Snap-on Incorporated

2024 Fourth Quarter and Full Year Results Conference Call

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Sara Verbsky – *Vice President-Investor Relations*
Nick Pinchuk – *Chief Executive Officer*
Aldo Pagliari – *Chief Financial Officer*

PRESENTATION

Operator
Good day and welcome to the Snap-on Incorporated Q4 Full Year 2024 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 a touchtone phone. To withdraw your question, please press star the two. Please note this event is being recorded.

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

Sara Verbsky
Thank you, Alan, and good morning, everyone. We appreciate you joining us today as we review Snap-on's fourth quarter and full year 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, 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 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. I'll start with the highlights of our fourth quarter. I'll give you my perspective on the results, on the market environment and on our progress. It was considerable. After that, and as usual, Aldo will move into a more detailed review of the financials. These are interesting times, filled with uncertainty. But Snap-on is built to prevail even in turbulence. And this isn't our first rodeo, it's our job to confront and to overcome and to proceed with confidence, confidence in the resilience of our market, confidence in the strength of our strategic and tactical advantages and confidence in the insight and energy of our consistent and capable people. And all of that echoed in the numbers. So here they are. Overall sales in the quarter were $1,198.7 million, up 0.2% both as reported and organically, returned to positive territory. Profitability was strong with gross margin of 49.7%, a gain of 140 basis points.

And the OpCo OI margin was 22.1%, an increase of 50 basis points over 2023, an all-time high for the fourth quarter. Financial Services earnings of $66.7 million in the quarter were lower by $1.2 million, leading to a consolidated margin, including both OpCo and Financial Services of 25.5%, an improvement of 30 basis points. Our EPS for the quarter was $4.82, up $0.07 from the $4.75 recorded last year.

The results show broad gains overcoming the uncertainty, another period of sequential progress, wrought by record performances by both the Commercial and Industrial, or C&I, by the Commercial and Industrial C&I group, and by Repair Systems and Information, or the RS&I group, combined with the Tools Group, successfully pivoting to match tech preferences and continuing to narrow the gap versus last year. It was an encouraging demonstration of advantage, our resilience and of capability.

But first, let's speak about the markets. We believe the vehicle repair market is robust, a continuing stream of new tools and data to confront the rising complexity of the modern vehicle. The repair shops of today, dealerships or independents must deal with an expanding array of challenges, multiple powertrains, EVs, plug-in hybrids, super hybrids, advanced combustion, sophisticated digital systems and a wide range of autonomous operations, devices like adaptive cruise control, lane departure warnings, collision avoidance sensors, self-parking features, it goes on and on and on, and the list is getting longer. And technicians have to fix it all, addressing a dizzying array of procedures. It's daunting, but this is where Snap-on shines, scanning, diagnosing, guiding and fixing, enabling the techs – making – enabling the techs, making the difficult tasks easier and when combined with an aging car parc that now averages 12.6 years and includes a multitude of technology generations, all needing to be fixed, driving even more complexity and requiring even more tools and more data. It represents even more opportunity. We love it.

Vehicle repair has several slices. So, let's start by focusing on the shops, the dealerships and the independent shops, adjusting to the complexity often requiring things like new lifting equipment to handle the increased weight of EVs, tire changers that accommodate larger wheel sizes, software suites for managing the shops, for organizing parts data into streamlined catalogues, for scheduling repairs and customer interfaces and for guiding the techs to the most sophisticated or complicated of repairs. This is where RS&I operates.

It’s a target-rich environment for our array of undercar and collision equipment, and it’s a growing market for our software and data products. And Snap-on is well-positioned with our innovative hardware, but especially with our proprietary comprehensive database, billions of insightful records. They’re advantages that we believe make Snap-on the data king in vehicle repair, a position that I think you’ll see was reinforced again by our quarter, by our rising gains in that arena.

Now let’s shift to the techs. The individuals working in the bays, under the hood, twirling the wrenches, hitting the touchscreen, applying their skill and actually making the repair. Again, this quarter, I had the opportunity to meet with a number of franchisees and their customers. And they all expressed their enthusiasm for the strength of vehicle repair and external data confirms that view, miles driven up, the car parc aging, hospital spending on auto – household spending on auto repair is higher, hours worked increasing and best of all, tech wages rising. I was recently in a garage and the service manager emphatically proclaimed to me that the work just keeps rolling in. We need more techs, makes sense, expanding complexity means more time spent on each repair and more trained professionals needed to meet the demand and keep the shops prospering.

So, it's clear the techs are in a good position. But that doesn't make them immune to the macro uncertainty around them. Ongoing wars, immigration disputes, lingering inflation. And although the election is in the rear mirror and the new team may be more focused on business expansion, there's a rapid fire of new initiatives, tariff bombs, on and off again actions, impending shakeups and foreign ventures of many varieties. Up to now, it's hard not to be uncertain about what's up.

