Snap-on Incorporated

2024 First Quarter Results

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, and welcome to the Snap-on Incorporated 2024 First Quarter Results 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, this event is being recorded.

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

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

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

As usual, we've provided slides to supplement our discussion. These slides can be accessed under the downloads tab in the webcast viewer as well as on our website, snapon.com under the investor section. These slides will be archived on our website along with a transcript of today's call. Any statements made during this call relative to management's expectations, estimates or beliefs or that otherwise discuss management's or the company's outlook plans or projections are forward-looking statements and actual results may differ materially from those made in such statements, additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

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

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

Nick Pinchuk
Thanks, Sara. Good morning, everybody. As usual, I'll start with the highlights of our first quarter. I'll provide my perspectives on the results, on our markets, and our path ahead. After that, Aldo will give you a detailed review of the financials.

We believe that our first quarter once again demonstrated Snap-on's ability to maintain its strength, to engage headwinds, to manage challenges, and to leverage the multiple opportunities of our markets. Looking at the results in total, we are encouraged. Like most quarters, we had turbulence from geography to geography and from operation to operation. North America was mixed, but with significant gains in critical industries. Internationally, our consolidated results were also mixed, but yielding overall positives, as our operations in Europe and Asia overcame the effects of recessions in Europe and a delayed recovery in China.

Now, the results. First quarter sales were $1.182.3 million, about flat to last year. On an organic basis, excluding $6.7 million from acquisitions and $2.5 million from favorable foreign currency, our sales were lower by 0.8%. OpCo OI was $270.9 million, an increase of $11.1 million, and the OpCo operating margin for the quarter was 22.9%, up 90 basis points. Now both those numbers benefited from the legal payment referenced in our release. But, with or without that legal flow, our first quarter OpCo OI and the margin were among our best. It's a strong statement given the turbulence of the day.

Financial services. Operating income grew to $68.3 million from last year’s $66.3 million and the result combined with OpCo to raise our consolidated operating margin to 26.5%, up over the 25.6% recorded last year. And EPS, it was $4.91, including a per share benefit from a legal payment, of $0.16, but up $0.31 or 6.7% from last year. So those are the numbers.

Now let's turn to the markets and the trends we're seeing as we connect with our customers. From an overall perspective, we believe the automotive repair arena remains favorable. Vehicle OEMs and dealerships continue investing in tools and equipment, preparing for the tide of new models, bringing the latest technologies and drive trains to the market.

In the quarter, our Repair Systems and Information Group, or RS&I as we call it, expanded our reach into OEM programs and took advantage of the opportunities throughout its global footprint. And as we look forward, we see further prospects for RS&I capitalizing on that trend, supplying dealerships and independent garages with just the products they need to confront the wave of modern platforms that are coming. So, the shops are strong.

Now let's speak of the technicians, the guys and gals that twirl the wrenches, punch the keys or tap the screens. This quarter I had multiple occasions to visit with franchisees, and the report was generally that shops are humming. The bays are running at full capacity, and all that mirrors what the macro data says nationally. The car parc is continuing to age, now at an average of 12.5 years and I think moving up, technician wages are rising, and their hours worked are increasing. We believe it all signals ongoing and robust demand for repair, and you know it's true.

The activity is strong, but there is a difference between the industry overview and the technician outlook for the future, and by extension, their purchasing sentiment. The barrage of bad news, inflation, two wars, the border, the Red Sea, the election, the Iran bombing. For the people of work, the fear of what's coming around the corner impacts the outlook and paraphrasing the characters of Dune, fear is the outlook killer. It erodes confidence. Techs are well-positioned and they continue to invest, but it's in quick payback items that will make a difference right away, but don't require a long term payment stream. In response, we continue to redirect the Tools Group’s focus in our design efforts, and our facility capacity, and in our selling and marketing efforts, working to match the current customer preference. So, that's auto repair.

Now, our Commercial and Industrial Group or what we call C&I, serving critical industries and the most international of all our groups. And in the quarter, C&I managed the difficult challenge of balancing multiple economies that are in economic turbulence. Europe now has more than half a dozen countries in technical recession and the China environment, including the nearby countries, depending on it, they continue to struggle. India, on the other hand, is booming. Modi has the train running. So that's a positive in Asia amid some very difficult economies. So that's the geographies.

Now let's focus on the sectors. Areas like aviation continue to be strong. You don't have to read the paper very long to realize there's a significant focus on aerospace production and repair where the price for failure is high. That arena is increasing demand for our precision torque products and for our asset control solutions to improve safety and productivity. In addition, in that sort of critical arena, custom kits, matching a set of items to a particular task remains an important business, especially for the military, both domestically and internationally. With that, critical industries is a substantial opportunity and we are investing, expanding capacity, adding new products either organically or through the acquisitions were made over the last few years. We're fortifying our runways for growth, extending outside the garage, and we know it's paying off.

So overall, the quarter was favorable despite the headwinds. Tools group pivoting. RS&I expanding with OEMs. C&I extending beyond the garage, solving the critical. And the OpCo OI percentage demonstrated once again the power of Snap-on's value creation processes: safety, quality, customer connection, innovation, and rapid continuous improvement. Developing innovative solutions that are born out of insight and observations right in the workplace. This understanding melded with RCI helped Snap-on to once again hold fast in the turbulence of the day. Well, that's the macro overview.

Now let's move to the segments. In the C&I Group, sales were $359.9 million representing a decrease of $3.9 million or 1.1%, and that includes $6.7 million in acquisition-related sales, $1.4 million in unfavorable foreign currency, and an organic decline of 2.5%. It also reflects higher activity with customers in critical industries, more than offset by weakness in Asia Pacific and in our power tools.

