Snap-On Incorporated

Third Quarter 2023 and Full Year Results

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, and welcome to the Snap-on Incorporated 2023 Third Quarter Conference Call. All participants will be in 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 on your telephone keypad. To withdraw your question, please press star then two. Please note today's event is being recorded.

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

Sara Verbsky
Thank you, operator, and good morning, everyone. We appreciate you joining us today as we review Snap-on's third quarter results, which are detailed in our press release issued earlier this morning. We have on the call Nick Pinchuk, Snap-on's Chief Executive Officer; and Aldo Pagliari, Snap-on's Chief Financial Officer.

Nick will kick off our call this morning with his perspective on our performance. Aldo will then provide a more detailed review of our financial results. After Nick provides some closing thoughts, we'll take your questions.

As usual, we've provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the webcast viewer, as well as on our website snapon.com, under the 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 our forward-looking statements are contained in our SEC filings.

Finally, this presentation includes non-GAAP measures of financial performance, which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding these measures is included in our earnings release issued today, which can be found on our website.

With that said, I'd now like to turn the call over to Nick Pinchuk. Nick.

Nicholas Pinchuk
Thanks, Sara. Good morning, everybody. As usual, I'll start by covering the highlights of the quarter, and then I'll provide an update on the general environment and on the trends we see. Aldo will then give you a detailed review of the financials.

Speaking about the last three months, I can say without question or qualification, we are once again encouraged, fortified by the progress along our runways for both growth and improvement. We encountered headwinds and we engaged challenges in a number of geographies. Still, we capitalized on our opportunities, wielding our advantage and overcame the potential for disruption.

The franchisee network remained resilient, generating positive gains. There were broad and sharp rises in critical industries, expanding what is now a consistent upward trajectory enabled by the confluence of a robust market, a growing product line, and an effective expansion of capacity in that business. And that progress was pretty evident in our numbers. They speak for themselves.

Reported sales were $1.159 billion, up 5.2% from last year, a 4.7% organic rise and $4.4 million in favorable foreign currency effects, with growth in every segment. This represents our 13th quarter well above pre-pandemic levels. OpCo operating income, OI, before financial services were up 9.7%, reaching $245.2 million. OpCo operating margin rose 90 basis points to 21.2% with higher sales volumes, the benefits of great new products, and the ongoing efficiencies of rapid continuous improvement or RCI more than offsetting 50 basis points of bad news from unfavorable foreign currency effects, 21.2% and 90 basis points. Nice.

The operating income for our Financial Services operation grew $69.4 million from the $66.4 million last year, a 4.5% improvement, and that result combined with the OpCo performance to raise our consolidated operating margin to 25.1%, a 70 basis point rise from 2022. And EPS, EPS was $4.51, reflecting a $0.37 or 8.9% increase above last year. Strong.

Well those are the numbers. Once again strong, signifying our corporation’s continuing advance. You see, we again believe that Snap-on is stronger now than at any time in our history and the results, they say it’s so.

Now let's review the markets. In vehicle repair, the key metrics continue to be favorable. The average age of vehicles on the road continuing to rise and in turn the number of techs in the garages, in the garage is growing high to mid-single-digits, maintaining consistently positive trends period-over-period. That's clearly upward. Technician wages are robust and continuing to climb. So the market is favorable and the metrics back it up. But more than the quantitative evidence, you get the feeling of optimism and potential when you speak with technicians.

Recently, I had the chance to visit with our customers, franchises and mechanics, in New York. And I'm here to tell you the enthusiasm they displayed in the industry and the confidence they expressed in their future was something else. It was contagious. Even in this time of turbulence, the message was clear. They see opportunity and they're looking for more, more innovative solutions, that will increase productivity and take advantage of that potential. And their confidence on the way forward is palpable. And we believe they see Snap-on products, brands and people as the best way to ensure that positive future.

Vehicle repair is a strong market. We see this confirmed throughout the franchisee network in North America and in our international operations. It's one of the reasons we've expanded capacity.
We believe our franchisees and our technicians have never been more prosperous. It all makes sense. The car parc increasingly requires more repairs of greater complexity. And our customers, the techs, are major participants in that reality, and they need new tools to follow the opportunity. Snap-on is positioned to take full advantage of that possibility.

Another important sector for us is the vehicle repair shop owners and managers. These are people who stand right next to the techs, but they buy at different cadences. This is where Repair Systems and Information group, or RS&I, operate every day with advantage. The vehicle parc is changing. The shops have to keep adjusting, model-by-model, to new challenges that they have to navigate. Electronics to support more features. Automotive systems that enhance driver safety. New body materials to increase durability and reduce weight. Networks of sensors to anticipate traffic and road conditions. New powertrains. Enhanced internal combustion engines. EVs and plug-in hybrids to conserve energy, and on and on and on. Each of these trends creates opportunity for garages, and they know it. But they also know it requires new and more sophisticated equipment. That opportunity we see shines right through political uncertainty or economic turbulence.

We see, though, that need every day when we call on the garages. New software to guide repairs or manage the shop; essential programs to accommodate the idiosyncrasies of new vehicles; calibration protocols and advanced systems for sensor arrays; advanced under car equipment to accommodate the precision that supports efficient driving. And we see the shop owners and managers eager to take advantage of those trends. Snap-on has the hardware and software to enable that pursuit, bringing prosperity to the shops, and the results in RS&I are confirming the strength of that market and our strong position in it.

Finally, let’s discuss the critical industries. This is where we extend outside the garage, solving tasks that really matter. This is where Commercial and Industrial, or C&I lives, and where much of our international activity happens. This is the arena of critical applications, space exploration, wind tower maintenance, subsea mining, smelting that exceeds 2,300 degrees Fahrenheit, the mobilization of first responders. All critical environments where the penalty for failure is high and the need for repeatability and reliability often requires custom tools engineered for a single purpose. In other words, tasks that require a Snap-on solution.

