

Snap-on Incorporated

2024 Third Quarter Results

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**CORPORATE PARTICIPANTS**

**Sara Verbsky** – *Vice President, Investor Relations*

**Nick Pinchuk** – *Chief Executive Officer*

**Aldo Pagliari** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good morning and welcome to the Snap-on Incorporated 2024 Third 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 remarks, 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 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 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](http://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 managements' 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, everyone. As usual, I'll start with the highlights of our third quarter. I'll provide my perspectives on the results, on our markets, and on our path ahead. After that, Aldo will give you a detailed review of the financials.

My perspective, I am encouraged, and we believe our third quarter was encouraging, another period of broad profitability growth and significant forward progress, product and process success, and clear traction in our Tools Group pivot to quick paybacks. Of course, the quarter again had its challenges, ongoing macro pressures creating obstacles of uncertainty, just like we've encountered before. But in the end, we adjusted, withstood the turbulence, took advantage of the opportunities, and drove another strong earnings performance. And all of that is written clearly across the results. Here they are.

Third quarter sales of \$1.147 billion were slightly down from the \$1.1593 billion recorded last year. On an organic basis, excluding \$300,000 in unfavorable foreign currency translation and \$7.2 million from acquisitions, our organic sales were lower by 1.7%. But the OpCo operating income was up, and the OI

margin was 22%, up 80 basis points, setting a new benchmark for our third quarters.

For Financial Services, the OI grew to \$71.7 million, that's up from the \$69.4 million over 2023, a number that when combined with our OpCo result, raised our consolidated OI margin to 26%, up 90 basis points from last year's 25.1%. And EPS, it was \$4.70, a nice gain from last year's \$4.51. So, those are the overall results, marked by operating capability, structural balance, and consistent resilience prevailing against significant headwinds.

Now, let's take a view of the market. During the third quarter, automotive repair remained robust. It continued to expand in complexity. New models entered the market, unveiling a rollout of new drivetrains, motor configurations, and high-tech electrical systems that control a neural network of sensors woven together that enable driver-assisted vehicle autonomy, all of it housed in modern chassis, fashioned out of space age materials. And this cavalcade of sophisticated advancements combined with an aging car park, now averages 12.6 years to make fixing vehicles even more challenging. If you're from Snap-on, this is music to your ears, and the hits just keep on coming, creating opportunities for years to come.

Let's talk about organizations. The OEMs, the dealerships, the independent garages, the segment that primarily focuses on infrastructure-type investments, things like renovating bays and upgrading repair equipment, meeting the challenges of new vehicle models and expanding shop capacities to match the rise in repair work, driven by the ongoing increase in vehicle complexity. New lifts to support the extra weight of battery systems, sophisticated undercar equipment to calibrate the driver assist systems that enable vehicle automation, and more powerful software suites for managing parts rooms, service bays and customer interfaces, enhanced vehicle communication devices to interact with the more complex designs and more powerful repair information databases to read, to diagnose, and to fix the vehicles of the now and of the future. Our Repair Information Group or RS&I thrives in this world of complexity, serving repair shop owners and managers, delivering solutions that make the full repair path much easier, paving the way forward with innovative dealership management systems, proprietary one-of-a-kind intelligent diagnostics platforms, and the full array of capable shop equipment.

Now the opportunities for garages is strong, but uncertain interest rates, rumors of tax changes, and worries over the elections are all weighing on investment decisions, creating a mixed landscape across the market. But the overall outlook still remains quite positive. And we believe that Snap-on and RS&I are poised to participate fully in the abundant opportunities.

Now, let's shift to the technician market. These are the folks who decipher the data, touch the screen, diagnose the problems, twirl the wrenches and wield their extraordinary skills to execute the repair. It's where our van network plies its trade. In that regard, the third quarter is always a great time for me because it's when we hold our annual Snap-on Franchisee Conference, or SFC. It's a gathering of men and women who drive the vans and call on hundreds of thousands of techs every week. It's an unmatched connection to the world of vehicle repair.

Again this year, I had extended conversations with dozens and dozens of our franchisees and each encounter resonated with enthusiasm. We say Snap-on prevails in turbulence and proceeds with confidence and the franchisees know it's true. Now with that said, the macro environment is still weighing on our technician customers, with considerable uncertainty driven by the election and its perceived impact, the fears of ongoing inflation, by border pressure, and by the specter of prolonged wars.

The shops are full, tech wages are up, the hours are expanding, and the demand for techs continues. They have cash, but they're still confidence poor. The bad news they get every day for breakfast is weighing on them. Right now, they're hesitant on the future and as such, they're reluctant on big ticket items with longer paybacks. So, to accommodate, the Tools Group continues to pivot, focusing on shorter

payback items to match the technicians' current preferences, and the third quarter results confirm that it's working. So, we believe the automotive repair market is robust, current uncertainty notwithstanding. It's a great place to operate.

Now, let's turn to the critical industries, where the penalty for failure is high. This is where our Commercial and Industrial group or C&I makes its living. It's challenging...rugged environments like oil and gas platforms, mining sites, and battlefields...but it also includes sensitive and sophisticated atmospheres needed to manufacture computer chips to build airplanes and to launch rockets. The customers in this segment are organizations big and small, and they're more influenced by the data than the techs, interest rates, GDP, and industry demands. And as such, these segments are pretty positive.

And we see it in the results – growth in aviation, in defense, in general industries, in sectors that need our precision torque devices to execute and document accuracy, and the areas enabled by our custom kits, packages that meet the specific needs of the tasks that improve quality, productivity, and safety. In other words, solutions that are right up our alley.

This is also the segment where our largest international presence is. And consequently, it's the segment with the headwinds of geopolitical turbulence. In that regard, Europe continues to vary region-by-region. The South remains positive, but several countries, particularly in the North, are dealing with difficulty and in some cases, technical recessions.

