Snap-on

2023 Fourth Quarter and Full Year Results

February 8, 2024, at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Sara Verbsky - *VP of IR*

Nicholas Pinchuk – *Chief Executive Officer*

Aldo Pagliari – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Snap-on Incorporated Fourth Quarter and Full Year 2023 Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference over to Sara Verbsky, Vice President of 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 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 that otherwise discuss management's or the company's outlook, plans or projections are forward-looking statements, and actual results may differ materially from those made in such statements. Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

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

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

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

The results for our fourth quarter represented, we believe, another period of forward progress. Again, we had opportunities, encountered headwinds, and the shape of the variegated landscape changed as it regularly does. But in the end, we once again took advantage of the opportunities and overcame the turbulence.

Sales in the quarter were $1 billion, 196.6 million, or $1.2 billion, it sounds better that way, up 3.5% as reported from last year, excluding $9.1 million of favorable foreign currency and $5.5 million from the recent Mountz acquisition. Organic sales increased 2.2%. The results represent a positive trend of some significance, demonstrating Snap-on's ability to adapt and to overcome market disruptions.

From an earnings perspective, our OpCo operating income for the quarter was $257.9 million, and the OI margin for the quarter was $21.6 million, up 10 basis points compared to last year. For Financial Services, operating earnings were $67.9 million, rising from the $63.9 million recorded last year. And the combination of the results from OpCo and from Financial Services offered an overall consolidated margin of 25.2%, also up 10 basis points. And the overall EPS was $4.75, a rise of 7.5% from the $4.42 that was registered a year ago.

Now I talked about markets, let's turn to those markets and the trends we're seeing based on our customer connections. We're with customers all the time. We believe automotive repair continues to be clearly favorable. Vehicle OEMs continue to see the need for upgrading dealer repair shops, enabling the shops, and servicing the blizzard of new models and technologies making their way to the market. And preparing for that future, OEMs continue requiring dealership investment in new undercar equipment and essential tools to meet the challenge. It's a considerable opportunity of which Snap-on is clearly taking advantage.

Activity in the independent shops is also robust. You can see it in the vehicle and repair macros, car parcs. The car parc is growing and getting older. Now over 12 years old on average, cars are getting more complex and more difficult to fix. And reflecting all of that, service hours are up. Household spending on repair is growing. Wages are rising. The number of technicians is moving upward fast, and shop-owners keep shouting they want more technicians, even louder than they have over the past years.

So, the underlying repair business is strong. It's prospering. It was a reality that kept the techs positive, even as the financial world was chanting over the past years and months, the recession is coming, the recession is coming. But cash isn't everything. Cash isn’t everything for the people of work. Personal confidence is a balance between your current environment, the garage we see, and the way you see the world evolving. And sometime in the mid fall of last year, our franchisees sensed that balance shifting negative.

In recent weeks, I've been around, I visited franchisees all over the country; in Nevada, South Carolina and Wisconsin, and they all said about the same thing. The techs are cash rich, but because of the external bad news of getting for breakfast almost every day, the impasse in the Ukraine, the war in the Middle East, the dysfunction at the border and the uncertainty of the upcoming election, the weight of it all appears to be turning the techs confidence poor.

And when this happens, based on what we've seen in other times, we've seen it happen before, our customers keep purchasing, but they gravitate towards shorter payback items. And so, it appeared to be as the quarter progressed. We saw that from mid to the end of the quarter. And so, repair is strong, but the techs are worrying about the way forward; still cash rich, but they appear to be wavering in their confidence. This is a big change.

Now let's move forward to critical industries. That's a horse of a different color. Confidence seems to be abundant across that business. This is where our Commercial and Industrial Group, or C&I, plays. We continue to see progress. And again, the results in the quarter reflect that trend. It's a complex segment. A lot of you know this already, but I'm going to say it to set the context, it's a complex segment embedded with essential tasks where the penalty for failure is high. It's an arena that demands precision, functionality and repeatability, all under the most grueling environments, covering a vast range of applications, from the sensitive micro world of chip manufacturing to giant rugged earthmoving equipment, to performance critical aviation, even up to spaceships. But in that segment, the underlying need for customization and precision, both Snap-on strengths, is clearly growing all across those sectors.

C&I is also the most geographically dispersed operations, and there's significant variation from country to country created by uncertainties in economic and political policies. As such, we see mixed results in Europe and a continuing but slow recovery in Asia.

We also see differences from sector-to-sector with education, aviation and the military, military and general industries, all showing nice improvements where natural resources and heavy-duty are off. But shining through all that variability is our expanding strength in those critical industries. The advantage Snap-on holds in product and brand and in people. And in the quarter, those drivers were on display.

So, across our corporation, I would characterize our markets as mixed, turbulent from period-to-period and from sector-to-sector, but filled with ongoing opportunity. And we believe we're well positioned to face the challenges of today, those at the end of today, and those that may arise in the future. We remain confident that we have continuing potential along our runways for growth, and we see significant power to overcome rooted in our Snap-on value creation processes of safety, quality, customer connection and innovation, and rapid continuous improvement, especially customer connection.