So, the franchisees, they echo that uncertainty. And in the turbulence, the technicians continue to prefer quick payback items, ones that make work easier and cut labor times right away, items like hand tools and mid-range diagnostics, that can be paid off in shorter cycles. And they remain cool on big ticket, longer payback items like tool storage. So, the Tools Group is continuing its pivot, focusing its engineering, it's manufacturing and it's selling to match the shift in those customer preferences.

So, despite some challenges, automotive repair does remain strong, and we believe we're pivoting successfully to take greater advantage.

Now let's talk about critical industries, where C&I takes Snap-on out of the garage, solving tasks of consequence that require precision, durability, reliability and repeatability, all performed in some of the most demanding and grueling environments, from clean rooms, to mine pits, to assembly lines, to building spacecraft, and this market, I can tell you, it's very promising.

Our activity in critical industries continued rising across multiple sectors, aviation, natural resources and general industry were all up nicely. The arena also represents our most significant international presence and those markets were mixed. In Europe, UK and Southern Europe up; Germany, down; in Asia-Pacific, China weaker, but gains in Japan and Southeast Asia, despite unfavorable currency. And gains in South Korea as well. I'll add that to that situation, despite the unfavorable currency.

So, C&I does have its challenges across the geographies and the segments, but we have made significant advantages, advancements and do see substantial opportunities for tomorrow, leveraging our advantages in product, in our brand, in our people. And I think when you see the results, you realize it's working.

So, both the auto repair and critical industries market remain positive, and we're ready and well-positioned to advance on those very wide runways. At the same time, it's clear, it's clear to us, and I hope it's clear to you that we have more potential along our runways for improvement. And as we proceed, we're fortified by our Snap-on value creation processes, safety, quality, customer protection, innovation, and rapid continuous improvement or RCI, they've never been more important, helping overcome the turbulence and authoring our resilience.

Especially important is customer connection and innovation. That's our unique advantage, standing next to working men and women, observing each task, matching the insights gained with technology mastered, developing new and innovative products that makes work easier. And it's a considerable strength, and our team is committed to continue to wield it with determination.

Now let's talk about the operating groups. Let's start with C&I. Fourth quarter sales of $379.2 million was an all-time high, represented an increase of $15.3 million versus last year and included $2.1 million in acquisition-related sales, $1 million in unfavorable foreign currency and our organic rise of 3.9%, driven by gains with customers in critical industries. Strong sales of our customized kits led the way, meeting the rising demand for solutions that matched specific tasks. Our specialty torque division was also a clear positive.

Precision is becoming more essential every day and our broad torque offering put C&I right on target, and you can see it clearly in the numbers. OI for C&I was $63.5 million in the quarter, up $9.4 million or 17.4% from 2023. And the Group gross margin, it was up 180 basis points, and the operating margin was 16.7%. That was also up 180 basis points. Wowza! C&I just keeps getting better. It's a great indication of our ability to roll out of the garage.

The specialty torque business of C&I is really making strides. Torque is hot now. And Snap-on is at the party with a growing array of new products like our heavy-duty cordless torque multiplier, we call it the CTM 800 delivering torque from 160-foot pounds all the way up to 800-foot pounds, just what's needed to meet the broad challenge across mining, in oil and gas, and rail, and heavy duty. It was a tool that was made possible by our expansion in torque, combining the efficiencies of a Norbar gear design with the compact operation of a Snap-on power tool, authoring the wide range, making the delivery of high torque levels easy and safe, enabling easy access to tight spots. The new units is also equipped with a specially designed transducer control for applying just the precise force, a breakthrough. And it benefits from our advanced power tool cooling system that makes it much more durable. The CTM 800 torque packs a lot into one compact tool, improvement in versatility, safety, access, durability and precision. It has it all, and where the tasks are critical, it's already a big hit.

C&I, sales up, customized kits and precision torque, rising to new levels, all with record profitability, a high point profitability, with much more room to grow and improve.

Now on to the Tools Group. Quarterly sales of $506.6 million, down but representing progress on narrowing the gap versus 2023. The progress is evident, but uncertainty still lingers. And OI for the Tools Group was $106.9 million, $4.1 million below 2023 with an operating margin of 21.1%. But despite the turbulence, we remain steadfast in supporting our van network, keeping it strong, spending on it. And that profitability was regionally acknowledged by multiple publications. The Franchise Business Review recognized us in its latest ranking for franchisee satisfaction, listing Snap-on as a top 50 franchise for the 18th consecutive year. We were named number one among all franchisees in Entrepreneur Magazine's 2024 list of top franchises for veterans. And Snap-on was ranked by the UK Elite Franchise Magazine as the number one franchise in that country, a distinction we've held for three consecutive years.

Now, these types of rankings confirm the fundamental strengths of our franchisees individually and of our van business in general. And I can tell you that this would not have been achieved without a continuous stream of new products developed through our strong customer connections, insight and experience transformed into innovation for a significant advantage in the rapidly changing world that's vehicle repair.