And in Asia, it's also mixed. China is still recovering from the pandemic and the effects of the extended lockdowns. At the same time, Korea and Japan are resilient. So, there are geographic challenges in the critical industries. But overall, this market is positive. The potential is considerable, and we believe we are well-positioned to capitalize on these possibilities. Well, those are the markets.

In summary, the automotive repair is mixed in the now, but broad potential for the future. And the critical industries are still robust and rich with opportunities. Now, let's talk about the operating groups.

In C&I, sales of \$365.7 million compared to \$366.4 million registered last year. Sales excluding the \$7.2 million of acquisition-related volume, the organic sales were down by 2.1%. From an earnings perspective, however, C&I OI of \$61 million improved by \$2.9 million or 5% over last year, and the OI margin was 16.7%, up 80 basis points, equaling the record high established in the last quarter. The major contributor was our Industrial division, continuing its upward trajectory and strong profitability, wielding the capacity provided by its new kitting center in Kenosha and meeting the rising demand for customized solutions along the way.

In addition to our investments in the kitting center, our acquisition of Mountz last year is rolling into its 12th month, and it's been a valuable contributor in meeting the needs of our customers for small precision torque. Torque continues to rise in significance with critical industry customers. And to meet this need, we packaged our existing medium and heavy-duty torque products with Mountz's lighter offerings, giving us a wide spectrum of clamping forces, the wide spectrum of clamping forces that are essential to the critical industries from oil and gas to aviation to defense. We're capitalizing on that opportunity and the quarter showed it. Our specialty torque business rose significantly both in volume and in profitability.

We also continued adding to our portfolio of professional cordless tools, engineered products, aligned with the work performed and the expectations of techs doing the repairs. For the serious people of work, new products can add great value, and our quarter was marked by that effect. For working on large equipment and over-the-road trucks, we unveiled a CT9175 3.75-inch 18-volt impact. Not for the faint of heart. This unit delivers 1,550 foot-pounds of bolt breakaway torque. It's ideal for the most challenging jobs. The rugged lightweight housing shakes off harsh environments. The ergonomic design reduces

stress and fatigue. Pretty important when you're wielding 1,550 foot-pounds. And this 9175 monster has a great feature set to boot -- like LED spotlights, multiple power settings, and a variable speed trigger to just apply the right torque to the job.

It's a great tool. Just what you'd expect from Snap-on – powerful in application, easy to use and very efficient. It's a tool that techs increasingly want in their arsenal when they're fighting the toughest jobs. The 9175, it's a great productivity enhancer and the technicians have noticed.

One last thought about the results. C&I kept investing in the quarter, maintaining and expanding our advantage in product, brand, and in people. Operating expenses were 140 basis points of sales higher than last year. But with the benefits of rapid continuous improvement, or RCI, and the value of new products, gross margins rose by 220 basis points and the OI margin, despite the spending, was up 80 basis points, higher spending and higher profits without additional scale. Boomshakalaka!

That's C&I -- innovative products, custom solutions, precision instruments, all combined to reach customers in critical industries and extend the Snap-on brand out of the garage with momentum and profitability.

Now, for the Tools Group. Sales in the third quarter of \$500.5 million included an organic decrease of 3.1% with a U.S. decrease that was not much different. The OI margin in the period was 21.6%, down 40 basis points from last year due to the lower volume. With that said, gross margins remained strong, improving 100 basis points, driven by new products, RCI, and manufacturing efficiencies. That was quite a feat, actually.

And during the period, our team maintained its focus on product development, designing solutions that make work easier and provide customers with quick paybacks. And that pivot is taking hold, closing the deficit both overall in the U.S. to less than half it was in the second quarter. And that trend was reinforced in the period by sales being \$18.5 million higher than the second quarter. With summer vacation and SFC breaks, we haven't seen the Tools Group up sequentially in the third quarter for some time. We believe it's a sign of considerable momentum. The Tools Group is coming back.

Beyond the numbers, we held our annual SFC in August, this year in Orlando, with attendance reaching 9,000...franchisees, guests, and Snap-on associates. The tool show spanned over three football fields, showcasing the latest in product innovation, more than 4,500 SKUs strong. The weekend also was packed with training sessions, purposely designed to grow each van's business and expand the franchisees' already substantial product knowledge. Among those seminars was an in-depth review of our intelligent diagnostic portfolio with instructors connected directly to the vehicles, communicating with the cars in real-time and clearly demonstrating our industry-leading advantage. It attracted a lot of attention.

And we celebrated Saturday night by transporting the entire crew in what could be described as an armada of buses to SeaWorld for a night of roller coasters, aquatic shows, and a lot of fun. It was another memorable event, but principally, it serves as a testament to the unique bond that our franchisees hold with the Snap-on team. I believe anyone attending would affirm that the franchisees left reassured on the power of our operations, enthusiastic about their way forward with our enterprise and convinced that Snap-on really does prevail in difficulty and proceed with confidence.

The product booths at this year's event were pretty busy, were **busy**, especially near the Cartway to Heaven. It was an eye-catching and colorful wall of mobile tool carts. The model that stole the show was our brand-new KRSC 2460 flip-top roll cart, a unit that offers Snap-on tool storage in a quick payback form, just what techs want in today's world. That's why it was so popular. The 2460 can hold a significant

breadth of sockets, wrenches, and power tools in a variety of drawers that range from 2-inch to 3-inch to 5-inch configurations. And the ultra-deep top compartment is designed with five AC outlets and two USB ports to ensure that electrical devices are charged and at-the-ready for any use at any time. The launch was a significant success, and it provides even more testimony that the Tools Group traction and pivoting to shorter payback items is working.

Also on the shop floor were products highlighting Snap-on's customer connection. We stand next to mechanics, observing work, experiencing the complexity of vehicle repair, and we use those insights gained and design innovations that make work easier. One such custom solution available at the SFC was our new S8400 half-inch drive axle spindle nut socket. That's a mouthful. It's manufactured right here in the U.S.A., our Elkmont, Alabama plant.