Just like in previous quarters, the market is booming. Momentum in multiple sectors like the military, general industry, aerospace, heavy-duty and aviation. Of course, we do see variations from geography-to-geography -- this is an international business -- areas impacted by external factors that create disruptions. Europe, with the uncertainty associated with the Ukraine war; and Asia where the remnants of the pandemic are still pretty apparent; there's turbulence in China; and the weakening of currencies these days are impacting particular countries. But overall, the critical industries are robust offering us significant potential for taking advantage and making significant gains. And in the quarter, we did just that.

So our markets are resilient and are on a positive trajectory and we believe that our runways for growth will present clear and abundant opportunities as we move forward, enhancing the franchise network, expanding with repair shop owners and managers, extending to those critical industries, and building in emerging markets. Rising and going forward by leveraging our broadening product line, wielding our strengthening brand, and deploying the increasing understanding of the work that is the hallmark of the Snap-on team. That's the markets.

Now, let's turn to the segments. In the C&I Group, third quarter sales reached $366.4 million, up $9.6 million, which includes $1.6 million in unfavorable currency effects and an organic sales growth of 3.2% above last year. From an earnings perspective, C&I's operating income was $58.1 million, up 11.1%, double-digits, including $2.9 million of unfavorable foreign currency. And the operating margin was 15.9%, an increase of 120 basis points, overcoming 70 basis points of negative currency.

We did have some variation across the group’s business units, with substantial gains in the Industrial division offsetting declines in the Asia operations. But as usual, the C&I rise showed the power of our Snap-on value creation, particularly in customer connection and innovation, authoring great new products, solutions that make critical tasks easier, like our new CT9038 power tool. We talked about this tool last quarter saying the franchisees were waiting for its launch. Well, it was worth the wait. It's a special tool; a three-eighths inch drive, 18 volt impact unit that offers a compact housing measuring only five inches long. That's why we call it the Stubby. The unique silhouette is made possible by engineering the overall housing mechanism to stabilize the electric motor rather than the standard approach of adding a whole independent structure to support the drive components. It's an innovation that reduces overall body dimensions, allowing users to navigate really tight spaces. And believe me, that's an attractive advantage for engine and suspension work on newer vehicles. And it does that while still delivering 520 foot-pounds of bolt break away torque, power capable of busting loose even the most stubborn and seized fasteners. It's what you would expect from Snap-on.

It's ergonomically balanced, greatly reducing user fatigue. It's equipped with a super bright LED light to clearly illuminate the workplace. It also offers three torque settings in forward and reverse and includes a variable speed trigger enabling techs to apply just that necessary force, avoiding the fastener damage that often can happen in tight spaces.

The September launch was big, way oversubscribed. Clear testimony to the appreciation of the Stubby’s compact power, and it's still showing great momentum. The orders remain very strong. It was worth the wait.

C&I product is encouraging, but there's another story in the group: our Industrial division, extending the Snap-on brands to the critical industries. We've said in the past that the opportunity was there. All that was needed was more capability to deliver. Well it played out just that way. We did add capacity for kitting and it drove results. The expansion came in the fall of the last year. And this past period was the third straight quarter of clear double-digit growth in the critical industries. And that was with strong margins.

Gangbusters. Gangbusters margins, gangbusters growth. It overcame the C&I challenges in Eastern Europe and Asia. And we believe we have much more room to run in the critical industries arena. So we're adding more capability in that business right now to take full advantage.

Well, that’s C&I. Substantial challenges overcome by strong products and expanded capacity to drive upward in the critical industries and there's more to come.

Now on to the Tools Group. Sales line was up organically 3.7% over last year, reaching $515.4 million in a quarter that finished with great momentum. And the Group's operating income continued to move strongly upward to $113.4, million, an 11% increase, double-digit increase over 2022 levels. Another in a series of those double-digit increases for the Tools Group. And the operating margin, it was 22%, up 140 basis points from last year and that considerable rise was achieved overcoming 50 basis points of unfavorable currency. Boffo! A great quarter for profitability and growth.

Now, the third quarter is when we hold our annual Snap-on franchisee conference, what we call the SFC. This year the event was in Nashville with 9,000 people attending, franchisees, guests, and of course the Snap-on team, all participating in a great weekend. It was a weekend of special training. Hands-on encounters with our massive product line and for some fun, special Snap-on celebrations. They're really good.

The attendees had the opportunity to spend time ordering directly from the tool expo floor and I am happy to say orders were up again this year. And that expo spanned the space of over three football fields where our entire portfolio of products was on display, but it had a wide array of demonstrations that were specially designed to showcase the Snap-on performance advantage.

The conference also provided a number of training sessions, helping franchisees expand their business; seminars and special breakouts; highlighting our product features and unique advantages in critical categories like power tools and diagnostics. And we topped off that multi-day event with an armada of coach buses transporting the teams to downtown Nashville for a unique Snap-on evening. Boom shakalaka was the word of the day. It was another memorable SFC. Insightful, education, great new products, and a special fellowship, a special fellowship that reinforces our unique bond with our franchisees. From my perspective, our van drivers at Nashville spoke enthusiastically about their current businesses and radiated firm confidence in their future with Snap-on. And if you were there, you would have seen it too.

During the tool expo, franchisees were able to spend time interacting with some of the new innovative products derived from our customer connections, insight gained directly in the workplace. Hand tools were big at the SFC and in the quarter, and the demand was driven by special new products like our 12mm 6.6L Duramax glow plug socket. This product was inspired by a franchisee observing the technicians removing blocking components one-by-one from a diesel vehicle, fender wells, special intake lines and steering shafts. These items create access barriers, increasing the difficulty of executing the very basic repair of just changing diesel glow plugs, a routine task that was made difficult because of a crowded engine compartment designed with minimal regard for servicing.