One of the latest of those additions is our Milwaukee-manufactured special hex driver, specifically designed for modern vehicles equipped with advanced driver assist systems like adaptive cruise control. In the bays, standing side-by-side with the techs making the actual repairs, we saw the difficulty in aligning the radar sensors that enable that autonomous control, enable the adaptive cruise control. And the work was difficult. Techs are removing the bumpers and the grills, dismantling the front end of the car just to reach the workpiece, a very time-consuming and non-value-added exercise that also risks damage to nearby parts and components, all just to clear the pathway for the eventual repair. And that observation drove the design of our new NDDM 35, a 3.5-millimeter hex driver featuring an extra-long 5.75 inch shaft, an enhanced reach that bypasses the obstructions with ease, allowing the necessary adjustments without dismantling anything. And that newly launched tool also includes our Snap-on instinct ergonomic handle design, providing superior control, making it easier to execute the work with the precision required for the very sensitive radar brackets. Our new NDDM 35 makes repairs faster, easier, and more profitable, and the techs have noticed it.

Also in the quarter, we launched a new lineup of hand tools based on another customer connection. Witnessing the difficulty of applying leverage to the opening of a standard combination wrench, the box end of the tool was great for engaging a fastener in a crowded engine bay, just slide it right in there. But when extreme force was needed and a grip at the opposite far end was necessary, the task was extremely uncomfortable because the open end of the wrench digs into your hand.

To solve the problem, our engineers designed our new XDSGM, a series that combines a box end, low profile head, with a soft grip ratchet handle, providing the access technicians need but enabling the maximum force to be applied comfortably with the ergonomically and contoured cushion grip handle, breaking bolts free without wincing in pain or slipping off under load. The new XDSGM, I talk about it here because it's a prime example of a fast payback item, a simple but powerful innovation that makes work safer, faster and easier, and the techs have loved it, making the wrench one of our million dollar hit products just since it launched a few months ago.

Well, that's the Tools Group. Customer connection, producing innovative products, operations continuing to pivot, meeting the customers' preference for fast payback items, and making progress in narrowing the gap, all while keeping the network strong in the turbulence.

Now for RS&I. Volume in the fourth quarter was $456.6 million, up organically 1.6%. Gains with both OEM dealerships and with independent shop owners for diagnostic platforms and repair information products, partially offset by lower activity in undercar equipment.

RS&I operating earnings in the quarter were up $121.4 million representing an increase of $8.1 million or 7.1%. Gross margins were up 200 basis points, and the operating margin, the operating margin was a strong 26.6%, up 150 basis points from last year from the prior year, the highest ever, a record, and the record reflects a rise in software, a rise in software is a great thing, but it's also evidence of strong and broad RCI with the great majority of RS&I businesses, software and hardware, increasing margins by well over 100 basis points, Boom Chakalaka. We really love that kind of thing because it makes our profitability soar.

And our Mitchell 1 specialty, speaking of profitability, our Mitchell 1 specialty software division provides software to independent shops, continued its incandescent success, expanding its database, big data, reaching 3 billion repair records and 500 billion data points, a powerful and proprietary advantage that fuels our intelligent diagnostics platform, communicating directly with vehicles, translating the trouble codes, supplying complex inductive, wielding complex inductive models, identifying the problem and guiding technicians through the repair process, all with unprecedented speed, productivity and profitability.

Now, we can't talk about that without talking about the APOLLO+, the newest member of our intelligent diagnostics lineup, released in the late third quarter, and it continues to shine, surpassing previous generations, and very importantly, expanding the number of software subscriptions. It's easy, fast and smart. And for this day and age, at this time, it represents a tech's quickest payback access to the power of Snap-on Intelligent Diagnostics. We expected it to be a winner, and it is.

Also in the quarter, Undercar Equipment division released the new V4400 Commander wheel alignment machine. It's a game changer for shops because of its unique flexibility. A lot of shops don't have space and they don't do alignments at all. They send them out. Garages today need new equipment for matching the, equipment of that kind, for matching the rising vehicle complexity. For example, alignment has never been more important. But where do you fit the new units without a costly expansion?

And in many cases, the buildings are already land locked. And shop owners can't sacrifice an everyday repair bay for periodic but necessary and profitable alignment procedures. So, the answer is the V4400, a versatile, smart, and modular system. It's got an innovative design with a control center housed in a small toolbox that wirelessly connects with the two twin independent mobile towers that hold a sophisticated four-camera setup. Those sections can easily be stored out of the way while not in action and can be assembled anywhere in the shop quickly, delivering an alignment capability as needed and on command, regardless of the layout, whether your shop is short or wide or deep or narrow, it doesn't matter.

And our proprietary software based on our four-camera systems enables a very quick setup. So therefore, setting it up is pretty easy and quick. And no shop is perfect. So, our system also automatically eliminates imperfections like unlevel lifts or uneven floors, ensuring an accurate, straight as an arrow alignment, the V4400 aligner is nimble, versatile, quick and smart, and it makes profitable alignment possible in many more shops. It's a great product.