Since 2022, GM 3500 heavy-duty pickups have used a unique fastener that's buried deep into the axle, inside the axle hub. It's a very difficult and time-consuming operation to extract it with standard tooling. So, our new specially designed socket reaches in, links precisely with the embedded fastener, and it makes the removal or installation safe, quick, and effortless. Each vehicle is unique, and a range of different repairs are needed as they age. This is the motherload for a toolmaker and Snap-on customer connection positions our team to have just the device to match the task. It's a great advantage that was on display at the SFC and it was on display in our third quarter results. The Tools Group, pivoting to quick paybacks, launching differentiating new products, and summoning resilience against the headwinds.

Now, for RS&I. Sales of \$422.7 million in the third quarter represented an organic decline of 1.9%. Lower sales in undercar equipment and reduced activity with OEM dealerships were partially offset by higher sales in diagnostics and information products to independent shops. In effect, declines in hardware, balanced by gains in software.

OI for RS&I was \$107.3 million, up 2.3% compared to last year, despite the lower sales and the OI margin of 25.4%, one of the group's highest for some time, was up 110 basis points from 2023. Boffo. All of it was authored by big product and RCI-driven gains in gross margins, partially offset by spending on operating expenses. Gross margin is up, operating expense is balancing some of it, but it was all the investment was there to maintain and extend our advantages and so we did.

During the quarter, RS&I launched its latest addition to our intelligent diagnostic lineup, the APOLLO+. This is a new ergonomically designed handheld that offers a 2-second boot up, the fastest in the industry and a large 10-inch touchscreen for improved visibility and navigation. Most importantly, the platform is powered by our proprietary intelligent diagnostic software with almost 3 billion data records and over 400 billion unique diagnostic events, all organized to help technicians diagnose and fix vehicles much faster. It was introduced in mid-August, toward the end of the quarter, and it represents a techs most economical way to wield the power of intelligent diagnostics. And it already has the customers' attention. Our on the street feedback says the new sophisticated platform with a quick payback is a real hit and we believe it has a great future.

We're encouraged by the strength of our handheld diagnostics and the other unique solutions we provide and that confidence is reinforced by outside experts. Our SOLUS handheld was eligible for the 2024 awards, and it was cited by *Motor Magazine* as one of the 2024 Top 20 Tools. And it was also recognized by *Power Tools and Equipment News*, or PTEN, as one of the 2024 People's Choice Awards. That's a distinction based on the endorsements from real technicians, actual users from all across the nation. RS&I also received PTEN recognitions for its collision repair package, it's on-truck brake lathe, it's heavy-duty diagnostic software, and its M1, Mitchell 1, shop management system. Collectively this year, across all our operations, Snap-on won 20 such awards. Product is a Snap-on advantage, and everybody knows it.

We're confident in the strength of RS&I and we'll keep driving to expand its position with repair shop owners and managers, making work easier, the base more productive, and providing the garages with the means to match the ever-growing challenges of modern vehicle repair.

Well, those are the third quarter results. Tools Group, demonstrating improvement sequentially, pivoting effectively to meet customer preferences. C&I and RS&I, innovative new products and operating efficiencies, managing the headwinds, producing benchmark OI margins. And for the overall corporation, sales organically down 1.7%, but OpCo OI, up 2.9%. Opco OI margin of 22%, up 80 basis points; and EPS, \$4.70, up 4.2%, rising over every comparison, all achieved against the wind. It was another encouraging quarter.

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

**Aldo Pagliari**

Thanks, Nick.

Our consolidated operating results are summarized on Slide 6. Net sales of \$1,147 million in the quarter compared to \$1,1593 million last year, reflecting a 1.7% organic sales decline and \$300,000 of unfavorable foreign currency translation, partially offset by \$7.2 million of acquisition-related sales.

Despite the ongoing uncertainties of the current environment, overall sales activity in the quarter can be characterized as stable. And while our franchise van channel revenues continue to be tempered by technician confidence, the Tools Group generated higher sales sequentially versus last quarter. Generally, the third quarter reflects lower sales dollar activity as compared to the second quarter.

Consolidated gross margin improved 130 basis points to 51.2% from 49.9% last year, reflecting increased sales in higher gross margin businesses, benefits from the company's RCI initiatives and lower material and other costs.

Operating expenses as a percentage of net sales rose 50 basis points to 29.2% from 28.7% in 2023, primarily due to the lower sales volumes. Operating earnings before financial services of \$252.4 million in the quarter compared to \$245.2 million in 2023. As a percentage of net sales, operating margin before financial services of 22% represented an improvement of 80 basis points from the 21.2% reported last year.

Financial Services revenues of \$100.4 million in the third quarter of 2024 compared to \$94.9 million last year, while operating earnings of \$71.7 million compared to \$69.4 million in 2023. Consolidated operating earnings of \$324.1 million compared to \$314.6 million last year. As a percentage of revenues, the operating earnings margin increased 90 basis points to 26% from 25.1% in 2023. Our third quarter effective income tax rate of 22.9% compared to 22.6% last year.

Net earnings of \$251.1 million compared to \$243.1 million in 2023 and net earnings per diluted share of \$4.70 in the quarter compared to \$4.51 per diluted share last year, an increase of 4.2%.

Now, let's turn to our segment results for the quarter, starting with C&I on Slide 7. Sales of \$365.7 million compared to \$366.4 million last year, reflecting a 2.1% organic sales decline, partially offset by \$7.2 million of acquisition-related sales. The organic decrease is primarily due to double-digit reduction with respect to intersegment sales of power tools and a mid-single-digit decline in the segment's European-based hand tools business. These were partially offset by a gain in sales to customers in critical industries, including a high single-digit increase in specialty torque.

