every 10 words are -- every 10th word is recession. You don't hear that in the factories of the -- among the people of work. You just don't hear it. They're really robust about this. But -- if you're talking about canary in the coal mine, if you looked at the last each one to differ. But certainly, the last ordinary recession that wasn't (inaudible). You would see a reduction maybe in bigger ticket items perhaps because of the confidence in the future. So generally, repair needs to go on. It's essentially doing it, but people might be packing to shorter payback items and longer payback items when they're a little more uncertain about the future. That happens in the financial recession. Now as it turns out in the quarter, our big ticket items were robust.

Operator

We will take the next question from line Luke Junk from Baird.

Luke L. Junk - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

First, Nick, just curious to get your perspective on investment in posture of the company given the macro backdrop, thinking, especially with regards to maintaining the momentum that you've got in the Tools Group right now. And as we look outside the Tools Group as well, it's just some of the key considerations around investment if we do get into a choppier macro in RS&I and C&I as well?

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

Well, look, I don't think -- and I now have been I've been through 2 big downturns: one, the financial recession, and 2 the COVID, if you can call it. And I don't remember restricting our investment in the business. I do not remember that. If we wanted to do it -- if we thought it was important for the future, if these it was efficacious for our customers, we were able to do it. Because Snap-on, maybe you get a little -- you're off the bubble a little bit, but we've never really been restricted in a recession. And those are 2 big ones, 2 big ones. And so I don't anticipate doing that. I anticipate our ability to keep investing in the business. We might tighten our belt in terms of travel and things -- other things people do. But if you're talking about investing in a business, we said last time, we kept going, we kept investing in product and brand and people. We didn't lay anybody off. And that's what we did. And that's why we came out of the recession stronger. So we do the same thing.

Luke L. Junk - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Really a question around margins and profitability going into next year. And my -- the question is around recovering price cost, clearly, we can see the impacts of higher material prices and other costs in the quarter here in 3Q. And I'm just wondering, as we turn the page to next year, especially in C&I, where I know your ability to recover cost real time is limited just given the nature of the customers and the contracts, how you're positioning going into conversations next year. And then also in the Tools Group, of course, just how much price elasticity do you think there is in that business today?

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

I think we certainly -- let me take the Tools Group first. I think there's -- and Tools Group, I said many times, we control the customer interface. We believe we can price for visible inflation. We were pretty satisfied, we were pretty encouraged by this quarter. Third quarter -- I've said this like in 15 third quarters that I've been on this call, it's always squirrely. So the idea is -- I thought the Tools Group had a great -- a very encouraging third quarter, especially against the currency, and being up over 2019. If you come to C&I, yes, it's a little bit more viscous in terms of pricing. But if you look at C&I, I think we thought 7.9% up organically. It's pretty good. It's starting to break out of the problem. And the 14.7% OI margin. While down year-over-year is the highest since we actually started getting this turbulence.

So we see -- when we step back on it, we see C&I fighting against turbulences, both geographically and sector-wise. But we see them winning the war and moving forward, and we would consider that to happen. If you look at cost overall, generally, there's a lot of variation in this, but steel cost -- for example, some steel costs are down now. So you're going to start seeing that versus last year. Others are down versus the peak, but not down versus last year. So you're going to see variation going forward, but it's got to be an easing of the situation, at least a more positive situation. The worry about C&I is the ability of getting things and getting them delivered when you have those hundred tool -- 100-unit complex kits to deliver, and you have to have them all in place before you send out the kit. And so that can be devil C&I. That's the major battle for them. But I feel pretty confident about the situation. I think things are getting better.

Luke L. Junk - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And then if I can sneak it in, just a quick question for Aldo, on the credit business. And what I'm hoping -- I already got a question on this, but I just want to ask it a little bit differently in terms of parsing out decrease in credit income, especially the provision-related impacts on a year-over-year basis. Can you just help us understand the moving pieces there between mechanical moving pieces as things normalize post-COVID, and separately changes in your assumptions around underlying credit that's driving the change? Just trying to square that with what are clearly still very low delinquency rates.