From an earnings perspective C&I operating income was $55.4 million. That was about the same as last year. The operating margin was 15.4%, up 10 basis points, and that was despite 30 basis points of headwind from currency and the acquisitions.

Within the quarter the demand for custom kits, addressing particular critical tasks, remained nicely robust with increased demand for asset control solutions like our Automated Tool Control products. It was a nice bright spot in C&I. On the other hand, power tools was down in the quarter, but help is on the way.

Two new power tool models, born out of customer connection, were recently introduced, each fulfilling specific needs. For repair garages, we launched the PH3045B Air Hammer. This is a tool that replicates the effect of swinging a hammer and hitting a chisel, except the device hurls the hammer 3,500 times a minute. Vehicles are filled with components like ball joints, wheel bearings, suspension bushings that are packed in, tight fits for maximum efficiency. Disassembly can be a bear. We know this from being in the garage. Well, with our new air hammer, the easy-to-use retainer securely holds the chisel in place while the piston sledgehammers away. It's powerful, but at the same time the compact two-inch barrel enables access in tight spaces, delivering tremendous power, speed, and energy with unlimited runtime. It's a real productivity enhancer. But the essential feature, born out of watching the technicians in the shop, is the best-in-class vibration reduction created by special elastomer shocks, allowing the mechanic to pound away at seized suspension components without fatigue or pain. No more sore arms from hammer work. The new hammer was introduced late in the quarter and techs have already noticed.

Also in power tools, our cordless portfolio expanded with the introduction of a new 18-volt Nibbler designed for collision repair and metal fabrication. This is a big time saver. It speeds up work that once involved hand shears or other devices. It helps technicians to cut any freeform shape conceivable out of tough sheet metal. Again, the design resulted from customer connection, from watching the techs struggle with shears. Our new Nibbler makes a big difference when cutting into fenders, extracting a damaged panel, or cutting a ceiling of a car, accommodating installation of a sunroof, or creating a place anywhere in the vehicle for placing emergency lighting shining the way for first responders. I have to tell you, we're encouraged by these innovative new products, and by all the others we're planning to introduce as the days go forward. We know work, and they all will make a difference right away. C&I, a quarter confronted with international headwinds, strong momentum in domestic markets, led by critical industries, extending out of the garage, with growing strength.

Now, let's talk about the Tools Group. The first quarter for the Tools Group was below our standard. However, we do remain confident and we do see a pivot to focus on quick payback items registering a positive momentum and movement. Sales in the quarter were $500.1 million, including an organic decrease of 7%. The group's operating income margin was 23.5%, down 100 basis points. Notably, gross margin in the quarter rose 90 basis points, reaching 48.2%. You see, shorter payback volumes aren't shorter on profitability.

During the quarter we worked to redirect our plants, guide our franchisees to innovative solutions that drive productivity, and we kept engaging our customer connection, observing the tasks executed in the bay and using the insights to design and deploy innovative and focused products. Offerings that are dedicated to making work easier, like two new products just engineered to address time consuming tasks where simple repairs are made complex by limited accessibility or by seized components that slow the work to a snail's pace. You can see it in the garage.

For instance, on General Motors, the 6L80 and the 8L90 transmissions, the valve body bolts are obstructed by the exhaust setup, making it very taxing to do this job with a standard ratchet or socket combination. We were in some of those GM garages and observed the problem firsthand, classic customer connection. And the innovation that followed is our quarter-inch drive TORX Plus EPL10 Low-Profile Inverted Socket - that's a mouthful. That innovation was released in the first quarter and it does make GM transmission work easier. The new custom design precisely maneuvers between the exhaust assembly and the transmission, engaging the fastener in such a way that provides enough clearance for a ratcheting box-end wrench or a hand ratchet to access the bolts for easy removal with no exhaust disassembly required, saving more than 45 minutes per repair right away. Tech's working on GM transmissions can complete more work with this device and make more money. They can do that right away. Quick payback.

Another example of that was we saw that removing the brake caliber pins on Toyota trucks and sports utilities was very difficult. The pins on 4Runners, Tacomas, and Tundras are exposed to harsh road environments, often causing the parts to become immovable, regularly requiring heat or excessive force to free the restricted fasteners. Each of those methods requires time, and it raises the risk of damage to nearby components, often elevating the complexity of the repair, taking a lot more time. Watching the work, our engineers produced a unique punch-like bit that precisely aligns an air hammer with the dimensions of the pin, maximizing the extraction force without endangering the surrounding systems, once again simplifying the task and freeing the tech to move on to other jobs. It’s another quick playback item that's now available and popular.

Finally, in the quarter, we expanded the only U.S.-made locking plier lineup by releasing two new models. The LP5LN, constructed with a tapered nose, it's ideal for additional reach inside confined spaces to easily access narrower work pieces, and the new LP5WC, delivering a reliable gripping power to difficult to engage round objects like hoses. Beyond the special features of those two models, our subcompact six-inch plier line offers increased accessibility because it's small, enabling techs to maneuver in crowded engine compartments and under the dash. The designs also provide unmatched clamping forces that will not slip under load and with the locking mechanism, the pliers also serve as a second pair of hands. They can lock them up, holding materials securely in place, freeing up the technicians’ hands to complete another step in the repair. Each of those locking plier units is forged and produced in our Elkmont, Alabama plant and they're the only locking models made in the U.S. Well, that is the Tools Group, pivoting to match the technicians’ current preferences and needs, wielding our customer connections, deploying solutions that improve efficiency by making tasks easier.