With respect to critical industries, in addition to higher torque product sales, defense and aviation-related activity was strong, but it was somewhat offset by declines in the natural resources sector.

Gross margin improved 220 basis points to 41.2% in the third quarter from 39% in 2023. This was largely due to the increased sales volume in higher gross margin critical industry sectors, lower material and other costs, savings from RCI initiatives, and 50 basis points of benefit from acquisitions. These improvements were partially offset by 30 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of sales rose 140 basis points to 24.5% in the quarter from 23.1% in 2023, primarily due to investments in personnel and other costs and a 50 basis point impact from acquisitions.

Operating earnings for the C&I segment of \$61 million compared to \$58.1 million last year. The operating margin improved 80 basis points to 16.7% from 15.9% in 2023.

Turning now to Slide 8. Sales in the Snap-on Tools Group of \$500.5 million compared to \$515.4 million a year ago, reflecting a 3.1% organic sales decline and \$900,000 of favorable foreign currency translation. The organic decrease reflects a mid-single-digit decline in our U.S. business, partially offset by a low single-digit gain in our international operations.

That being said, it is meaningful to highlight that sales in the historically lower third quarter period are higher than the \$482 million recorded in the second quarter of this year, representing a sequential increase of 3.8%. We believe this as well as the more modest year-over-year sales decline in the U.S. van network in the third quarter than in previous quarters favorably demonstrates the resilience of this business.

Gross margin improved 100 basis points to 47.3% in the quarter from 46.3% last year, primarily due to lower material and other costs and benefits from RCI initiatives.

Operating expenses as a percentage of sales rose 140 basis points to 25.7% in the quarter from 24.3% in 2023, largely due to the lower sales volume.

Operating earnings for the Snap-on Tools Group of \$108.3 million compared to \$113.4 million last year. The operating margin of 21.6% compared to 22% in 2023.

Turning to the RS&I Group shown on Slide 9. Sales of \$422.7 million compared to \$431.8 million in 2023, reflecting a 1.9% organic sales decline and \$900,000 of unfavorable foreign currency translation. The organic decrease includes a mid-single-digit decline in the sales of undercar equipment and a low single-digit reduction in activity with OEM dealerships, where we often see variability in essential tool programs from period-to-period. These decreases were partially offset by a low single-digit gain in sales of diagnostic and information products to independent repair shop owners and managers.

Gross margin improved 190 basis points to 47.4% from 45.5% last year, primarily reflecting increased sales of higher gross margin products.

Operating expenses as a percentage of sales rose 80 basis points to 22% from 21.2% in 2023, largely due to lower sales volumes and increased personnel and other costs.

Operating earnings for the RS&I Group of \$107.3 million compared to \$104.9 million last year. The operating margin improved 110 basis points to 25.4% from the 24.3% reported last year.



Now, turning to Slide 10. Revenue from financial services increased \$5.5 million or 5.8% to \$100.4 million from \$94.9 million last year, primarily reflecting the growth of the loan portfolio.

Financial services operating earnings of \$71.7 million compared to \$69.4 million in 2023. Financial services expenses were up \$3.2 million from 2023 levels, including \$2.4 million of higher provisions for credit losses. Sequentially, the provisions for credit losses were lower by \$1.6 million.

In the third quarters of both 2024 and 2023, the average yield on finance receivables was 17.7%. In the third quarters of 2024 and 2023, the average yield on contract receivables were 9.1% and 8.8%, respectively.

Total loan originations of \$288 million in the third quarter represented a decrease of \$17.2 million or 5.6% from 2023 levels, reflecting a 6.7% decline in extended credit originations and a 1.3% decrease in originations of contract receivables. The decrease in extended credit originations mostly reflects lower sales of big-ticket items. Geographically, extended credit originations were consistent with the sales activity in the Tools Group with the decline in the U.S. only partially offset by growth in originations internationally.

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 1.9% is up 40 basis points from the third quarter of 2023. Trailing 12-month net losses for the overall extended credit portfolio of \$62.3 million represented 3.11% of outstandings at quarter end. While delinquencies and net losses are trending upward, we believe that these portfolio performance metrics remain relatively balanced considering the current environment.

Now, turning to Slide 12. Cash provided by operating activities of \$274.2 million in the quarter represented 106% of net earnings and compared to \$285.4 million last year. The decrease in cash flow as compared to the third quarter of 2023 primarily reflects increases in working investment, which were partially offset by higher net earnings.

Net cash used by investing activities of \$40.5 million mostly reflected net additions to finance receivables of \$20.6 million and capital expenditures of \$20.4 million. Net cash used by financing activities of \$156.2 million included cash dividends of \$97.9 million and the repurchase of 215,000 shares of common stock for \$59.9 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional \$471.5 million of common stock under our existing authorizations, including under the \$500 million authorization recently approved by the Board of Directors in August of this year.

Turning to Slide 13. Trade and other accounts receivable increased \$5.1 million from 2023 year-end. Days' sales outstanding of 61 days compared to 60 days at year-end 2023. Inventories decreased \$10.1 million from 2023 year-end. On a trailing 12-month basis, inventory turns of 2.3 remained unchanged from year-end.

Our quarter end cash position of \$1,313.3 million compared to \$1,001.5 million 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 third quarter performance. I'll now briefly review a few outlook items for 2024.

For the full year, we expect that capital expenditures will be approximately \$100 million, and we currently anticipate that our full year 2024 effective income tax rate will be in the range of 22% to 23%.

Finally, with respect to corporate costs, we would expect expenses in the upcoming fourth quarter to be more in line with those incurred in the third quarter of this year as the fourth quarter of 2023 included some benefit for the recovery of costs associated with a legal matter, which will not repeat.