We listened to the franchisee feedback, went to work, designed a new socket, longer than the standard to reach the glow plugs from a distance. And with a flex mechanism to guide around the blockers, making it unnecessary to remove them. Technicians immediately recognized the considerable time savings and it made the new socket very popular. It's another customer connection that transformed a laborious process, making work easier, freeing up time and increasing tech capacity, and therefore, tech income.

Also on display was another example of customer connection, the new FHC72MPRR, these product terminations are a mouthful. We call it a triple function ratchet; three tools in one. Again, born out of customer connection directly in the workplace. First, the ratchet head can be secured parallel to the handle serving as a traditional ratchet. Next, the head can be adjusted to take any one of 16 available positions, 240 degrees around the handle centerline, enabling the tool to work while reaching around obstacles. Finally, the unit can be placed in a free spin mode, providing the tech with 360 degrees of continuous rotation, greatly reducing work time in low torque situations. Our customers, the technicians, again saw the great benefit of that improved productivity and that recognition made the triple function ratchet a million-dollar hit product in just the first month of selling. It was another win for customer connection and a driver for the Tools Group.

The Tools Group provided a third quarter achievement and momentum fueled by customer connection, innovative insight, anchoring great new products. And with the group’s continuous dedication to Snap-on value creation, we believe the hits and the progress will just keep on coming.

Turning to RS&I. Sales of $431.8 million in the third quarter were up as reported by 4.2% with an organic improvement of 3.1%. Expansions in our Undercar Equipment and our Diagnostics and Information portfolio continued to offset the OEM businesses which finished down slightly in a traditionally lumpy arena.

OI for RS&I was $104.9 million, up 10%. Again, double-digits from 2022. And the operating margin was 24.3%, which represented an improvement of 130 basis points, again against 20 basis points of unfavorable foreign currency.

We have great confidence in our RS&I business. Our customers and industry partners feel the same, and that confidence was demonstrated in the latest public recognitions. Recently, *Motor Magazine* chose our Zeus+ Fast Track Intelligent Diagnostics platform as a top tool in 2023. Our premium handheld unit was recognized for simplifying the repairs, guiding technicians through the troubleshooting procedures, avoiding unnecessary steps along the way, and improving solution accuracy, and most importantly, reducing the time to identify the proper fix. The Zeus+ is the top of the line for vehicle repair and the publications know it, recognizing our handheld new prominent bright screen, increasing the ease of use in direct sunlight, its faster processor with more onboard memory enabling greater task efficiency, and its improved lab scope, making component testing much more accurate. And when *Professional Tools and Equipment News* asked its readers to choose the best new tools as recipients of that publication's People's Choice Awards, the techs selected seven Snap-on products led by the Zeus+. The Zeus+, top of the line indeed. Hardware, software, shaped by customer connection, another in a long line of distinctive and decisive RS&I products driving the group upwards and onwards. We're quite positive about RS&I’s possibilities with repair shop owners and managers as the vehicle industry evolves and the quarter supports that confidence.

So those are the highlights of the quarter. Continued strong progress, the13th straight quarter above pre-pandemic levels. C&I, margins up, year-over-year volume growth and strong, strong OI margins. The Tools Group, great products, confident franchisees, and strong momentum. RS&I, undercar and repair information activity leading the charge, enabling the repair shops in the challenges of today's vehicles. And the overall corporation, sales up 5.2% as reported, 4.7% organically. OpCo operating margin 21.2%, up 90 basis points, overcoming 50 basis points of currency headwinds. And an EPS of $4.51, rising 8.9% versus last year. It was an 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, $159.3 million in the quarter represented an increase of 5.2% from 2022 levels, reflecting a 4.7% organic sales gain and $4.4 million of favorable foreign currency translation.

Organic sales growth was balanced across all three of our operating segments, and from a geographic perspective, we experienced year-over-year gains in North and South America, as well as Europe. Asia continued to be attenuated by weakness in China and Japan, the latter hampered by a depreciating yen.

Consolidated gross margin improved 160 basis points to 49.9% from 48.3% last year as gross margins expanded across all of our operating segments. Contributions from increased sales volume and pricing actions, lower material and other costs, and benefits from the company’s RCI initiatives were partially offset by 50 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of net sales rose 70 basis points to 28.7% from 28% last year, primarily due to increased investment in personnel and other costs. Operating earnings before financial services of $245.2 million in the quarter compared to $223.5 million in 2022. As a percentage of net sales, operating margin before financial services of 21.2%, including 50 basis points of unfavorable currency effects, reflects an expansion of 90 basis points over last year.

Financial services revenue of $94.9 million in the third quarter of 2023 compared to $87.3 million last year, while operating earnings of $69.4 million compared to $66.4 million in 2022.

Consolidated operating earnings of $314.6 million in the quarter, compared to $289.9 million last year. As a percentage of revenues, the operating earnings margin of 25.1% reflects an improvement of 70 basis points from 2022.

Our third quarter effective income tax rate of 22.6%, compared to 21.6% last year.

Net earnings of $243.1 million or $4.51 per diluted share, including an $0.08 per share impact from unfavorable foreign currency, reflected an increase of $19.2 million and $0.37 per share from 2022 levels, and represented an 8.9% year-over-year improvement 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 $366.4 million increased from $356.8 million last year reflecting an $11.2 million or 3.2% organic sales gain which was partially offset by $1.6 million of unfavorable foreign currency translation. Organic growth includes a double-digit gain in sales to customers in critical industries, partially offset by a double-digit decline in the segment’s Asia Pacific operations.

With respect to critical industries, sales to the military were robust as was activity in the aviation sector. Overall, C&I organic sales to external customers were up 7.1% for the quarter.