We keep driving to expand RS&I's position with repair shop owners and managers, offering more new products, all developed by our value creation processes, and we're confident it's a winning formula. And the Q4 results say it's so.

Well, that's the quarter. Sales up, 0.2% back to level. OpCo operating margin of 22.1%, up 50 basis points, a new all-time high for the fourth quarter. The Tools Group down, but narrowing the gap. The pivot is working. RS&I operating margin 26.6%, up 150 basis points, another profit high for an already high-margin group. C&I operating earnings, up 17.4%; operating margin, 16.7%, up 180 basis points, also at a high. Resilience, balance, advantage and results. It was an encouraging quarter.

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

Aldo Pagliari
Thanks, Nick. Our consolidated operating results for the fourth quarter are summarized on Slide 6. Net sales of $1,198.7 million in the quarter were slightly above the $1,196.6 million reported last year, reflecting an organic sales increase of $2 million. Continued strength in sales to customers in critical industries, as well as gains with repair shop owners and managers, offset the marginally lower sales of our franchise van network. Consolidated gross margin improved 140 basis points to 49.7% from 48.3% last year, reflecting increased sales in higher gross margin businesses, as well as benefits from the company's RCI initiatives.

Operating expenses as a percentage of net sales rose 90 basis points to 27.6% from 26.7% in 2023, primarily due to increased corporate and other operating costs. Operating earnings before financial services of $265.2 million in the quarter compared to $257.9 million in 2023. As a percentage of net sales, operating margin before financial services of 22.1% represented an improvement of 50 basis points from the 21.6% reported last year. Financial services revenue of $100.5 million in the fourth quarter compared to $97.2 million last year, while operating earnings of $66.7 million compared to $67.9 million in 2023.

Consolidated operating earnings of $331.9 million compared to $325.8 million last year. As a percentage of revenues, the operating earnings margin increased 30 basis points to 25.5% in 2024. Our fourth quarter effective income tax rate of 22.5% compared to 21.4% last year. Net earnings of $258.1 million compared to $255.3 million in 2023, and net earnings per diluted share of $4.82 in the quarter, compared to $4.75 per diluted share last year.

Now, let's turn to our segment results for the quarter. Starting with C&I on Slide 7. Sales of $379.2 million compared to $363.9 million last year, reflecting a 3.9% organic sales gain and $2.1 million of acquisition-related sales, partially offset by $1 million of unfavorable foreign currency translation. The organic improvement is largely due to gain in sales to customers serving critical industries, including a high single-digit increase in specialty torque.

With respect to critical industries, in addition to higher torque product sales, activities in aviation and general industries were encouraging during the period. Gross margin improved 180 basis points to 41% in the fourth quarter from 39.2% in 2023. This was largely due to increased sales volumes in higher-gross-margin critical industry sectors and savings from RCI initiatives. Operating expenses as a percentage of sales of 24.3% in the quarter was unchanged from last year. Operating earnings for the C&I segment of $63.5 million compared to $54.1 million last year. The operating margin improved 180 basis points to 16.7% from 14.9% in 2023.

Turning now to Slide 8. Sales in the Snap-on Tools Group of $506.6 million compared to $513.3 million a year ago, reflecting a 1.4% organic sales decline and $600,000 of favorable foreign currency translation. The organic decrease reflects a low single-digit decline in the United States business, partially offset by a mid-single-digit gain in our international operations. Again this quarter, we believe that continued attenuation and a relatively modest year-over-year sales decline in the U.S. mobile network favorably demonstrates the resilience of this business given the still uncertain environment.

Gross margin declined 60 basis points to 44.6% in the quarter from 45.2% last year, mostly due to the decreased volumes and the effects of increased sales of lower gross margin products. Operating expenses as a percentage of sales improved 10 basis points to 23.5% in the quarter from 23.6% in 2023. Operating earnings for the Snap-on Tools Group of $106.9 million compared to $111 million last year. The operating margin of 21.1% compared to 21.6% in 2023.

Turning to the RS&I Group shown on Slide 9. Sales of $456.6 million compared to $450.8 million in 2023, reflecting a 1.6% organic sales increase, partially offset by $1.5 million of unfavorable foreign currency translation. The organic gain includes a mid-single-digit increase in activity with OEM dealerships, and a low single-digit gain in sales of diagnostic and repair information products to independent repair shop owners and managers. The latter aided by the introduction of our new APOLLO+ handheld diagnostic platform. These gains more than offset a low single-digit decline in sales of undercar equipment.

Gross margin improved 200 basis points to 47% from 45% last year, primarily reflecting increased sales of higher gross margin products, including a more favorable mix of software and benefits from RCI initiatives. Operating expenses as a percentage of sales rose 50 basis points to 20.4% from 19.9% in 2023, largely due to increased personnel and other costs. Operating earnings for the RS&I Group of $121.4 million compared to $113.3 million last year. The operating margin improved 150 basis points to 26.6% from the 25.1% reported last year.