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

### **Nick Pinchuk**

Well, thanks, Aldo. Well, that's our quarter; resilience against turbulence. We believe the period demonstrated that with great clarity. Sales attenuated, but great products solving critical tasks, material savings, and RCI drove strong and substantial gains in gross margins, strong enough that we're able to keep investing in our product, brand, and our people, maintaining and building them for the opportunities to come, and still increase OI margins significantly.

And all of that was authored by the ongoing characteristics of the Snap-on Enterprise. Businesses that are strategically positioned for advantage, for establishing and maintaining ongoing connections to the customers, processes embedded in Snap-on value creation that really do deliver progress every day, and a very capable team that's committed to our enterprise, greatly experienced and battle-tested and is well able to consistently marshal advantage for driving positive outcomes and you see that all across the corporation.

C&I sales down low single-digits. Profits up. OI margin 16.7%, up 80 basis points. Gross margins up 220 basis points, gains from wielding customization in the critical industries.

The Tools Group, meeting the challenges of the day, executing the pivot to quick payback items, closing the sales gap, and displaying momentum. Sales down low single-digits, OI margin is 21.6%, down 40 basis points, but gross margins up 100 basis points.

RS&I, wielding its advantage with software, sales down low single-digits, but profits up and OI margins of 25.4%, up 110 basis points and gross margins up 190 basis points.

And it all came together as a corporation. Sales attenuated lower by 1.7% organically, but OI rising from last year. OI margins reaching 22%, up 80 basis points and gross margins up triple-digit basis points all across the corporation. And an EPS of \$4.70, up over every comparison. It was another encouraging quarter. And we believe that propelled by our decisive advantage in our product, in our brand, and our people, all maintained and strengthened even in the turbulence, Snap-on will continue its momentum, so clearly demonstrated in the quarter and extend our trend of positive performance well on through the days and the years to come.

Now, before I turn the call over to the operator, I want to speak directly to our franchisees and associates. As always, I know many of you are listening. Our quarter demonstrates that Snap-on does indeed prevail in turbulence. And once again, you are the creators of that result, hard one.

For your achievements in authoring our success, you have my congratulations. For the skill, energy, and experience you bring to bear every day, on behalf of our team, you have my admiration. And for your unshakable confidence in and dedication to the future of our enterprise, you have my thanks.

Now, I'll turn the call over to 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. At this time, we will pause momentarily to assemble our roster.

Our first question is from Christopher Glynn with Oppenheimer. Please go ahead.

### **Christopher Glynn**

Thanks. Good morning, Nick, Aldo, and Sara.

### **Nick Pinchuk**

Good morning, Chris.

### **Christopher Glynn**

Good morning. I wanted to dive into the kind of seasonal strength at SOT. Does that feel like kind of a reset baseline for normal seasonal patterns from here where you usually have a fourth quarter lift? Maybe that gets into what the sell-in sell-through was in the third quarter, too, and if that needs to be tested on the sell-through in the current quarter?

### **Nick Pinchuk**

The sell-through, as you know, the sales off the van for some time have been a little bit more than our sales to the van. In this particular quarter, it was slightly reversed in that situation. The sales to the van were a little bit better.

But the third quarter is kind of a hard one to predict. I always call it squirrely in that situation. So, if it wasn't for the third quarter, I think this is much more definitive. But, it's clear that the Tools Group is doing better, certainly did better in the third quarter. And we have not seen a third quarter over the second quarter in a dog's age, except for the one in COVID where we came out in a V-shaped recovery in the third quarter.

But you can look back for a long time and you don't see that. And this is the total group, and it's the U.S. in general and so we view it as some momentum. The question is, I suppose, will they be able to continue that momentum? We think they can. We like their products, and we like the fact that doing this has come out of their profitability up 100 basis points. They got a little bit of volume impact, but the 100 basis points of gross margin wielded by great new products and the manufacturing efficiencies in some ways that come out of the new expansions that are more productive than the old, and across the major plants in the United States. So, we think things are moving positively. But we don't give guidance, but I like our chances going forward for the Tools Group.

### **Christopher Glynn**

Sounds great. And then just switching on RS&I. It's been very sturdy run rate, third quarter, a bit of a step down, historically, not much routine seasonality, but 3Q last year also kind of deviated a little lower versus kind of the way the business had been trending. So, curious if you can offer any insights around that? Maybe does it feel like the equipment side is entering an interim pause after some steady customers recapitalizing?

**Nick Pinchuk**

Well, I think the thing is, I stated in my, it's very simple: hardware down, software up. So, the hardware piece is the equipment piece, and there was some attenuation of that. Some of that can be seasonal. I don't know, I wouldn't hang my hat on that, but there is a little bit of headwind in the third quarter. Vacations happen in the garages and so on and stuff like that. But I think there is some uncertainty in the garages that may weigh on that, and we'll see how that plays out going forward.

Look, I think the other piece of it is the OEM lumpy business, which kind of hit a flat spot in this quarter, but we don't think that's going to be continuing every quarter. It's just that it's lumpy, and we happen to catch a lump, a downward lump, depression in this quarter. But the real good thing is if you look at the software businesses, you look at the diagnostics business, the Mitchell business, those businesses, the diagnostics and information, which is Mitchell and Diagnostics that sell to repair shop owners and managers, is up and those things are profitable.

And then you have the sales of electronic parts catalogs, another software piece up. And if you look at the software in the Tools Group associated with diagnostics, yes, we're following hardware launches, but increasing the software looks pretty strong. And if you look at the software in the diagnostic, just in the Tools business, that's a pretty good piece of business that's up year-over-year, and that helped drive some of the profitability in the Tools Group.

So, I feel pretty good about RS&I. I'm not so worried about it. And by the way, if you could trade off the software businesses at high margins for a little bit of turbulence in the hardware business, wouldn't you do it? I would.

**Christopher Glynn**

Thank you, Nick.