Gross margin improved 210 basis points to 39% in the third quarter from 36.9% in 2022. This was largely due to increased sales volumes in the higher gross margin critical industry sector, pricing actions and benefits from RCI initiatives. These improvements were partially offset by 60 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of sales rose 90 basis points to 23.1% in the quarter, from 22.2% in 2022, primarily due to increased sales in higher expense businesses and investments in personnel and other costs.

Operating earnings for the C&I segment of $58.1 million, including $2.9 million of unfavorable foreign currency effects, compared to $52.3 million last year. The operating margin of 15.9%, including 70 basis points of unfavorable currency effects, compared to 14.7% in 2022, reflecting an improvement of 120 basis points.

Turning now to slide 8. Sales in the Snap-on Tools Group of $515.4 million compared to $496.6 million a year ago, reflecting a 3.7% organic sales gain and $500,000 of favorable foreign currency translation. The organic sales growth reflects a double-digit gain in our international operations and a low-single-digit increase in our U.S. business.

Gross margin improved 140 basis points to 46.3% in the quarter from 44.9% last year. This increase is primarily due to higher sales volumes and pricing actions and benefits from RCI initiatives, partially offset by 50 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of sales was unchanged from last year with benefits from higher volumes offset by increased personnel and other costs.

Operating earnings for the Snap-on Tools Group of $113.4 million including $2.7 million of unfavorable foreign currency effects, compared to $102.2 million last year. The operating margin of 22% includes 50 basis points of unfavorable currency, compared to 20.6% in 2022 reflecting an improvement of 140 basis points.

Turning to the RS&I group shown on slide 9, sales of $431.8 million compared to $414 million in 2022 reflecting a 3.1% organic sales gain and $4.8 million of favorable foreign currency translation. The organic sales increase includes a high-single-digit gain in sales of undercar equipment and a low-single-digit increase in sales of diagnostic and repair information products to independent shop owners and managers. These gains were partially offset by a low-single-digit decline in activity with OEM dealerships where we often see variability in essential tool programs from period-to-period.

Gross margin improved 260 basis points to 45.5% from 42.9% last year, mostly due to lower material and other costs, increased sales volumes and savings from RCI initiatives.

Operating expenses as a percentage of sales went up by 130 basis points to 21.2% from 19.9% last year, primarily reflecting increased personnel and other costs.

Operating earnings for the RS&I group of $104.9 million compared to $95.4 million last year. The operating margin improved 130 basis points to 24.3% from 23% reported last year.

Now turning to slide 10. Revenue from Financial Services increased $7.6 million to $94.9 million from $87.3 million last year, primarily reflecting the growth of the loan portfolio. Financial Services operating earnings of $69.4 million compared to $66.4 million in 2022. Financial Services expenses were up $4.6 million from 2022 levels, including $4 million of higher provision for credit losses. The year-over-year increase of provisions reflects both the growth of the portfolio, as well as a return to what we believe to be a more normal pre-pandemic rate of provision. Sequentially, the provision for credit losses decreased by about $500,000. For reference, our gross worldwide extended credit or finance receivable portfolio has increased 9.3% year-over-year and we believe the delinquency and portfolio performance trends currently remains stable.

In both the third quarters of 2023 and 2022, the respective average yield on finance receivables was 17.7%. In the third quarters of 2023 and 2022 average yields on contract receivables were 8.8% and 8.6% respectively.

Total loan originations of $305.2 million in the third quarter represented an increase of $5 million or 1.7% from 2022 levels, including a 4% increase in originations of finance receivables.

Moving to slide 11, our quarter end balance sheet includes approximately $2.4 billion of gross financing receivables with $2.1 billion from our U.S. operation. The 60-day plus delinquency rate of 1.5% for U.S. extended credit is the same as it was in this period last year. On a sequential basis, the rate is up 20 basis points reflecting the seasonal trend we typically experience in the third quarter.

As it relates to extended credit, or finance receivables, trailing 12-month net losses of $47.9 million represented 2.51% of outstandings at quarter end, which is up slightly from the 2.45% reported at the end of last quarter.

Now, turning to slide 12, cash provided by operating activities of $285.4 million in the quarter represented 115% of net earnings when compared to $129.9 million last year. The improvement as compared to the third quarter of 2022 largely reflects lower year-over-year increases of working investment, as well as higher net earnings.

Net cash used by investing activities of $59.7 million included net additions to finance receivables of $35.1 million and capital expenditures of $25.1 million. Net cash used by financing activities of $135.3 million included cash dividends of $85.6 million and the repurchase of 194,000 shares of common stock for $51.8 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional $304.5 million of common stock under our existing authorizations.

Turning to slide 13, trade and other accounts receivable increased $15.1 million from 2023 yearend. Net sales outstanding of 60 days compared to 61 days as of 2022 yearend. Inventory decreased $200,000 from 2022 yearend. On a trailing 12-month basis, inventory turns of 2.4 compared to 2.5 at yearend 2022.

Our quarter end cash position of $959.3 million, compared to $757.2 million at yearend 2022. Our net debt to capital ratio of 4.8% compared to 9% at yearend 2022.

In addition to cash and expected cash flow from operations, we entered into a five year $900 million multi-currency revolving credit facility on September 12, which amends and restates our previous $800 million facility. As of quarter end, there were no amounts outstanding under the credit facility and there were no commercial paper borrowings outstanding.

That concludes my remarks on our third quarter performance. I'll now briefly review a few outlook items for the remainder of 2023.

We anticipate the capital expenditures will approximate $100 million. In addition, we currently anticipate that our full year 2023 effective income tax rate will approximate 23%.

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

Nicholas Pinchuk
Thanks, Aldo. Well, that's our third quarter. You know, I always say the third quarter could be somewhat squirrely, not always indicative of the trend. That's because of the SFC and the vacation seasons around the world. But having said that, the last three months have been encouraging. We took on some significant headwinds, the war in the Ukraine and the uncertainly in China, both politically and economically. We engaged those challenges and came through it all with clear progress. New heights across the board.