Now, turning to Slide 10. Revenue from Financial Services increased $3.3 million, or 3.4% to $100.5 million from $97.2 million last year. Financial Services operating earnings of $66.7 million compared to $67.9 million in 2023. Financial Services expenses were up $4.5 million from 2023 levels, including $4.4 million of higher provisions for credit losses. As a percentage of the average services portfolio, the Financial Services portfolio, expenses were 1.3% in the quarter as compared to 1.2% last year.

In the fourth quarters of 2024 and 2023, the respective average yields on finance receivables were 17.7% and 17.8%, while the average yields on contract receivables were 9.1% and 8.9%, respectively. Total loan originations of $285.1 million in the fourth quarter represented a decrease of $18 million or 5.9% from 2023 levels, including a 5.8% decline in extended credit originations. The decrease in extended credit originations mostly reflects lower sales of big-ticket, longer payback items.

Moving to Slide 11. Our year-end balance sheet includes approximately $2.5 billion of gross financing receivables with $2.2 billion coming from our U.S. operation. For extended credit or finance receivables, the U.S. 60 day plus delinquency rate of 2% is up 20 basis points from the fourth quarter of 2023. Trailing 12-month net losses for the overall extended credit portfolio of $66.3 million represented 3.32% of outstandings at year end. While delinquencies and net losses have been trending upward, we believe that these portfolio performance metrics remain relatively balanced considering the current environment.

Now turning to Slide 12. For the quarter, cash increased by $47.2 million as compared to an increase of $42.2 million in the fourth quarter of last year. Cash provided by operating activities of $293.5 million in the quarter represented 111% of net earnings. Net cash used by investing activities of $40.2 million mostly reflected net additions to finance receivables of $26.2 million and capital expenditures of $18.1 million. Net cash used by financing activities of $201.5 million included cash dividends of $112.3 million and the repurchase of 315,000 shares of common stock for $112.5 million under our existing share repurchase programs. As of year-end we had remaining availability to repurchase up to an additional $429.4 million of common stock under our existing authorizations.

Turning to Slide 13. Trade and other accounts receivable increased $24.3 million from 2023 year end. Days sales outstanding of 62 days compared to 60 days at year end 2023. Inventories decreased $62.5 million from 2023 year end, and on a trailing 12 month basis inventory turns of 2.4 compared to 2.3 at year-end 2023. Our year-end cash position of $1,360.5 million compared to $1,001.5 million at the end of 2023. In addition to our existing cash and expected cash flow from operations, we have more than $900 million available under our credit facilities, and there were no amounts borrowed or outstanding under the credit facility during the year, nor was any commercial paper issued or outstanding in the year.

That concludes my remarks on our fourth quarter performance. I'll now briefly review a few outlook items for 2025. With respect to corporate cost, we currently believe that the expenses in each quarter of 2025 will be relatively in line with those incurred in the fourth quarter of 2024, or about $27 million per quarter.

Additionally, during 2025, we expect to incur approximately $6 million pre-tax per quarter of increased non-service pension costs, largely due to higher amortization of actuarial losses. These non-cash costs will be recorded below operating earnings as part of other-income-and-expense-net on our statement of earnings.

We expect that capital expenditures will approximate $100 million, and we currently anticipate that our full year 2025 effective income tax rate will be in a range of 22% to 23%.

Finally, in 2025, our fiscal year will contain 53 weeks of operating results with the additional week occurring at the end of the fourth quarter. This occurs every five or six years, and historically it has not had a significant effect on our full year or fourth quarter total revenues or net earnings. I'll now turn the call back over to Nick for his closing thoughts. Nick?

Nick Pinchuk
Thanks, Aldo. Well, our fourth quarter, progress against uncertainty. The markets remained robust, repair spending up, the number of techs up, wages up, car parc aging and the vehicle complexity rising, but the uncertainty remains, created by the unpredictable macroenvironment. But we did make progress against the wind. Resilience was on display in the Tools Group, the pivot succeeding and the gap shrinking. And the balance and breadth of our operations was evident in the performance of C&I and RS&I, both turning in solid quarters with gangbusters profitability. Resilience, balance and progress written across the results.

The Tools Group. Organic sales down 1.4%, but making continuing progress and maintaining the strength of the network. C&I sales up 3.9% organically. OI margins of 16.7%, up 180 basis points, at another high. Significant sales and profit gains in custom kits and precision torque, confirming that we can roll out the Snap-on brand out of the garage successfully and very profitably.

And finally, RS&I, sales up 1.6%. OI margins of 26.6%, a rise of 150 basis points, representing another record, all driven by the promising and powerful corridors of software and committed RCI. It all came together for sales of $1,198.7 million, an increase of 0.2%, a return to positive territory. The overall gross margin was up 140 basis points to 49.7% and the OI margin was 22.1%, up 50 basis points, yet another record.