**Operator**

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

**Gary Prestopino**

Hey, good morning, all. Nick, in your narrative, you did try and give us a peek here as to what this pivot in the Tools Group, how it impacted the quarter and on a quarterly basis, sequentially, you were up \$18 million. Could you maybe just help us here, was the majority of that sequential increase due to the pivot in sales?

**Nick Pinchuk**

A lot of it was. Hand tools were the strongest category in this quarter. Why you can see the pivot is when you look at it all, I don't like parsing those numbers, it can be a little bit squirrely from quarter-to-quarter, but really, hand tools represented a major mix of Tools Group sales to the franchisees in this quarter than all the way back to the pandemic. And so that is helping drive this. That is the real testimony to the pivot because that is what we wanted to have happened, because this is what customers are ready to buy, and that helped a lot of that situation. Plus, it helps the margins.

**Gary Prestopino**

Is it safe to say that a lot of this was due to new products coming into the market that you introduced?

**Nick Pinchuk**

Well, I think yes and also promotions overlay. Look, we had 4,500 products, I think SKUs, displayed in our Tool Show at the SFC and over 500 were new in some way. Now, I'm not saying they were all

breakthrough products, but 500 of the 4,500 franchisees could say, I'm offering our customers something they couldn't quite have before. And so that qualifies as something new, and it gives you something to sell and that helped push some of this. And a lot of that was in that area.

Although promotion can also make hand tools look good if you strike the right cord. You give away, for example, buy a set of hand tools, you get a dinner with Aldo Pagliari, for example. This will sell a lot of things.

**Gary Prestopino**

I'd buy a whole Snap-on toolbox of tools just to do that.

**Aldo Pagliari**

I'll remember that.

**Gary Prestopino**

The last question is, it seems like you've kind of talked about your torque products in C&I over the last couple of quarters. Now, is something changing in the market that is moving more towards specialty torque? I know you developed products and obviously, you've made some acquisitions in that area, but could you just help us out on what kind of secular tailwinds there are that's driving for?

**Nick Pinchuk**

I can answer that in asking you a question. Can you say the word Boeing?

**Gary Prestopino**

Yes.

**Nick Pinchuk**

I think this is kind of an example. I think people are becoming more and more aware that the mechanisms throughout critical industries are more and more complex and therefore, precision has to be greater than may have been applied in the past. So, one, you need more precise tools and torque wrenches are a deliverer of that. And the more accurate they are, the wider range they are, the better you're able to do that in your operations. That's number one.

And then the second one, Gary, is everybody wants to say, if something goes wrong, I want to be able to tell people that I did the right thing. I performed the task. And a lot of our products connect with the central system in a factory recording and documenting that the torque, the fasteners are applied correctly and that's helping drive it.

So, the combination of the idea of being accurate in the moment and being able to do it with accuracy and ease on the line. And secondly, the document is helping torque go upwards. And that business grew both in profits and sales in the quarter. We like it.

And as you know, we've been investing and doing it. We've been making quite a few acquisitions and expanding that business, and we like that as a business going forward and it's essential in critical industries in a lot of different places.

**Gary Prestopino**

Okay. Thank you.

**Nick Pinchuk**

Sure.

**Operator**

The next question is from David MacGregor with Longbow Research. Please go ahead.

**David MacGregor**

Yes, sir. Good morning, everyone.

**Nick Pinchuk**

David, thank you.

**David MacGregor**

Hey, good morning. Just a couple of just questions for the model. SFC order growth, you indicated last year in the third quarter you saw mid-single-digit growth. Can you just give us some sense of what that order growth or decline might have looked like this year? And also, with respect to the—

**Nick Pinchuk**

Go ahead, sorry.

**David MacGregor**

So, it was flat year-over-year, or it was up mid-single-digits?

**Nick Pinchuk**

It was flat year-over-year. So, in other words, we thought last year was a pretty good one. The problem coming out of the SFC, people slammed into the wall of uncertainty that they saw, say, sometime in like now, and they started to back away from their orders. Remember, the SFC ain't sales, it's orders. And so of course, getting a lot of orders are better than a poke in the eye with a sharp stick, so we felt pretty good.

Now, this year, we don't think there's any surprises on the horizon and people still order about the same amount.

**David MacGregor**

And Nick, when you think about the fulfillment on those orders from SFC this year and sort of the cadence or the timing of those orders, will there be anything different in terms of the pattern as they fall across 3Q and 4Q than last year?

**Nick Pinchuk**

The little difference is this is that we didn't push it out quite as far and so it's a little shorter period. And we've planned some reinforcing promotions in between just that belts and suspenders on this kind of thing, so we'll see how that plays out. In terms of tools talk, that's what we're doing.

But in general, the difference is, David, we got the same amount of orders as last year. If people don't see the same alarming uncertainty arising in front of them theoretically, it should go better. But on the other hand, you never know until you know in that situation.

**David MacGregor**

So, I just want to clarify, you got about the same number of orders as you did last year, but you shipped a little more in 3Q versus 4Q this year than you would have last year is what you're saying?

**Nick Pinchuk**

No, I'm not saying that. Yes, I am saying that. But in other words, when I say the same, I mean about the

same amount of orders adjusted for the time that we sold these things. So, you're saying, okay, maybe last year, we had orders out in a couple of weeks in January. This year, we didn't have that. So, when I say the same, I'm kind of rating it out over the shorter period, and that's the same.

**David MacGregor**

Okay. And then a question for Aldo, on the Snap-on Tools gross profits up 100 basis points, you called out in your slide deck price/cost of raw materials at RCI. You didn't mention the category mix with the stronger hand tools versus, say, diagnostics. Is that just an oversight? Or is there something that we should read into the way you've—

**Aldo Pagliari**

Don't read anything into it. I think the efficiency across the board is better. Broadly speaking, the cost of steel is down, particularly in some of the cold-rolled sheet steel that we use in the Algona factory. But that's one of the key contributors and they just are a little bit more efficient with some of the new factory arrangements, some of that investment has resulted in slightly better efficiencies. So, they're just a little bit better at delivering the demand that was in front of them. And the product mix, as Nick mentioned, yes, hand tools gives you a little bit of favorability, but it was across the board.