It all continued our upward trajectory movement, the upward trajectory we've been on for some time. We've spoken quite a bit about capacity constraints, first in the Industrial business and later in the Tools Group, born of the increasing demand for our solutions. And in this quarter, we clearly see the power of such expansions, wielded by a capable and experienced team, enabled by decisive advantages in product and brand, and applied in markets that are critical and resilient even amidst the challenges.

The Industrial division is performing as we said it would. Clear double-digit growth and strong profitability now demonstrated for three straight quarters as its new capacity has come online.
And the Tools Group is starting to see the very early effects of that capacity propulsion, closing out the quarter with great momentum and with significant rises in overall profitability. And RS&I, not capacity bound, but establishing a strong and profitable position in the repair shops with software strength like our Mitchell 1 systems, diagnostic ascendance like our decorated Zeus+ handheld, and by clear answers to challenges of repair complexity up and down the undercar equipment line, continuing the steep upward trend in that broad product arena.

This was an encouraging quarter. You can see it in the results. C&I sales, up 3.2% organically, external sales, particularly robust. Significant gains in Critical Industries, overcoming the uncertainty of Europe and Asia. OI margin of 15.9% up 120 basis points against 70, against 70 basis points of unfavorable currency. The Tools Group, sales up organically 3.7%, close to target. exiting the quarter with momentum as the expansions start to help. And an OI margin of 22%, up 140 basis points. Again, overcoming 50 basis points of currency headwinds. And RS&I, sales rising 3.1%, OI rising 10% and the OI margins reaching 24.3%, an uplift of 130 points. And it all drove the corporation higher. Sales were up 4.7% organically. Overall OpCo operating margins were 21.2%, a gain of 90 basis points, 90 basis points against 50 basis points of bad currency. And all of that drove an EPS of $4.51, up versus every comparison.

And we believe that with our decisive and widening advantages in product, the Snap-on value creation process, customer connection and innovation will keep rolling out powerful new products day after day. Our advantages in brand, Snap-on remains the outward sign of pride and dignity that working men and women take in their profession. Everybody knows it's true. And advantages in people, our battle tested and capable team, people that expect to rise even against difficulties. With those advantages amplified by capacity investments and applied in resilient and critical markets, we believe that our enterprise will rise on a clear and continuing positive trajectory through the remainder of the year on into 2024 and well beyond.

Now before I turn the call over to the operator, I'll speak directly to our franchisees and associates. My friends, this was an encouraging quarter. It was hard won against significant turbulence and it was driven by your constant dedication and effort. For the success in our third quarter delivered by your hands, you have my congratulations. For the extraordinary capability you bring to bear every day, in every situation, you have my admiration. And for the unwavering confidence you consistently express and clearly demonstrate in the future of our enterprise and our team, you have my thanks.

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

QUESTIONS AND ANSWERS

Operator
Thank you. If you would like to ask a question, please press star then one on your telephone keypad. If your question has already been addressed and you would like to remove yourself from queue, please press star then two.

Today's first question comes from Bret Jordan at Jeffries. Please go ahead.

Patrick Buckley
Hey, good morning guys. This is Patrick Buckley on for Bret. Thanks for taking our questions.

Nicholas Pinchuk
Sure.

Patrick Buckley
Last quarter, you guys called out demand exceeding capacity in a few tools product lines. Did you see that mix mismatch balance out this quarter? Or has some of the trends persisted there?

Nicholas Pinchuk
Well, what I tried to say in my remarks is that it got better through the quarter. We started to get some of the value with the capacity expansions. We're starting to get the early effects of those things. So you saw some of that start to balance out, but it's still there. We expect those capacity expansions to continue helping us going forward.

But it's kind of the same thing. When you have these capacity constraints, and they were principally in hand tools and in the Tools Group, they were in hand tools and in tool storage, as the quarter went on, you see them ease a little bit, but they're not where we want them to be. They're going to be though.

Patrick Buckley
Got it. That's helpful. Thank you. And then, within your OEM dealership customer base, in that RS&I business you called out some weakness and lumpiness there. Is overall demand pretty healthy there or what exactly is the driver?

Nicholas Pinchuk
Demand is pretty healthy on a relative basis. I mean, the thing is, what this business referred to is these are projects, programs authored or commissioned by OEMs principally to deal with the idiosyncrasies of a changing environment or with a new vehicle. Maybe it needs a new trailer hitch adjustment because something wasn't anticipated or a different tool to take out the wiring harness or maybe to support vehicle charging stations at dealerships because electric vehicles are coming on or maybe for a special tool. And what it is, is the OEM asks us to configure the product and then distribute it to its dealerships and that’s been going upwards. But it is lumpy, it's big project after big project after big project. So if you get X number of men in one quarter and you get X minus one in another quarter, there’s a little bit of pressure on that.

In this situation, the EQS business was down somewhat. I think low-single-digits or something like that, but it was really last year it had risen tremendously associated with the fuselage of new models that are rolling out into the markets. And so this is down somewhat versus a pretty strong position. So it just reflects kind of some lumpiness along the surface for that business and that’s created some offset for RS&I.

Patrick Buckley
Got it. That's helpful. That's all for us. Thanks, guys.

Nicholas Pinchuk
Sure.

Operator
Thank you. And our next question today comes from Gary Prestopino with Barrington Research. Please go ahead.

Gary Prestopino
Good morning, everyone.

Nicholas Pinchuk
Good morning, Gary.

Gary Prestopino
Nick, you said that the orders coming out of the conference were strong. I mean, could you give us some idea of some metrics to surround that?