We are encouraged by the quarter and by our prospects going forward, notwithstanding continuing uncertainty. We believe our markets will remain resilient and robust, reflecting the essential nature of the critical tasks that define them. We believe we've not only maintained but have expanded our considerable advantages in product, in brand, and in people, even as we proceeded through the turbulence. We believe our Snap-on Value Creation Processes do deliver value every day, day-in and day-out. We believe our capable team really is a difference maker, battle tested, enabled to wield advantage to consistently create positive outcomes, overcoming obstacles. It's happened over and over, and we have all been witnesses. And we believe that all these positives will keep our enterprise moving forward, extending and continuing its positive trajectory throughout 2025 and for many years beyond.

Before I turn the call over to the operator, I'm going to speak directly to our franchisees and associates. I know many of you are listening. I've spoken today on the special nature of our enterprise, resilient, capable, determined, wringing progress from challenge, you are the principal authors of all that. For your success in moving our company forward, prevailing in turbulence and proceeding with confidence, you have my congratulations. For the capability and skill you marshal every day on behalf of our team, you have my admiration. And for your unwavering dedication to and strong belief in the future of our corporation, you have my thanks.

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

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw it, please press star then two. At this time, we will pause momentarily to assemble our roster. Our first question today comes from Scott Stember of Roth MKM. Please go ahead.

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

Nick Pinchuk
Hi, Scott.

Scott Stember
Talking about Tools, I'm just trying to flesh out how close we are to, I guess, turning positive. Can you maybe talk about the confidence at the shop level? I know you talked about it, I guess, still being high, I guess, their confidence is high, but cash poor. Has that scenario actually gone backwards at all? And the second part of that—

Nick Pinchuk
I don't think it's going backwards. Look, I think it's like this. I was in a shop a couple of weeks ago and talked to some franchisees the other day and talked to some other techs in other parts of the country and talked to franchisees all over the country. And it's sort of like this. I think people are pretty confident that vehicle repair is robust because of all the things I went through on my, you know, the complexity, you see the Bureau of Labor data, it's pretty much what everybody is talking about. We need more techs. They got a lot of work. I can't do it. Try getting your car repaired and you'll find out what I mean.

And then you address the uncertainty. And one thought might have been, I think, is that when the election resolved itself and things went forward, maybe the, I guess, stated positive view of the current team toward business and particularly towards the people of work. I mean they said stuff like the other day about it’s technical education month, and we will find alternate paths to higher education that will provide real skills for real careers. And we will make technology work for Americans, not Americans work for technology, stuff like that.

So those are music to the ears of the techs. But on the other hand, they see all these initiatives. And every day you get up, and you've got to read the paper of what's going on in Washington, you hear words like Panama and Greenland and Gaza and all this stuff. And as I said in the remarks, nobody knows what's up. So, you kind of have this idea they're like, you know what it is, it's like being on Space Mountain at Disney World. You get on Space Mountain, you get in a car and you're in the dark and the car's going left and right, left and right, abrupt turns, You don't know where you're going, but you know, you're pretty confident that you're going to get to the right place at the bottom.

And so that's where they are now. They're kind of waiting to see what's going to happen. So, I think the only change between last time, they're still uncertain. They're still looking at short payback items. But I would think people often ask me, what do you think would have to happen to make them positive? I think if things calm down in Washington, and there will be more predictable activity, and more quarters of advancement that didn't change all the time, and then I think that would be a big change. So that's where I see them now. They're talking about this stuff. Like geez, we like them... [Indiscernible] but we don't know where they're going.

Scott Stember
Got it. And as far as Snap-on and the actual pivoting, are you guys fully pivoted in making the product that you want to make?

Nick Pinchuk
We wanted to. But I would say, look, I was encouraged by the 1.4. If you look at each year it was something like we came out of the box down 7, then we were 7.7 down, then we're at 3.7 down, and now we're 1.4 down, organically. And so, I think that's a pretty positive indication. You could have said, well, it might have been better or worse. I'm pretty confident of our direction because we keep pivoting. We keep getting better at things. But I can't tell you the slope of the curve.

Scott Stember
Got it.

Nick Pinchuk
What we're doing is working, it's working.

Scott Stember
Great. And then just last question on C&I and RS&I. Could you tell us what the external sales were for each on an organic basis?

Nick Pinchuk
External sales, I think you could say the external sales for RS&I was closer to what it is. C&I external sales were somewhere in the range of half of what that was. Something like that. That was still kind of in the same range, but around a little bit less than that. That's how it is because it was the idea about C&I, some of the stuff they produce, expect some of the tool stuff, the torque stuff goes through the Tools Group.

Scott Stember
Oh, got you. Okay. Great. All right. That's all I have for now. Thank you.

Operator
The next question comes from Sherif El-Sabbahy of Bank of America. Please go ahead.

Sherif El-Sabbahy
I was just wondering if you could add a bit more color on the decline in originations. Is that mostly a function of product mix? Are you seeing customers finance less of the purchases overall?