Now, RS&I. The RS&I Group's results confirm I think what we've been saying all along. Snap-on is well positioned to support repair shops, both dealers and the vast network of independent shops. In that regard, RS&I sales in the quarter were $463.8 million, up $17.2 million or 3.9% versus last year, with an organic sales increase of 3.3%. Operating earnings for the group reached $112.9 million reflecting an increase of $8.3 million or 7.9% versus last year. The operating income margin was 24.3%, rising by 90 basis points, a powerful performance driven by OEM related activity and sales in undercar, helping shops prepare for new technologies in terms of OEM related activity in sales and undercar, and enabling system upgrades in the growing collision market. We continue to see— to clearly see abundant runways for growth in RS&I and we're working to take advantage.

One example of that is the launch of our new heavy-duty repair information software. This package combines the vehicle interface capabilities of our Nexiq heavy-duty diagnostic units with the horsepower of our Mitchell 1 information database. It's an innovative solution for repair in the heavy-duty industry, which over the past decade has seen an explosion of new technologies relating to sophisticated emission control along with advanced computer and electrical networks that all combines to present heavy mechanics with complex and complicated repair tasks. Now, the solutions are all located in one spot. Techs can search by VIN number and access operating specifications, troubleshooting tips, and interactive wiring diagrams, specific to the particular vehicle, all big timesavers. This new product was deployed in the quarter and it's a groundbreaking integrated platform that combined diagnostic capability together with vehicle information. It's very powerful, and I can tell you, the heavy-duty industry has noticed. You can see it in the RS&I numbers.

In the quarter, our diagnostic division also released its latest 24.2 software upgrade, expanding our broad range of vehicle coverage and test procedures throughout all our existing hardware. The new upgrade strengthens our already market-leading data position. Technicians get access to our SureTrak vehicle-specific, real fixes, repair tips, and commonly replaced parts, all derived from our proprietary database of 2.7 billion repair actions and 355 billion data records. Unmatched insight, not only to interpret what the vehicle trouble codes are saying, but to uniquely use the information to determine the exact problem, analyzing millions of data lines per car, predicting the most likely repair. Snap-on uniquely provides this capability, and in this latest update, we continued adding new models and functionalities, making our proprietary software position even more effective and more powerful. We're confident in the strength of RS&I and we keep driving to expand its position with repair shop owners and managers by making work easier with more and more great new products.

Well, that’s Snap-on’s first quarter. Sales flat, overcoming the significant headwinds. Critical industries advancing again. The Tools Group pivoting, matching the preference for quick payback products. OEM, undercar repair, and information markets remaining robust. The OpCo OI margin 22.9%, up 90 basis points and an EPS of $4.91. Strong results that overcame the headwinds and benefited from a legal outcome, all demonstrating the strength in the midst of turbulence. It was an encouraging quarter. Now I'll turn the call over to Aldo. Aldo? Thanks,

Aldo Pagliari
Thanks, Nick. Our consolidated operating results are summarized on slide six. Net sales of $1.182.3

million in the quarter compared to $1.183 million last year, reflecting an eight-tenths of 1% organic sales declined, partially offset by $6.7 million of acquisition related sales and $2.5 million of favorable foreign currency translation. Activity in our automotive repair markets was mixed. Gains in sales to OEM and independent shop owners and managers were more than offset by lower sales to technicians through our franchise van channel.

Within the industrial sector, or our C&I group, sales to customers in critical industries were up mid-single digits in the quarter as compared to last year. Consolidated gross margin of 50.5% improved 70 basis points from 49.8% last year, primarily reflecting benefits from lower material and other costs, and savings from the company's RCI initiatives. Operating expenses as a percentage of net sales of 27.6% compared to 27.8% last year.

In the quarter as noted in our press release, operating expenses included an $11.3 million benefit for payments received associated with a legal matter. The 20 basis-point improvement in the operating expense ratio is primarily due to the benefit from the legal payments, partially offset by increased personnel and other costs, which includes a 20 basis-point impact from acquisitions.

Operating earnings before financial services of $270.9 million in the quarter, including the benefit from the legal payments, compared to $259.8 million in 2023. As a percentage of net sales, operating margin before financial services of 22.9% compared to 22% last year. Financial services revenue of $99.6 million in the first quarter of 2024 compared to $92.6 million last year, while operating earnings of $68.3 million compared to $66.3 million in 2023.

Consolidated operating earnings of $339.2 million, which included the legal benefit, compared to $326.1 million last year. As a percentage of revenues, the operating earnings margin of 26.5% compared to 25.6% in 2023. Our first quarter effective income tax rate of 22.2% compared to 23.1% last year. Net earnings of $263.5 million, or $4.91 per diluted share, including an $8.8 million or $0.16 per diluted share after tax benefit from the legal payment compared to $248.7 million, or $4.60 per diluted share in the first quarter of 2023.

Now, let's turn to our segment results for the quarter. Starting with the C&I group on slide seven, sales of $359.9 million compared to $363.8 million last year, reflecting a 2.5% organic sales decline and a $1.4 million of unfavorable foreign currency translation, partially offset by $6.7 million of acquisition related sales. The organic decrease is primarily due to a double-digit reduction in the Power Tools business and a high single-digit decline in the segment's Asia Pacific operations, mostly associated with lower intersegment sales. These declines were partially offset by a mid-single-digit gain in sales to customers in critical industries.

With respect to critical industries, military and defense related sales were robust, as was activity in the aviation sector. Gross margin improved 200 basis points to 40.8% in the first quarter from 38.8% in 2023. This was largely due to increased volumes in the higher gross margin critical industry sector, lower material and other costs, savings from RCI initiatives, and 50 basis points from the benefit of acquisitions.

Operating expense as a percentage of sales rose 190 basis points to 25.4% in the quarter from 23.5% in 2023, primarily due to the effects of lower sales volumes, investments in personnel and other costs, and a 70 basis-point impact from acquisitions. Operating earnings for the C&I segment of $55.4 million compared to $55.8 million last year. The operating margin of 15.4% compared to 15.3% in 2023.