**David MacGregor**

Okay. It sounds like maybe that category mix is not quite as big a contributor this quarter as it has been in previous quarters? Is that a fair assessment?

**Nick Pinchuk**

I wouldn't necessarily say that. I don't know where you get that idea. I mean the point is that there's three pieces of this, as Aldo just said. It's the category mix, the product mix. As I said, there's efficiencies in the factory that are in there, RCI in the factory and there's some material costs.

So, there are three things pushing. You're talking about the 100 basis point improvement, right? Yes, there are three things. What I was talking about in terms hand tools profitability is an indication of the effect of the pivot. So, that helped our sales.

**David MacGregor**

Next question for me, just on fourth quarter, the Snap-on Tools segment again, you've got an easier compare on a year-over-year basis. You talked about the third quarter truck restock going on. I just -- how are you thinking about the growth puts and takes for 4Q in Snap-on Tools?

**Nick Pinchuk**

Well, look, that's a tough call. Look, we don't give guidance. There are a lot of variables going forward, but I like our chances. I'll say, look, if you're talking about the Snap-on Tools Group, the Tools Group seems to have momentum. So, if you were me and you were sitting here and saying, look, I'm confronted with uncertainty, people want to go to lower payback items, I've seen our ability to cater to that, to meet that, to match that requirement; I've seen the factories come on stream; I've seen us launch new products that are compelling and strong, so I like where we're going on this. I believe we're going forward with momentum. I can't predict the slope of the curve.

**David MacGregor**

Right. Okay. Last question for me. I wonder if you could just update us on franchisee attrition trends, can you just talk about what the typical experience is with growth performance when that route comes back to the [talking over each other].

**Nick Pinchuk**

It's been about the same. It's been about the same for some time. It moves a tenth of a point from quarter-to-quarter. And the fill rate varies depending on, well, can you find people, we don't like to lower our standards. And if people leave, in a certain area, do we have people in that area we can easily find. And that's what drives the variation from quarter-to-quarter. I think that's been... one of the good things in the quarter was we saw the number of assistants as a percent to franchisees grow some. So, I like that structural point of view. It grew maybe, you know, a number of basis points, so upwards. The percentage seems to be moving upward in this era. So, I view that as kind of a sub rosa favorable event that when we get all this uncertainty, that's going to accrue to our benefit.

**David MacGregor**

Right. And the repurchase of inventory from exiting franchisees, did that impact the growth number this quarter?

**Nick Pinchuk**

There was some of that, but I wouldn't have called it a significant change year-over-year or quarter-to-quarter. There's some of it. But we haven't seen it to be something that I would report to the world and say, that's a significant thing, you ought to consider it. It hasn't changed that much. It can change from time-to-time, but not this quarter, it wasn't an issue.

**David MacGregor**

Okay. Thanks, Nick. Appreciate it.

**Nick Pinchuk**

Sure.

**Operator**

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

**Luke Junk**

Good morning, Nick. Thanks for taking my question. Hey, Aldo. Good to catch up with you, too.

First one for me is on the Tools Group, 3Q up versus 2Q, a great outcome. Obviously, most years it's the opposite, as you noted. I want to focus on the execution side. Clearly, the focus on quicker payback items is the same. But just the enabling activities, what do you think were the bigger contributors? Is it the capacity expansions helping incrementally, Milwaukee especially? Can you tie it back to getting the mix of promotions right? Is there something we should be looking at the tool carts? Is it all of the above, Nick? Anything you spike out?

**Nick Pinchuk**

It's probably some of all of that. But look, I think the thing is that it's a combination of product development, to pivoting to producing some of the more popular products in the midst of a factory expansion. No easy exercise for a plant manager. And those two things kind of came together with, as Aldo said, a range of things. We had RCI up and down the corporation, both from a design point of view. So, we designed new products. In some cases, it allowed us to take advantage of material cost reductions. And so, a lot of that all came together in this situation, driving the gross margin profitability 100 basis points.

If you're talking about making the pivot in the sales, you're talking about pretty much getting closer to those quicker payback items and making them work and the factory being able to deliver better because we expanded the capacity. Remember, we entered this whole thing up to our eyeballs in orders, and we couldn't deliver. So, we expanded the capacity, and that's all sort of normalizing out. And the factories



are able to get more in sync. With the new products coming out, we're able to deliver better, and that's working.

**Luke Junk**

Got it. And then second, if you could just double-click on what you're seeing within diagnostics? Specifically, we can see the number, obviously, in RS&I, but I'm wondering about Tools Group as well. RS&I flipped from down mid-single-digit last quarter to now up low single-digit. APOLLO+ is out there right now as a newer product. Is that what we're seeing the RS&I number incrementally? Does Tools Group benefit from that as well, Nick?

**Nick Pinchuk**

Tools Group does benefit. In other words, one of the good things in the quarter is year-over-year diagnostics were relatively stronger, mainly on the launch of this APOLLO+. I'm not saying they were incandescent, but they were pretty good in this quarter. And it was kind of artificially pushed with APOLLO+, but the APOLLO+ seemed to launch pretty well.

It's early days, because it's just introduced at the SFC. People got to see the guys on the floor, plugging into cars, showing how our databases can be wield and it's better, gives them great advantage. So, they went to the field enthusiastic about that. So, the sale was up substantially year-over-year and the activations are up nicely in the quarter. So, at least the launch looked pretty good. You got to see how it plays out and how much legs it has.

But what we like about it, it's the most cost-effective way to get intelligent diagnostics. And we think that tagline has some appeal, has considerable appeal in the marketplace. So, that works pretty well.