Nicholas Pinchuk
Sure. They were up mid-single-digits. So, we like this kind of thing because it shows we're going to keep growing in that sort of range we expect to grow. During the pandemic, it had been up higher at some points. But generally, mid-single-digit growth is pretty good for us. We were kind of very encouraged by that idea.

You have to remember though, Gary, as you know very well, these things are just orders. You know, they are orders. They are not necessarily sales and those orders are spread out over six months or seven months, so it's hard to correlate them to anything in particular. But having said that, having orders up mid-single-digits is better than a poke in the eye with a sharp stick. You know, it's okay. We kind of like that.

Gary Prestopino
Right. Okay. And then just a question just in terms of, as we go forward, as the car parc gets older, but you're starting to get more of a proliferation of older cars with technology, where does your emphasis go at that point? Does it more or less shift from hand tools to increased diagnostics, specialized diagnostics for these cars? Maybe you can give us some guidance there.

Nicholas Pinchuk
The thing is, is that you would think that would be logical. I would. For sure it bodes greater emphasis on electronics and software and other high tech things, things like calibrations and things like that, which are the words of the day, then they are now. You are going to see a continuing upswing of that investment and the capability and value and revenue and profit generated by that stream.

But, I'm not so sure that hand tools will be attenuated. Because as we look backwards, we remember this industry in the 90s where the number of trouble codes, electronic trouble codes on a car were measured in dozens. Now they're measured in tens of thousands and the demand for hand tools is only going up. So I'm not so sure that hand tools will be lessened. I believe that software and electronics and diagnostics and calibration will be increased. That's what I would say.

Now, by the way, the hand tools are pretty good margin. But it’s hard to predict those, because like I tried to explain in the explanations I was putting out with the diesel glow plug socket and the triple flex function ratchet, really these are things that are observed after the car is on the road and you see the struggles that the technicians are having and you enable them. And so I would anticipate they will continue to be in demand as we go forward. We haven't seen any abatement of that demand even as we've seen a growth in the electronics and calibration business.

Gary Prestopino
Okay. And then just a question for Aldo. Just on the tax rate, Aldo, I think you had kind of said and I don’t have the numbers in front of me, but your tax rate for this year would be between 23% and 24% on previous calls. Now you’ve stepped it down to 23%. But to get to that kind of a tax rate for the year, you're going to have to be somewhere over 24% for Q4. Am I reading that, right?

Aldo Pagliari
It will be in the neighborhood actually of - I think our rate year-to-date, if you put them all together, is around 22.9% or something like that. So we are in the ballpark, so I think it'll be in that neighborhood in Q4. We had some favorable outcomes on reducing our state taxes along with some other items, but that's what benefited Q3.

You notice Q3 last year it was even better. So sometimes there's variation that occurs from time to time. But 23% is about the right number I think we're going to get to in this upcoming full year.

Gary Prestopino
Okay.

Nicholas Pinchuk
Actually, if you look year-over-year, we had kind of 5,6 cents impact for taxes year over year each quarter. Negative impact. Yeah, so we still were up 8.9% even with the $0.37, even with that $0.06 impact.

Gary Prestopino
Okay. Thank you.

Operator
Thank you. And our next question today comes from David MacGregor with Longbow Research. Please go ahead.

David MacGregor
Good morning, everyone.

Nicholas Pinchuk
Hi, David.

David MacGregor
Hey, Nick. I just wanted to ask you about the UAW strikes and any potential impact or repercussions you may be seeing across the business. You talked already about the dealership business and you characterized it as being lumpy, but I'm wondering if maybe OEMs told you to hit the brakes on that while they are sorting out the strike issues? Then if there was any follow on in the tool segment as well?

Nicholas Pinchuk
That's complicated. Look, it's hard to predict, of course. This is like shooting darts in the dark or something. But, look, I think this is the situation. First of all, I want to correct just a little bit. The dealership business itself was not down. The OEM programs were down some, but they were still at a relatively historically high levels even though they backed off a little bit year-over-year. So we haven't seen what I would call a significant pullback in the OEM programs at this point.

Having said that, the UAW strike, I used to work for the auto companies themselves, and they are cash monsters, they eat cash like mad, and so it could happen if the strike goes on longer, you could see some diminishment in that business, in that particular business. Now, when that would hit, I'm not so sure because they might not cancel programs. They might just delay some or they may in fact cancel future programs. Not so clear how it would play out, but it is a possibility that that would happen.

Regarding the dealerships themselves, I think the effect on them is unknowable because sometimes if they don't get new cars, they just turn more attention to repair and parts and so this is good news for us. Sometimes they batten down the hatches and reduce. But generally I think they tend to look more at repair and parts if they don't get the new cars and that's not so bad. So I see that as being the two possibilities playing out.

David MacGregor
Right. Okay, thanks for that. And then, just back to your earlier observation with the SFC order book it was up 5% to mid-single-digit.

Nicholas Pinchuk
I didn’t say 5%, I said mid-single.

David MacGregor
No, you said mid-single.

Nicholas Pinchuk
Right.

David MacGregor
Mid-single-digit, my mistake – apologies.

Nicholas Pinchuk
Sure.

David MacGregor
I'm just trying to sort of reconcile that with some of the capacity challenges you're facing which are clearly improving, but it sounds like they'll still be somewhat of an issue in 4Q. Do you see more of the fulfillment on that order growth being channeled into sort of 4Q and maybe on a year over basis than what you would have seen a year ago when there wasn't that kind of an impediment in place? And as a consequence you might see a little bit of incremental growth from that concentration in 4Q?

Nicholas Pinchuk
I guess. I don't know. I'm not quite sure I understood exactly the import of your question, David. But the thing is, the way I see it is the capacity is getting better. Even if you have the building up, you start putting in the machines, there's a ramp up period. You know how this works. And so you kind of get this, it starts to help you. The first product that comes out is a help, but it's not so clear how much of a help it will be.