Turning now to slide eight. Sales in the Snap-on Tools Group of $500.1 million compared to $537 million a year ago, reflecting a 7% organic sales decline, partially offset by $600,000 of favorable foreign currency translation. The organic decrease reflects a high single-digit decline in our U.S. business, partially offset by a mid-single-digit gain in our international operations.

Gross margin improved 90 basis points to 48.2% in the quarter from 47.3% last year. This improvement primarily reflects decreased sales of lower gross margin products. Operating expenses as a percentage of sales rose 190 basis points to 24.7% in the quarter from 22.8% in 2023, largely due to the lower sales volume. Operating earnings for the Snap-on Tools Group of $117.3 million compared to $131.7 million last year. The operating margin of 23.5% compared to 24.5% in 2023.

Turning to the RS&I group, shown on Slide 9. Sales of $63.8 million dollars compared to $446.6 in 2023, reflecting a 3.3% organic sales gain and $2.5 million of favorable foreign currency translation. The organic increase includes a high single-digit increase in activity with OEM dealerships, and a low single-digit gain in sales of undercar equipment. Gross margin improved 150 basis points to 45% from 43.5% last year, primarily due to benefits from lower material and other cost and savings from RCI initiatives. Operating expenses as a percentage of sales rose 60 basis points to 20.7% from 20.1% last year, primarily reflecting increased personnel and other costs. Operating earnings for the RS&I Group of $112.9 million compared to $104.6 million last year. The operating margin of 24.3% compared to 23.4% reported last year.

Now turning to Slide 10. Revenue from Financial Services increased $7.0 million or 7.6% to $99.6 million from $92.6 million last year, primarily reflecting the growth of the loan portfolio. Financial Services operating earnings of $68.3 million compared to $66.3 million in 2023. Financial Services expenses were up $5.0 million from 2023 levels, including $4.3 million of higher provisions for credit losses.

In the first quarters of both 2024 and 2023, the average yield on finance receivables was 17.7%. In the first quarters of 2024 and 2023, the average yields on contract receivables were 9% and 8.7% respectively. Total loan originations of $301.7 million in the first quarter represented an increase of $800,000 or 0.3% from 2023 levels. Increased originations of contract receivables were mostly offset by a low single-digit decline in extended credit originations.

Moving to Slide 11. Our quarter-end balance sheet includes approximately $2.5 billion of gross financing receivables with $2.2 billion from our U.S. operation. For extended credit, or finance receivables, the U.S. 60-day-plus delinquency rate of 1.8% is up 30 basis points from the first quarter of 2023, but unchanged from the rate reported last quarter.

Trailing 12-month net losses for the overall extended credit portfolio of $54.1 million represented 2.75% of outstandings at quarter end, which is up 16 basis points from the end of last quarter. Considering the current environment and despite the slight upward trends, we believe the delinquency and portfolio performance metrics remain relatively stable.

Now, turning to Slide 12. Cash provided by operating activities of $348.7 million in the quarter represented 129% of net earnings and compared to $301.6 million last year. The improvement as compared to the first quarter of 2023 largely reflects lower year-over-year increases in working investment, which included a reduction in inventory during the quarter, as well as higher net earnings.

Net cash used by investing activities of $63.2 million primarily reflected net additions to finance receivables of $40.2 million and capital expenditures of $21.8 million. Net cash used by financing activities of $164.2 million, included cash dividends of $98.2 million and the repurchase of $248,000 shares of common stock for $70.2 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional $290.6 million dollars of common stock under our existing authorizations.

Turning to Slide 13. Trade and other accounts receivable increased $36.2 million from 2023 year-end. Day sales outstanding of 63 days compared to 60 days as of yearend and to 62 days as of the end of the first quarter of 2023. Inventories decreased $35.4 million from 2023 year-end. On a trailing 12-month basis, inventory turns of 2.4 compared to 2.3 at yearend 2023. Our quarter end cash position of $1.120 million compared to $1.1.5 million at year-end 2023. Our net debt to capital ratio of 1.5% compared to 3.8% at year-end 2023.

In addition to cash and expected cash flow from operations, we have more than $900 million available under our credit facilities. As of quarter end, there were no amounts outstanding under the credit facility and there were no commercial paper borrowings outstanding.

That concludes my remarks on our first quarter performance. I'll now briefly review a few outlook items for 2024. With respect to corporate expenses, in the second quarter, we believe we could benefit from a legal payment similar to that received in the first quarter. For the full year, we expect that capital expenditures will be in a range of $100 million to $110 million, and we currently anticipate that our full year 2024 effective income tax rate will be in the range of 22% to 23%.

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

Nick Pinchuk
Thanks, Aldo. Well, that's the first quarter. Strength in the midst of tolerance, even with a part of the enterprise below standard. You see, Snap-on is a business that reaches varied customers in different industries and in various geographies, united in a coherence, that is the criticality of work, the essential nature of what we do. We have opportunity and advantage in virtually all of those arenas. As a consequence, even when the largest of our entities is not at standard, we find a way in other areas to maintain overall strength. It's that coherent strategic breadth, and the experience and capability of our team to execute, that has made Snap-on so resilient, moving consistently upward for all these years. This quarter was another demonstration of that resilience.

C&I, engaging economic challenges across geographies, extending to critical industries, proving that Snap-on can roll out of the garage, exploiting the considerable opportunities, and do it profitably. The Tools Group, acting to adapt, pivoting to accommodate the techs' uncertain outlook and their preference for quick payback products, and doing it with still enviable margins. In fact, with gross margins up 90 basis points, showing the promise of their pivot. RS&I, seeing opportunities with repair shop owners and managers and making the most of it despite the challenges in Europe, volume and margins growing in a very imperfect environment. And the credit company working against the grain of short payback preferences and still raising profits. And it all came together to keep activity flat despite the difficulty, to register an OpCo operating margin of 22.9%, up 90 basis points, and to record an EPS of $4.91, numbers that are among our strongest ever results, with or without the legal benefit.