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

I would just say at the highest level -- look, I'd say a way to look back that. When the world broke into the era of COVID, there was a lot of trepidation as to what does that mean. And looking backwards, you probably have a period, including Snap-on, where we over reserved and the provisions were probably higher than that was necessary. And as a result of that, when you actually see the proof as it played out, that you didn't require those, you had been a need for lower provisions in 2021. And now you're starting to get back to what I call a more normal pace of activity. And if you look at the portfolio itself, it's got a little bit better credit characteristics.

What I mean by that is maybe $1 of conservatism on the part of who we granted credit to, so it's less high-risk candidates in the pool. And people's FICO scores have improved marginally. So again, at a macro 30,000-foot level, there's probably a slightly less amount of credit risk in the portfolio. And therefore, as you go forward in these trends, I think it's kind of getting back to norm for lack of a better word, with that macro backdrop that Nick just described.

Operator

We will take the last question from David MacGregor.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Yes. Can you hear me okay?

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

Yes, I can hear you.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

All right, wonderful. I guess -- I wanted to just build on that last question. And a question with respect to the tools segment. And you reported 7.4% growth. And to the extent that you are sort of maintaining pace with inflation, that would suggest that the bulk of that was pricing, and volume might have been up kind of low single-digit kind of numbers. And so I guess...

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

That's not -- but okay. Okay. Go ahead.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

But we'll start with that. Yes, go ahead. Go ahead.

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

No. I -- we don't think -- we think pricing ends up being around -- we do a list price, but the list prices don't all flow, and then we've got the -- it doesn't all hold. And then we've got the promotions, which go out and some of them are leaner and some of them are more rich. And so you have that. And then you've got new products that are rolling through the system and they get repriced. So when we look -- we all said and done, we would say that tools may be getting half of that in price or maybe a little bit less. That's the way we see it. It doesn't -- you can't really just look at the list price because it gets so complicated in looking at that. But our best guess is that it's around that number. So okay, you see -- okay. Yes, it's not 7.4% volume growth, but it's certainly not 0.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Sure. No, I understand. So if we assume maybe prices is maybe 300 basis points and you got 400 basis points...

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

Maybe. But it sounds like that, yes.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Yes. It sounds like it. And then you got 400 basis points of volume growth. And it sounds like from what you said earlier in the call that inventory on the trucks was pretty stable, but it was pretty even growth between the wholesale and the retail I guess I'm just trying to reconcile the 11% originations growth, which suggests that big ticket was up very, very large. And the implication of that would be that maybe smaller ticket or hand tools was mathematically a negative number, but maybe I'm misunderstanding that.

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

David, David, yes, that's cool, but that's not true. The thing is that remember, you got pricing also rolling through those things year-over-year, the same way you did that calculation on the overall number, you got some of that. But tool storage was strong. But you've got other small ticket items. You've got power tools, you got, what we call shop-in tech, which is a myriad of other things that we might sell like lights and pressure gauges and things like that. And so you have a lot of things that go to that. But if you want to pinpoint on hand tools, I'll tell you hand tools is good in the quarter, up double digits again. So generally, the core products were okay. The things that are normal. So that's -- That's what happened in that situation.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Okay. Thanks for addressing that. And -- sorry go ahead.

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

No. No, no. Go ahead. Go ahead. I'm trying to answer your question.

David Sutherland MacGregor - *Longbow Research LLC - President & Senior Analyst*

Sure. I guess I'm just trying to get a sense of -- within your credit business, I don't think there's ever really many serious questions about the quality of credit in this portfolio. You guys have always done a fantastic job of managing that, and I expect that will be the case going forward. Could you foresee any circumstances whatsoever where you would consider lowering what you charge on extended credit from that 17%, 18% yield to something that's maybe a little more a little more accessible for (inaudible) for all these...

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

You always think about these things, David. We review it all the time. But in reality, we've kind of held there, and it's worked for us for a long time. And so I think we are -- we think it's appropriate for the credit profile of the people we deal with. And so we haven't changed anything in that macro in a long time. So when you look back and you look at the performance of the credit company, it really isn't marked by major changes in the core model. It's generally been the same. Now it isn't that we don't review it or anything, but I don't think we're seeing ourselves do that right now anyway.

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

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