I think you'll still see us in the fourth quarter trying to stick handle around the capacity issues and that's part of the thing that's here. But that stick handling will get less complex and, therefore, we should be able to take more advantage of the orders. But the timelines, the time constants associated with that are always pretty hard to predict. They’re dependent on your ability to ramp up, which we have a lot of faith in, and it is dependent on the nature of the orders applied against those. I would simply say that looking forward we feel like we're in a better position than looking recently backwards.

David MacGregor
And maybe this is a question for Aldo, but are you able to talk about the impact on margins from the capacity constraints and incremental costs associated with that in 3Q?

Aldo Pagliari
Well, the overall margin performance is pretty solid as you saw across the board. Sure, there are incremental costs and expediting expenses and elements of overtime having to be expended. But at the same time, with the supply chain improvements that have occurred over the past 12 months or so, we have more resources to turn our attention to RCI initiatives. So, David, while there is a lot of challenge in any quarter, we expect to rise to the occasion and try to offset those incremental costs. But yes, there will be some incremental cost involved, but the Tools Group and the other segments are looking for ways to offset that.

Nicholas Pinchuk
I have to chime in here though. In my book, I think over a hundred basis points margin improvement in every segment, I don't know, sounds gangbusters to me. And so, it sounds pretty good to me. So I think it should be helped going forward, but I'm not sure where that will lay out. We anticipate, like I say, we expect to improve margins all the time.

David MacGregor
Great. Thanks, gentlemen.

Nicholas Pinchuk
Sure.

Operator
Thank you. And our next question today comes from Christopher Glynn with Oppenheimer. Please go ahead.

Christopher Glynn
Hey, thanks. Good morning, all. Curious, Nick, if you could elaborate on your comments about adding capabilities in the critical industry space, what types of activities? What's the scale? What exactly are you chasing so to speak?

Nicholas Pinchuk
Well, look, I think this. First of all, I would say that we haven't plumbed the complete ceiling of the first capacity expansion. By the way, just as a commercial, if you want to behold the capacity expansion, you could look at it on I think the back page of our annual report this year. So, it's right there. It's a pretty sizable thing. And so we're still figuring out how to wield it. That's how it works. You start out and it's pretty good and then you do better, better and better. So I think we have some ways to go there.

What I'm talking about adding is, we just added a new machine shop just for the critical industries in that space. And so that's a particular product where we used to have to outsource them, they took longer to do and we weren't as effective in getting them out and so we decided to do it ourselves in-house. And so we see that will match up, one, we can be more efficient in sourcing, which is a big factor for us; and two, we can be more creative in actually matching the direct demands that customers want. So that's what I meant.

Christopher Glynn
Great. And then cash is approaching $1 billion now. Not sure what level you are comfortable holding, but that will kind of keep piling up unless you accelerate some sort of deployment. So I am wondering how you are thinking about that cash balance?

Nicholas Pinchuk
Well, look, I think, first of all, we are very working capital intense. So, as we move upwards, you tend to use some of that cash for working capital. Although, we're in an era where we used working capital to cushion ourselves against the difficulties of the pandemic. So, some of that you have to weigh out. We look hard at our dividends, which we have paid every quarter since 1939. And I love to say at this point have never reduced it any quarter since 1939. And so, perpetuity is our guiding line on dividends, so we'll look at that again, we'll look at that. And then, you have things like pension and you have things like acquisitions, which are important to us. So, we have a landscape of acquisitions, which we'll constantly look at.

Like, I always say, some are big, some are small and we're not afraid to make a big one. So I kind of like having a war chest for that, especially in these times when the interest rates are pretty high. And then finally, we look at buying back opportunistically shares.

Christopher Glynn
Following up on the pipeline, are you seeing any changes in availability, actionability of some of the larger prospects?

Nicholas Pinchuk
I'm not seeing any. I guess we see a little bit more availability. I'm not sure actionability is any better or not. I think there's been a lot of discussion of that. I think every banker that you see wants to talk about that. But I don't see much difference in that regard. You would think prices would be coming down with

interest rates rising. I don't know but I don't see that. We see a little more availability, though. A little more availability.

Christopher Glynn
Okay, great. Sorry, last point for me. I think you said technician counts up mid to high-single digits. I imagine there's some lag effect to seeing that benefit. Is that fair to think about that as a lead indicator and driver during ‘24?

Nicholas Pinchuk
I think that is fair. Look, especially since there's an accelerator there, Chris. I've been in the job umpteen years and for most of the years technicians were growing at 1%, 1.1%, that was just it. It was really like a metronome. 1.1%, 1.1%. 1.1% And now it's growing mid-single digits. And so, this has got to come in and accelerate for us because one, there'll be more technicians; and two, the new guys need to tool up.

Now, of course that tool-up takes on different shapes. So, for example, they may not be buying the top of the line boxes right away. They may be focused on carts, which in fact if you looked at our tool storage business in the past quarter, it was heavily guided to carts. And so, we're seeing some of that effect right now.

But they do need to tool up, and one of the great things about it is, we spent, I think we're in thousands of schools around the country trying to make sure that people understand that the Snap-on brand is the most powerful brand in repair and making students Snap-on customers for life. And I think we see that as they come out into the marketplace. So growing techs is music to our ears.

Christopher Glynn
Thanks for all the color.

Nicholas Pinchuk
Sure.

Operator
Thank you. And our next question today comes from Scott Stember with Roth MKM. Please go ahead.

Scott Stember
Good morning, guys. Thanks for taking my questions.

Nicholas Pinchuk
Hey, Scott.

Scott Stember
Within the Tools, could you just tell us how some of the sub segments did, hand tools versus tool storage versus diagnostics and power tools?