And as such, we look ahead with confidence fortified by our inherent advantages in our product, deep, wide and growing, solving more critical tasks every day. Advantages in our brand – Snap-on is the outward sign of pride working men and women take in their jobs – and advantage in our people… committed, capable, turbulence tested many times, a team that knows how to wring the positive out of the difficult. Fueled by those advantages, we believe Snap-on will maintain its strength moving positively throughout 2024 and well beyond.

Now before I turn the call over to the operator, I'll speak directly to our franchisees and associates worldwide. You know, the first quarter was a resilient and robust demonstration of Snap-on's strength against challenge, and it all reflects your extraordinary effort to make it so. To your contributions to results, you have my congratulations. For the special capabilities you bring to bear on behalf of our team every day, you have my admiration. For the unshakable belief you consistently display in our future, you have my thanks.

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

QUESTIONS AND ANSWERS

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

Our first question today comes from Scott Stember with Roth MKM. Please go ahead.

Scott Stember
Good morning and thanks for taking my questions.

Nick Pinchuk
Good morning, Scott.

Scott Stember
Nick, it sounds like within tools that power tools was the weakest. Could you maybe quantify that, how much and maybe just talk about how the other sub-segments like tool storage, diagnostics and hand tools did?

Nick Pinchuk
Power tools was down the most. Interesting thing, I hate to say tough comparison, they did have a difficult comparison year-over-year. Last year was one of the bigger quarters. It actually was up sequentially. So we saw some movement there in the pivot towards shorter payback items versus where we were in the fourth quarter. I think that was certainly down the biggest, and as I think Aldo said, was down double-digits. Diagnostics was down.

One of the things that did help the profitability was the fact that tool storage was up and hand tools wasn't as afflicted as the others. So, therefore, what the tools group actually makes - remember that in the in the array of products, the tools group for tool storage and hand tools gets both a distribution and manufacturers margin. So that really is what describes the product array.

When we look at it, we can see the effects of pivoting. Tool storage was up, but it was in what we call the lower end. We're kind of pleased with it, because we worked hard on the Algona plant trying to do this pivot to get more capacity in the accessory and in the classic line in the carts. The accessories and the classics had big quarters, and those were the lower cost items, which people don't get as embroiled in longer payback. So, we were kind of pleased with that. Hand tools, I showed you some of the arrays out of customer connection that we rolled out, and we're rolling out more going forward.

Scott Stember
So, some of the two new power tools that you referred to, you said help is on the way. When do you think we'll start seeing this? Is this starting to ship to—

[*Overlapping voices*]

Nick Pinchuk
Yes. No, we saw some of that in the quarter toward the end of the quarter. The way things played out, things got better, I think. Sales to the vans got better as the quarter went on. So, we kind of had some momentum. I hate to overplay that because I've been here a while. I see all kinds of calendarizations from quarter- to-quarter. You know the end did have Easter this year and still it looked pretty good. So, I think we're kind of encouraged by that. What I meant by that was I liked those two that I brought out. We brought out other ones and we have an array of new ones coming out in the second quarter around power tools. So I think what I meant there is help is on the way as we introduced in the quarter a couple of things, those two I mentioned, plus, we've got others coming.

Scott Stember
Got it. Just last question. If you were to take out the intercompany pressure in RS&I and C&I, what were the external sales? How did they do in both of those segments in the quarter?

Nick Pinchuk
Well, yeah, look…if you look at it organically without currency and just on acquisitions, which would raise the numbers actually, just apples-to-apples, C&I was up 2.2% externally, and I think RS&I was up almost 6% (5.8%). So RS&I was pretty good, right where we expect them to be all the time. So, RS&I really had a pretty good quarter. And actually, given Europe, seven countries in recession, you know? So, you see this kind of thing. I think the hand tools business in Europe was kind of in defilade, and so the other businesses went pretty well, so we're pretty pleased with those businesses.

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

Operator
The next question is from Christopher Glynn with Oppenheimer. Please go ahead.

Christopher Glynn
Thanks. Good morning, guys and lady. Nick, the nice descriptions on the NPIs. I was actually laughing a bit because I had that issue with I think the caliper pins on my Sequoia last time I fixed the brakes, so...

Nick Pinchuk
Oh, you did?

Christopher Glynn
So I don't think Sequoia was on your list, but you can add it.

Nick Pinchuk
Those are the kinds of things that sell. When we talk about short payback items, these guys can see the tool and say, “Hey, I've been spending a dog's age fixing these things and this helps.” So,

I think it works out okay for us, yes.

Christopher Glynn
I was wondering if you could contrast, share some thoughts on the kind of decent strength from repair shops within auto repair umbrella versus the technicians having some confidence.

Nick Pinchuk
Look, we've seen it before. We actually saw it in the financial recession, the great financial recession back, what, more than 10 years ago, and the COVID. In the COVID, the shops weren't down that much. They were down for a few weeks and then they figured out what to do. They were humming in both situations, but the technicians were confidence poor. They didn't know where the world was going.