The other thing though that I think can get lost is in a number of different ways inside the Tools Group, which bleeds into both groups, in RS&I and Tools Group, is the rise of software. Subscriptions are up substantially. The titles are down, but in general, software growth is up nicely. And I don't have to tell you that, that's a nice profitability across the corporation. So, that's another factor going on in the Tools Group.

**Luke Junk**

Got it. Appreciate the color. Thanks.

**Operator**

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

**Bret Jordan**

Hey, good morning, guys.

**Nick Pinchuk**

Morning.

**Bret Jordan**

In the Tools Group, you talked about improving momentum. Is that mix in the sense that the low value or the quick payback product is gaining share, or are you seeing sort of a sentiment change at the shop level? Because it still seems like traffic is pretty sluggish from talking to parts distributors and the collision industry is still down. Is it mix or is the mechanic sentiment improving?

**Nick Pinchuk**

Mechanic sentiment is not improving. The garages though, I don't know who you're talking to, but the garages seem to be filled. The purchase of capital type equipment in the garages like collision is down,

and it's kind of off the bubble a little bit, and that's seen in our equipment group. But the sentiment of the technician, remember, we're dealing with the techs in terms of the Tools Group, you're not seeing that change very much.

What you're seeing, though, is the Tools Group pivoting its emphasis to try to present to people attractive and buy now ideas that they don't have to finance for three years. They can just deal with 15 weeks. And so that's what we always said would work, and it has been working. So, that's what you see the comeback.

And for us, I don't know if you caught the whole conversation, but for us, one of the real indicators of momentum, at least improvement and the traction that you're seeing in that pivot is the idea that the third quarter is up over the second quarter. We haven't seen that. And so that has to say there's some momentum in this situation. But it doesn't have to do with the attitudes getting better.

**Bret Jordan**

Yes. The guys who sell parts to the garages say it's pretty sluggish. Although, on the corporate expense modeling, could you help us a little bit with 2025? Just given the variation in that, is running Q3 to Q4 sort of flat? Is that a rate we should continue into next year?

**Aldo Pagliari**

I'd say with a little bit of hope here in my voice is that one of the reasons that we're lower this year is lower performance-based compensation expense. So, as we reset our plan objectives for 2025, usually you start the year assuming you're going to hit the target. So that means if that were the case, I'd more model 27-ish per quarter, something in that range. That's just how I would think about that, Bret.

But this year, we're not growing as fast as we had expected coming into the year and therefore, that's one of the key reasons why there's performance-based compensation differences.

**Bret Jordan**

Okay. Another quick question. I guess, election outcome, is one better for you than another. If we're going to tariff import everything, does that make the Tools business less competitive? Or how do you think about that?

**Nick Pinchuk**

Who knows? You know what I mean? You hear so many different things. We're not going to tax tips. We're not going to tax overtime. We're going to control prices. We're going to ding the supermarkets. We're going to tax unrealized capital gains. We're going to tariff the world. Welcome to the Mad Hatter's Tea Party. Nobody knows what actually is going to happen, so you can't even make a pronouncement.

Each of these could be attenuating or not. It really depends on the details. I don't think you can discern anything from what these guys have been saying. Of course, if they tear up of everything in the world, it will take some adjustment for that. It will take some adjustment for sure. But maybe it helps people who sell in the markets where they produce. Sometimes that can happen over time. But boy, I tell you what, that's a torturous set of assumptions you have to make to come to any conclusion about which person would be best or would help us or hurt us.

**Bret Jordan**

Okay, great. Thank you.

**Operator**

The next question is from Carolina Jolly with Gabelli. Please go ahead.

**Carolina Jolly**

Hi, thank you for taking my question. So, it sounds like within RS&I, software, and diagnostics, the higher-margin business is doing well. But can you remind me what's kind of happening in terms of the hardware in that business?

**Nick Pinchuk**

Say that again, please. I lost the last. Remind you of what?

**Carolina Jolly**

What's kind of happening in the hardware part of the business, the areas that might be a little more sluggish?

**Nick Pinchuk**

I don't know. Equipment was going gangbusters for a long time. That's under car equipment, like aligners and collision equipment and lifts and those kinds of things. And some of those product categories are up. Lifts happen to be up a little bit. But in general, these are capital-like expansions in a garage. They're fairly big-ticket items, and they're sold through direct and through distributors to the actual repair shop owner and manager. What we're seeing here is a little back off in attitude. Some of it can be associated with the macro environment. Some of it could be saying, hey, I don't know, do I want to install something now and finance it at this level when the Fed is going to keep dropping interest rates by 50-point increments and maybe I'll wait a little while. So, our reports are a little bit like that, that people are saying, I need to put new stuff in because the complexity of the new vehicles need changes to manage it, just I want to wait a little bit.

Now, on top of that, you would say that CDK's disruption, and some of our people do say this, CDK's disruption in the quarter turned dealerships, I think 40% of the dealerships, turned dealership attention away from saying adding a lift or an aligner to just trying to stay their head above water while they didn't have a computer system. So, some of that probably was in the quarter. It's hard to really document that and I don't know how much it was, but that wasn't a favorable event for us that happened in the quarter. I'm not trying to hang the reduction on that, but that piled on top of the uncertainty. So, that's what's happening.

But we kind of think this is shorter term than, say, the technicians' worries, a little bit more solvable. It probably gets solvable by maybe somewhat by the election and maybe somewhat by interest rates being more definitive. And the technicians, you're more talking about broad bad news for breakfast, things like, okay, two wars, the border is lousy. Everything seems to be crashing down on them and we're saying we don't know what's going to happen in 15 weeks, after 15 weeks. It's a little bit different.

**Carolina Jolly**

Thank you.

**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](https://www.snapon.com). As always, we appreciate your interest in Snap-on. Good day.

**Operator**

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