Nicholas Pinchuk
Yes. Look, I think the big kahuna this month was hand tools, not month, quarter, it was hand tools. Hand tools sold very well in the quarter and so that was pretty strong. Diagnostics was off some after three good quarters and they didn't have a new installation here. And power tools was down somewhat because the Stubby wasn't launched for sale until after the SFC. So that was really a backend phenomena given part of the great momentum in that situation.

If you look at the backend, you would see power tools being a big factor in that situation because it sold like wildfire. Like I said, the wait was worth it. But we demonstrated it at SFC. People were crowding around it, but we weren't selling it. We just wanted to create more pent-up demand in that situation.

Tool storage was down somewhat, but that was pretty much a substitution of, as I just said, of the carts which are lower value per unit than the bigger units, and they take up a little more manufacturing space. So that kind of thing is what was in tool storage. Units were pretty good, but revenues were a little lower because of the mix.

Scott Stember
Got it. And as far as the sales off the van versus into the van.

Nicholas Pinchuk
Sales off the van probably followed, you can say they pretty much followed the Tools Group in terms of the numbers you saw in the Tools Group in general overall and the rise at the end of the quarter. I think one of the things this time, I think we saw a lot of vacations in some cases, like we always do. That's why I say these quarters were squirrely.

Scott Stember
Sell-through was essentially the same as sell-in?

Nicholas Pinchuk
Roughly the same. Yes.

Scott Stember
Okay. Got it. And then just last housekeeping question. I saw the corporate expense up five plus million. What was that related to?

Nicholas Pinchuk
Pretty much stock-based compensation was a lot of it and part of that is, okay, I think we're doing a little better this year than last year than just a basic year. But also, after you put several years together of good, if you go back and look at our numbers, they're up, up, up, up. You know, you are talking about quite a bit of higher basis point OI margins, it starts to work its way into the long term incentive as well. So, you're starting to see some of that play out in that situation. There are other things, drips and drabs here, but I think for government work, that's it.

Scott Stember
Got it. That's all I have. Thank you.

Nicholas Pinchuk
Okay.

Operator
Thank you. And our final question today comes from Luke Junk with Baird. Please go ahead.

Luke Junk
Good morning. Thanks for taking the questions. A couple of margin related questions for me at the segment level. First one Nick, just if I look backwards in the Tools Group, there's just been a lot going on there in terms of material inflation, supply chain, product mix that's been variable and it seems like those are things that could settle down into next year. And I guess I set that against what's already been a step function change in profitability in the Tools Group. Do you see any key offsets or risks that

we should be thinking about going into next year, maybe normalizing price increases versus just building off of where the tools business is now and sort of a normal margin progression into 2024?

Nicholas Pinchuk
No. I don't. Look, I think this time material wasn't a major factor. Tools Group is sort of over that, and so I don't think you're going to see that. I think the Tools Group is just on a good - by the way, a lot of the things you mentioned, like product mix and all that, that wasn't all…every quarter I've been here it's been like this, every quarter is like that. There are always a mix of things that happen in the Tools Group. So we just simply try to balance them so they drive things upwards. This quarter, we got a nice dollop of good margin business. The hand tool business is pretty good. And by the way, when you take a customer connection and you solve somebody's problems, that's why I try to talk about those two things. When you get the glow plugs out in a substantially shorter time, people want that and you get your margins for it. It might seem arcane, but that's the kind of stuff that gets you money. When you provide them a triple flex ratchet, where they can use three different things that are having problems getting around stuff, they will pay you for it. And that kind of stuff works for us.

So I think one of the things that's been driving our margins in this period and all the periods has been a relatively robust product activity. Now, one of the things that did happen, I think, fairly is during the pandemic when supply chains started to be a problem, we were focusing on our engineers on substitution somewhat and took away new product capacity, because the engineers, you only have so many engineers, some of them are working on trying to find components that you can actually source, so you can deliver. But now that that's all over, we can turn the engineers on new product again. So the machine starts rolling at full speed, so we feel pretty good about this actually going forward.

Luke Junk
Thanks. And then just a follow up on RS&I, just thinking about mix in that business. So maybe I'm reading into this too much, in which case, tell me if I am, but undercar equipment, that's been growing strong double-digits for going on three years now, just slightly lower growth up high-single-digits this quarter. I'm just thinking of sort of the mix of growth here between the software businesses and undercar equipment and to what extent we might see more of that software mix shine through going forward. Thanks.

Nicholas Pinchuk
Well, I don't know. I mean, I think we'd like to see the software mix go up. I mean, I think you're going to see that, software is up nicely. I mean Mitchell1 had a nice quarter. Mitchell1 had a great quarter, repair shop owners or managers are rising and we see that building there. So we think we got that on with some great new adjustments and we got more coming.

You got the diagnostics business, which will I think as we move forward, new offerings will drive that business. But undercar equipment is lower profitability, but in the context of relativism, they are, I believe, an all-time high in profitability for them. So when you compare year-over-year, you're getting a positive margin contribution from those guys.

So what we have here, I mean, I think the way forward is somewhat what you're talking about, the way forward for RS&I is more software, but also we believe we can raise the margins in things like the equipment business, because we have been doing it and they're at an all-time high now and going upwards. So we see those to be the two, I guess, factors in that situation.
So that's where I see it.

So I think pretty good things. But look, RS&I with good sales in Equipment, with good strong sales and Equipment, what were they, 24.3%, up 130 basis points? That's not chopped liver. So they seem to be able to keep improving. You go back and look at the results, they keep going upwards. I think that'll continue.

Luke Junk
Okay. I'll leave it there. Thanks for that comment on the Equipment margins. That's helpful, Nick.

Nicholas Pinchuk
Sure.

CONCLUSION

Operator
Thank you. Ladies and gentlemen, this concludes our question and answer session. I'd like to turn the conference back over to Sara Verbsky for any closing remarks.

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

Operator
Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.