So, if you remember, I think it's approximately in the beginning of the COVID when we had the recoveries coming out and we had that V-shaped recovery in the third and fourth quarter, that was driven a lot by hand tools, small payback items, short payback items. So, that's what they do. They kind of say, I don't know. It's very interesting, financial economy, we have all these calculations. The people that work, they get up every morning and they see the news for breakfast, and if enough of it is bad they start to lose confidence. So, that's what they're saying. They're thinking, geez, I don't know where these wars are going to go. Are they going to start raising taxes? Are kids going to have to fight? The border, it seems to be a migration, all those things. They start saying, "Well, I know I'm doing good now, but I'm not sure what's going to happen in the future." They don't think in terms of soft landing, hard landing. I'm not sure what's going to happen in the future. So, they don't want to get themselves out in traffic. Sometimes the narrative about everyday working people is that they're profligating, borrowing bad times. That's not been my experience. These people are pretty grounded—

[*Overlapping voices*]

Christopher Glynn
Okay. Sticking with those techs, we're seeing the lagged effect of inflation and rates a bit here on small private operators, and you're focused on pivoting the focus to match the faster payback. Should we basically figure you need a couple quarters to align that as you, you know, rejigger the organizational—

Nick Pinchuk
I don't know. Certainly, I'm tasking the Tools Group to do it at light speed and we are working on it with alacrity. It is an unknowable amount, because what happens is, as you move your capacity around in the factories, as you refocus your capacity, no matter how much you start putting at things, you start setting yourself back. You set up more tasks to deliver, and sometimes that can be a problem. Despite the number, the number was worse from I think a little bit in the quarter, but we saw progress there. We saw the characteristics shifting, and so we think that's going to work for us because we've seen it's worked before. I don't know how long that'll take. Certainly, we expected to see improvement as we go forward, What the rates of that improvement are, I cannot tell.

Christopher Glynn
Makes sense. Thank you, Nick.

Operator
The next question is from David MacGregor with Longbow Research.

David MacGregor
Good morning, everyone.

Nick Pinchuk
Good morning, David.

David MacGregor
Good morning, Nick. I guess based on our work, we expected the weaker confidence from technicians, but we also know you were more promotional than normal in first quarter with the regional kickoffs and the follow-ons. Clearly franchisees were not responding to those elevated promotional levels to the extent we thought. I guess going forward, do you raise further the promotional discounts and incentives? Can you restore growth in the tools segment in 2024 or are we looking at the segment continuing at a negative mid-single digit pace through the balance of the year? It sounds like your answer to the last question was kind of a more passive approach where you just have to wait and see how things play out as opposed to maybe taking more active initiatives.

Nick Pinchuk
Well, I don't know. I don't know if I accept your first premise that we were more frenetic in our promotions in the first quarter than usual. I don't know that to be true. You know, David, though, I'm not reviewing every promotion all the time either. So, I couldn't sit here and review them all. I don't think so though. Our view is like this: The real solution to this is to pivot. The more of these small products, these short payback products - and they're profitable - that we get out, the more sales we'll have. I think trying to promote against the wind is like pouring water up a rope, and so we're not going to do that. We're not going to do that. I'm not that desperate. You know what I mean?

I mean, look, this is a quarter. Okay, the quarter is substandard, but we expect improvement. And oh, by the way, I think our margins are still enviable. So, I'm not saying we won't have good promotions. That's not what I'm saying. But, I'm saying we're not going to get our hair on fire obviously in a promotion line. We will get our hair on fire trying to pivot, designing short payback items, altering the capacity in the factory, and having our people in sales put more energy into getting our franchisees - how you going to sell these shorter payback items? Sure, if somebody wants to buy an EPIQ, we'll be we'll be happy to accommodate them. But, that's what I'm talking about here. I don't think we're going to be promoting any more than normal, any different than normal. Let's put it that way, except maybe to focus promotions on maybe some short payback items to try to give people some energy around it. Actually, David, promotions aren't necessarily cost reductions, although they appear to be sometimes, price reductions. Sometimes it's just about creating energy and focus, like having a pep rally.

David MacGregor
I'm pretty certain that your post-regional kickoff promotions were up year-over-year versus last year, but I can follow up with you offline on that.

Nick Pinchuk
I'm not saying you're wrong, David. I'm just saying I'm not aware. I don't feel like we were frenetic about it. That's all. You're talking to the wrong guy if you think I'm following every promotion. I don't, but the envelope I kind of described to you, we expect to follow.

David MacGregor
Just a couple of follow up questions, Nick. Can you talk about the progress you made this quarter with incremental manufacturing capacity and maybe the extent to which that increase in the ability

to ship provided a partial offset to the negative top line?

Nick Pinchuk
Well, I don't know about the volumes, but I liked what happened in Algona, David, you know, the tool storage plant. It seems as though Algona, which had been pounding away on it for a long time as I know you're very well aware, had made pretty good progress. I think we're a little behind that in say like Elizabethton and Elkmont and certainly Milwaukee in terms of the hand tool plants, which may be a little more difficult to create the changes and create the pivot. So, I was pleased with what happened. I don't know though. Yes, not so much liquidation. I don't think there was that much of that. I think that would have been helped in the fourth quarter some too. So, I don't know. Not really a big factor in this situation.

David MacGregor
Okay. This last quarter you had some inventory put-back for franchisee attrition that contributed to the negative growth. Was franchisee attrition up again this quarter, and was the inventory put-back again the source of negative growth?

Nick Pinchuk
I would say there was inventory put back, but maybe a little bit less, about the same I suppose as the fourth quarter. Maybe not quite the same. Maybe not quite the same. So, we didn't see quite the biggest…what happened and I think the phenomena there, David, is that remember I said that everybody was white hot coming out of the SFC, and then all of a sudden everybody started to get a little nervous, and that caused a little more put-back. I don't think we had that transition piece in this period, so that probably ended up not having as much put-back.

David MacGregor
Okay. The last question for me just on credit. I guess I'm trying to make sense of the flat originations, given it sounds like the diagnostics business in particular might be pretty weak. How much of that do you think was just kind of revolving account transfers, and what's changing in terms of these?

Nick Pinchuk
I don't think we watch that. I'm pretty sure I know that. That didn't change.

Aldo Pagliari
It’s actually lower.

Nick Pinchuk
Yes, not really a factor.