Nick Pinchuk
Mostly tool storage down, that was it. I mean, and so remember, that's part of the pivot, Sherif. In other words, the people are less willing. I think this is a predictable outcome all we've been saying about customer preference. Part of it is they want quick paybacks. In other words, they want stuff that will work right away, but also the stuff is when they buy the stuff off the van on what we would call revolving accounts, they pay it off in 15 weeks, or they pay cash or if they want. And so that tends to be – so they spend more of their money on those shorter items that they liquidate the obligation in 15 weeks, and they don't get involved in like a three-year deal. And that is the origination.

The other factor is, and you put your finger on, it was very sage of you, is that the APOLLO+ is at the lower end of the, remember, I said it was the quickest payback, which means lowest cost access to full intelligent diagnostics, and more of that would be handled on an RA than, say, like a ZEUS, which is much more expensive like the top of the line. So, the diagnostic line, the new product we introduced could, some portion of that could be handled not on EC. So those are all contributing.

But I will point out to you, though, as I do on all these calls, is originations are associated with sales off the van, not sales to the van. So, they don't necessarily follow in the same timeframe. We sell a box to a van; it doesn't necessarily sell off right away. Sometimes the guy shops it for a while to people. So, it's an imprecise science. But what you're seeing most of all, to answer quickly, that 5.9% reduction in originations in total, I believe that was the number, is principally driven by lower tool storage sales.

Operator
The next question comes from Luke Junk of Baird. Please go ahead.

Luke Junk
Nick, I'm hoping you could double-click on the strength that you're seeing in specialty torque right now and just at a high level, I mean, it seems like that should benefit multiple areas across both critical industries and some of the growing opportunities within auto repair. And maybe, Nick, any thoughts around investment there, quickly, I think, an organic focus area. But could we see any additional M&A? It seems like Mountz has been a pretty good dealer.

Nick Pinchuk
That's certainly a place where we've looked at, we have, Mountz last year, which we acquired, I think, in the fourth quarter last year, was a torque related, a torque control power tool company. So, it was some of the technology that drove that CTM 800 to fruition. One of the things we're doing, I think we would look to invest in there. And so that would be one of our principal corridors for exploration of things to invest because we really believe in that.

The other thing we're investing in a kind of an organic way is to try to bring the operations together to create more combinations. Like the CTM 800 is a compendium of the technologies we had in the gears of Norbar and the drives, you know the basically front end of the power tools and Mountz acquisitions, and some of the systems we have in terms of torque control from Mountz and cooling that we had in power tools. And that came together and created a superior tool that we believe has no equal.

So, you're going to see us look at acquisitions, but you're also going to see us trying to invest some money and smashing those businesses, not smashing, but trying to make sure there's a good irrigation of technologies, related technologies between those businesses because we believe in sum total they are quite powerful.

Luke Junk
Good stuff. And then for my follow-up, and I know this is hard to dial in precisely. But, Nick, any thoughts on just the continued headwinds in big ticket right here and the origination trend, I should say. And just as we think about the potential growth of the Tools Group this year, how much if any big ticket would you need if you were going to grow in line with the longer term 4% to 5% and relative to the pivot to small ticket just any way to kind of calibrate how much is left there to go after?

Nick Pinchuk
Sure. Look, I think there's a lot left in small ticket. It's a question of getting things that attract people. In other words, the idea behind the pivot is, first and foremost, I think, is widening and bringing out more like attractive new products, what we call hey you products, hit products, in the small ticket arena, therefore getting the customer excited about things he will actually pull the trigger on in this environment.

That's really what's going on here. That's what we call pivot. It includes manufacturing and design and manufacturing and, of course, marketing to dress it all up in a promotion. So, you can keep doing that. And we believe that keeps us on an upward trend. Of course, if you're having people shy away from big ticket items, you're not firing completely on all cylinders. So, it's hard for me to answer that trajectory.

I think with pivoting, we keep going positive because we know how to improve. We probably don't fire on all cylinders until people get a little more comfortable, but I don't think it's a matter of if we can keep--I think there's a what I would call almost inexhaustible upward trend in the pivot. It's just we'd like to have all our products because our tool storage products are boffo. It's just that, so if we can get them engaged we'd have even more stuff and people would buy even more.

So, it's a hard thing to answer. But I do think even if we didn't get the uncertainty broken, we believe we could keep going. If the uncertainty breaks then there would be a more normalization. I'm not saying we can't get back to normal without breaking the uncertainty, but it will take longer, that's all.

Operator
Our next question comes from Bret Jordan of Jefferies. Please go ahead.

Bret Jordan
Let me throw the tariff question out there for you. And I guess sort of relative positioning around what may or may not happen here. Your domestic mix versus your competitors, how do you see yourself positioned? And what's the impact?

Nick Pinchuk
Well, you tell me how the tariff is going to play out, and I'll tell you what the impact is going to be.

Bret Jordan
That's why I was looking for the answer to.