David MacGregor
But what's changing in terms of the EC approval rates? I guess you mentioned EC originations were down low single-digits. I 'm just guessing overall credit penetration rates are directionally lower. Can you just talk a little bit about what you're seeing in credit trends?

Nick Pinchuk
I’ll let Aldo follow up on that.

David MacGregor
Your provisioning was up $4 million.

Aldo Pagliari
I don't think the penetration rates are different at all. I think what Nick has described is lower sales of big-ticket items. If there's lower big-ticket items, then there's lower EC originations. But I don't think there's any anything dramatic in terms of a shift of any sort, in terms of how Snap-on Credit is participating in the sales in the Tools Group.

Nick Pinchuk
If it helps, David, remember the faster payback items. So, in diagnostics, diagnostics was down, but the smaller and SOLUS+ plus was strong in the quarter, and that doesn't get EC'd as much as say, the top end, Zeus. So some of that's in that situation, but not really much change. You know as well as I do that EC doesn't necessarily follow directly to the Tools activity.

David MacGregor
Right.

Nick Pinchuk
Okay.

David MacGregor
Good. Thanks very much, gentlemen.

Nick Pinchuk
Sure.

Operator
The next question is from Gary Prestopino with Barrington Research. Please go ahead.

Gary Prestopino
Hi, good morning, all.

Nick Pinchuk
Good morning, Gary.

Gary Prestopino
Nick, could you maybe just help me out here? I mean, the market for auto repairs is very strong. Sometimes it takes longer than you would expect to get your car repaired even on the collision side.

Nick Pinchuk
I agree.

Gary Prestopino
But yet, you're saying your power tools are down and diagnostics down? Don't the technicians really need to have these products in order to do their jobs correctly and efficiently and quickly? So, I guess what I'm asking is, is this really a function of maybe what's going on with the Tools Group is that your diagnostic products have kind of permeated the channel, and there's not a lack of demand is maybe being driven by the fact that everybody's needs have been taken care of. Then on the other side, the power tools, maybe there just hasn't been the opportunity to innovate as much as you had maybe last year to drive growth. I'm just trying to square all this together.

Nick Pinchuk
Well, look, I think the thing is in diagnostics we did sell the quicker pay back items, the SOLUS+. It

was the big ticket ones like Zeus, which is quite a bit more expensive, that didn't sell. In power tools, yes, it can can follow very strongly what's introduced in a certain period of time. The power tools, I think, looks worse than it is. Like I said, it was up sequentially with some reasonable gains. So, I think we see progress in the power tools. So, I don't think we're seeing that. We've seen it before where technicians will focus on things. They have an array of things they want to buy from Snap-on. Often when they're confronted with this, they make a transition to say, well, I want to see the world play out a little bit more. I'll buy this wrench or I'll buy this smaller box or I'll buy a small diagnostic or I'll maybe hold on to my power to a little bit longer. People need the products. On the other hand, it is an imprecise thing.

Sometimes we'll say okay, I need a particular power tool or a diagnostics because I had trouble last week on some Toyota, or maybe on a on a BMW. They'll say, well, I'll wait a little while because I won't see another BMW for a month or two, or in our quarter, three or four months. You'll see that. It's an imprecise situation. Simply, our view of it is it's always influenced by product, about the new stuff that rolls out. It's a complex array. What's happening at least as far as we can report, and I've talked to a lot of guys, one guy in Northern California said the techs are scared. Another guy I talked to in Kentucky…Crittenden, Kentucky…said they're getting involved in the everyday news. It's weighing them down. I got another guy in Nevada in Reno who said they're obsessing over the election. So I'm telling you, this is sort of saying, where's the environment going to go? I'm going to keep my powder dry for a while. I'm going to just take it bit-by-bit. I don't want to take a big bite.

Gary Prestopino
Okay. Thank you.

Nick Pinchuk
When they want to figure out how to repair cars, they don't take a big bite.

Gary Prestopino
All right. Then I guess the last, you had mentioned that this had happened before I think in the great recession.

Nick Pinchuk
And in the COVID. Gary, and in the COVID.

Gary Prestopino
So how long did this take to flush out? Was just a couple of quarter phenomenon?

Nick Pinchuk
You know, in the COVID, I would say it took three quarters, maybe two quarters. Basically, that was driven more by the attitudes. If we're talking about attitudes, it took about two quarters, maybe two and a half quarters for them to say the all clear is blowing. Nothing's really going to happen. We're out of the COVID. In the great financial recession, it was a little longer. You know, it all depends on how used they get to it. Now, we help this by pivoting. Remember that in this situation, we helped it by giving them more small bites. So some of this has to do with matching the product to the new product available that's tantalizing them with stuff they're willing to take on, and that's what we're doing.

Gary Prestopino
Okay. Thank you.

Nick Pinchuk
Sure, Gary.

Operator
The next question is from Luke Junk with Baird. Please go ahead.

Luke Junk
Good Morning. Thanks for taking the questions. Maybe just pivoting on that last point there, Nick, just trying to get a feel for your gut of how much you think is under your control as you make this pivot, and like you said, just matching new products with where the demand is right now, in terms of, I guess I'd be interested to get your perspective on the last six months, just how much that feedback has changed of what mechanics want and to what extent are the franchisees able to kind of give you demand clues? Or, is it more about kind of pushing the right products to the franchisees and help [overlapping voices 58:11] those products?

Nick Pinchuk
No, no, no. It's demand clues. I mean, fundamentally, on a macro basis, Luke. I don't know if it's six months. This all started sometime in October. I don't know how long it is. The thing is, is that it's pretty much about what people will say. If I buy this now, I can get a payback now, and I don't get committed for longer terms. So, you know, I'm not…that's the description in general. Of course, everything I say about the technicians probably doesn't apply to every technician in every garage. There's probably a great landscape for this, but that's simply what we're doing.

So, we're getting feedback from the franchisees on this, and we're doing a lot of customer connection on it. I'm talking to franchisees all the time. We'll have the NFAC in here in about four weeks. I'll talk to them about it. We're making a lot of calls. So, we're getting feedback from those guys, and we have pretty good feedback right now. We know where we're trying to go. So, we believe that'll work for us. Of course, it all won't work, but once we execute on that, then we'll iterate to hone in. Now, how long that takes? As I said before, I think our view is our standard is to keep improving. I'm not so sure how quickly, but I do think we have the capacity to do it and we've done it before.

Luke Junk
Then maybe a question on RS&I if I can sneak it in. Just the expanded opportunity right now seen with OEM dealerships, especially kind of new technologies and new things coming into the market. That seems more of a secular opportunity. I mean, do you see the opportunity is any different versus this business historically, either in kind of the scope of the opportunity or even the margin opportunity maybe?

Nick Pinchuk
Look, I think three things about RS&I. One is, is that you've got the opportunity associated with the number of new models people are launching. I saw the [indiscernible 60:20] guy on TV about a month ago. He was talking about 30 new models. I don't know where he's going to get all those. Every time a new model comes out, this is good business for us, and every time they have a warranty, a kind of recall and stuff like that. That business has been pretty good now for some time. It was up nicely in the quarter, double-digits, and the profitability is strong now. You know, so that's a good thing. So that's unique at this point, and I think it'll keep going as the technologies keep changing.

Then you see the equipment business. The equipment business was up, but it wasn't as strongly up because Europe was pummeled by the equipment business. Those recessionary businesses in Europe, I mean, Germany, being in recession was a big blow for us in this situation, and so that was harder. That'll come back. It does have the collision business, and the equipment business in North America, all of which are booming, and those are nice margins. The margin was up in that business, so that's fueling some of it. Then, our software keeps doing pretty well. We talked about the heavy-duty software. You know, we did have this legal benefit, which was in this orb, and it confirmed the proprietary nature of our database. So, I think all those things are better than a poke in the eye with a sharp stick.

Luke Junk
I'll leave it there. Thanks, Nick.

Nick Pinchuk
Okay.

Operator
The next question is from Sharif El-Sabbahy with Bank of America. Please go ahead.

Sharif El-Sabbahy
Hey, good morning.

Nick Pinchuk
Sharif, how are you?

Sharif El-Sabbahy
Doing well, thanks, and thanks for all the great color you've provided. I just had one small specific question. Just within power tools, are there any specific markets or end uses for power tools that saw an outsize pullback or drove the decline year-over-year?

Nick Pinchuk
Say that again, please? Sorry.

Sharif El-Sabbahy
Are there any specific markets or end uses for power tools that saw an outsize pullback or stood out when you were kind of looking at the numbers?

Nick Pinchuk
No, I don't think so. I think there is a constant movement between pneumatic and cordless in the power tools orb. A lot of people are converting to cordless. Not everything can be converted to cordless, because people want to have continuous power, and of course, the pneumatic will keep going. So if you're doing something over and over, sometimes people prefer pneumatic guns, because they don't run on a battery, and they're lighter and all that stuff, so if have repetitive situations. There's a general motion to cordless. We haven't seen any. If you look at the nature of the product line, products in power tools, what you see is sales that follow introduction of new products. Every time you bring out a new product, that tends to raise that particular category. I haven't seen much of a particular pullback. I think the need for power tools in industrial settings, in critical industry settings, remains moving apace. In the garages less so because of the aforementioned uncertainty. That's all. That's the only color I can add from that situation.

Sharif El-Sabbahy
Thank you. Appreciate it.

Nick Pinchuk
Sure.

Operator
The next question is from Bret Jordan with Jefferies. Please go ahead.

Bret Jordan
Hey, good morning, guys.

Aldo Pagliari
Good morning.

Bret Jordan
I don't think we've touched on the sell in versus sell out on the U.S. franchise tools. Do you have any color as far as what their POS looked like versus their take rate?

Nick Pinchuk
I'm not sure. What do you mean? Oh, point of sale. Okay, yes. Look, sell off the van was better than our sell to the van this quarter, particularly towards the end. So, our franchisees sold more off their vans than they bought in this situation.

Bret Jordan
Okay.

Nick Pinchuk
That gap expanded a little bit as we went forward in the quarter.

Bret Jordan
I guess they're sell out rate, how do you think that compares to the general market growth rate? I guess, do you think you're keeping up from a market share standpoint? Or is there any shift there?

Nick Pinchuk
I don't know. You may have a better view. Look, we talked to 36 franchisees and none of them mentioned, “I’m losing share.” Nobody mentioned, “I'm losing share.” So I mean, I don't think that's happening. Although, you know, these are windshield surveys and not based in data, but they don't seem to be in that situation. They can say… their view is well, tougher to sell, because people aren't buying. I don't have the big-ticket items I used to sell and that, you know, carves down my product line that I can get people to move on.

Bret Jordan
Okay. There seemed to be a little gap between with the Matco numbers at the end of last year, so they're not commenting about Matco becoming more aggressive as far as pushing their volume.

Nick Pinchuk
Nobody's saying that. I don't know. The Matco guys are smart guys. They may be able to— they may some magic that we don't know, but every place— it’s hard— what we’ve found is we never really paid too much view of that over one quarter. Those things go up and down. So, I don't know. I can't really comment on their business, but I'm not hearing anything from our franchisees that would indicate that's a problem for us. Generally, for us.

Bret Jordan
Great. Thank you.

Nick Pinchuk
Generally, we think that we sell to different people anyway.

Bret Jordan
All right. Thank you.

Nick Pinchuk
Sure.

CONCLUSION

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

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

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.