Nick Pinchuk
You know what I mean. I don't know. I mean, but look, let me state this. We certainly are more insulated from tariffs on imports than most. So if wide tariffs grow on a lot of imported sources than I think we make out pretty well, because I like our chances in that situation. That doesn't mean we're totally immune to it. We do have tariff costs right now. We've been eating them for years. We import some stuff that attracts tariffs. But generally, we make in the markets where we sell and a huge portion of our product line is made in the United States so we’re in pretty good shape.

If you're talking about other tariffs, retaliatory tariffs, who knows? You never know what people are going to do. But I think this isn't our first rodeo, as I said on my call. I mean we know our ways around that. When we saw the stuff come up, we were already thinking about ways to kind of minimize and optimize in that situation and there are paths to do that. So, we're not shaking in our boots over the whole thing.

Bret Jordan
And then on the relative strength of international tools versus U.S., I mean, sort of what do you attribute that to? Is there less competition? There's no Harbor Freight or Matco in those markets. So, it's a different competitive landscape or what you see there?

Nick Pinchuk
Who? What did you say? Who did you say?

Bret Jordan
Matco, Harbor Freight, Mac, the people who are selling tools in the U.S. market that are not internationally.

Nick Pinchuk
No, look, I don't think that's the situation. I don't think, nobody really says that. That's not the situation in the U.S. The U.S. is simply associated. If you think about the uncertainties that are in the U.S., the border, the idea now you do have the two wars and then have it other environments. Australia, I think thinks of itself as being insulated from all that. But then you have the election, you have what I call the rapid fire ideas out of Washington, you have the rise in prices. So, I think the uncertainty thing kind of inflicts the U.S. to a greater extent than anything else.

Our UK business seems to be more solid. And a lot of this stuff, Bret, is where you come from. So, the international businesses, I think if you go back and look at it, they have been suffering for a while. Now they've come back somewhat. So, you're seeing some of that snap back there in that situation. I don't think the competitive environment changes that much really in either place because you have other competitors that are national competitors. For example, if you're in Australia, you've got people there that people prefer and technicians don't own their own tools as to quite the same extent as they do here. You have all that kind of stuff. So, the competition isn't the variance between the locations.

Operator
The next question comes from David MacGregor of Longbow Research. Please go ahead.

Joe Nolan
Hi, good morning. This is Joe Nolan on for David.

Nick Pinchuk
Joe Nolan. Okay.

Joe Nolan
Yes, guest appearance. I was just going to start. What was that?

Nick Pinchuk
Welcome to the party.

Joe Nolan
Thank you. Appreciate it. So, first, just a strong quarter for the critical industries and for the torque tools business. You've invested in some capacity there. So, I assume you're shipping against some backlog orders. I was just wondering what you're seeing in terms of order activity?

Nick Pinchuk
The order activity is pretty good. I mean, we do have some backlog there like always. It had been higher before. It built up and when we put on a new expansion that we kind of, we didn't liquidate the backlog, but we more normalized it. So, I wouldn't call it a buildup of backlog, but the backlog has been pretty solid. So, I'm pretty positive about the critical industries. And the thing about it is that it seems like we have increasing demand all the time because the idea of complex and customized kitting seems to have high demand and growing. Everybody and their brother seems to want to have a set that matches the particular problem that they have, and we can put them right on target.

And we may be the only person who really does that very effectively, plus it includes a whole bunch of Snap-on tools, which creates a whole other cache to the combined kit. So, we love that business. It seems that it was up substantially in the quarter. I'm not going to give you the number, but I can tell you that business went bananas in the quarter. So, I feel pretty good about it, and it's very profitable.

Joe Nolan
Yes. That’s great. And I know you guys don't provide guidance, but just thinking about that business's margins into 2025, just any of the moving parts there, obviously, the strength in critical industries is a benefit for margins. So just anything more you can provide?

Nick Pinchuk
All I can tell you is what I tried to make in this quarter was we had two things. We basically had the Tools Group returning – pivoting and narrowing the gap. Of course, it was down some, much more of a sliver than it had been down. But the results, 22.1%, up 50 basis points. And if you really looked at last year's number, you would see that there might have been some boost, some little help there from some like special items like legal settlements and stuff like that in the quarter so it was up tremendously and nicely, and that was wrought by the other two groups really having wowza quarters profitability-wise for sure.

And that profitability was rooted in the idea that their more profitable divisions, in the case of RS&I the software area was going gangbusters, and in the C&I group the custom tools, the critical industries, those customized kits, gangbusters, and though, on top of it, like I said in RCI and this was probably missed in my comment, across RS&I, a great majority of the businesses, even the hardware businesses, were up over 100 basis points, and that was RCI, rapid continuous improvement. So going forward, what you have is good runway for those profitable businesses and then seemingly good momentum of RCI across the corporation. I hope nobody misses that in this quarter.

Joe Nolan
Yes. Got it. That's great. And then just quickly on the Tools Group. Apologies if I missed this, but did you talk about sell-in versus sell-through in the quarter?

Nick Pinchuk
I did not. It's about the same.

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