One of our substantial competitive advantages is being right where the actual tasks are being pursued and engineering the products to make the work easier by matching those insights, the insights gained, with technology applied. We've seen that over time, we've seen that innovative offerings create the path to advance and to overcome any turbulence. And in the quarter and in the year, our product line continued to advance, just kept getting stronger. And we continue to invest in Snap-on value creation to make that possible. We believe, in fact, that our product line has never been stronger. And despite the turbulence, we had more million dollar hit products in 2023 than ever before, and we believe we'll move higher again in 2024.

Now, let's talk about the full year, the 2023 performance. Sales of $4 billion, $730.2 million represented an increase of 5.3% as reported and a rise of 5.6% organically. OpCo OI exceeded $1 billion. I'm going to say that again, $1 billion for the first time, reaching $1 billion $39.9 million. And our OpCo OI margin of 22% represented an increase of 110 basis points. That's gangbusters. We've never been at 22 and 110 is a great increase. And when we include Financial Services earnings of $270.5 million, the consolidated operating margin for the corporation this year was 25.7%, up 80 basis points.

Earnings per share in the year were $18.76, rising $1.94 or 11.5%. We believe these are good numbers.

Now for the individual operating groups. So, let's start with C&I. Reported sales for the C&I group in the quarter were $363.9 million, up $20.7 million or 6%. That includes $5.5 million from the recent Mountz acquisition, $3.6 million of favorable foreign currency, and our organic sales increase of $11.6 million or 3.3%, all reflecting the strength in critical industries, partially offset by a slide in automotive power tools.

C&I's operating income for the period was $54.1 million. It was up 12.9% and the OI margin was 14.9%, rising 90 basis points and overcoming 50 basis points of headwind associated with negative currency. Again, in this case, the advance was driven by strong expansion in critical industries. And our increased kitting capacity for complex orders continued to play a large role in that progress, but the significant advance was also spurred, as it regularly is, by new product.

Innovations like our recently launched Automated Tool Control or ATC Portal, it's the latest addition to our unique Snap-on ATC tool control product lineup. It's manufactured at our AutoCrib operation that was recently acquired in California, and the portal significantly extends the reach of our ATC systems. It enables efficient control over a much wider range of device shapes and sizes. In effect, this portal's a doorway, lined with radio frequency identification or RFID antenna, and it's typically placed at the entrance to a tool room.

Significant assets like hydraulic pumps, portable generators and valuable diagnostic equipment are often stored in common areas in factories or other places and are cataloged by affixing an RFID tag. As technicians scan their badges to enter and exit the portal, the system documents the devices moving in and out of the secured stores, keeping close track of these critical items, just like the base ATC system keeps track of hand and power tools moving in and out of the tool storage box, but over a much wider set of areas.

We anticipate that the new portal will be a big boost and a great opportunity for C&I in the growing area of tool control, a very important area for us. And in the fourth quarter, we saw some of that potential come to bear. So, C&I, mixed progress, challenged with headwinds, but clear and overall advancement, great momentum, enabled by capacity expansion and by growing product power.

Now to the Tools Group. The Tools Group quarter, not at our standards. But we do see a path forward adjusting to the changing environment. As you may remember, this is where we sell to the techs. Those who twirl the wrenches, punch the touchscreen and those who appear to be wavering in macro confidence and those customers who under these conditions shift to lower payback or quicker payback items. Well, the fourth quarter reflects our franchisees and the Tools Group pivoting to match that movement, that customer movement.

Sales in the quarter were $513.3 million and they included an organic decrease of 5.7% compared to last year. Now, more to our standard, group OI margins were 21.6%, up 20 basis points, overcoming 10 basis points of negative currency. And the gross margin percentage rose 200 basis points. Nice gains.

As the quarter played out, the franchisees sensed the change and redirected their ordering and selling focus to match the customer shifts to faster payback items. And Snap-on is doing the same, defining a way forward, redirecting factory capacity, adopting a smaller ticket marketing focus, and launching innovative quicker payback products that fit the environment.

State-of-the-art designs, like our new ratchet, forged and manufactured in our Elizabethton, Tennessee factory. This next evolution in our ratchet line is a 100-tooth design we've named the Cynergy series. We believe it's a game changer for technicians, a significant improvement that helps make repair work much easier. The Cynergy is a short payback item that will make a clear difference right away. A 15% thinner head, an inch longer handle, a 3.5-inch degree swing area, 20% more compact, all for easier access and quicker work in tight corners that often come up like chassis areas in modern vehicles.

Cynergy's internal mechanisms were reengineered to engage the primary drive with 10 contact points versus the 7 in the previous design, greatly reducing the chance of slippage, improving the tool’s reliability and quality even while under maximum loads. Technicians may be uncertain about the way forward, but they're confident about the Cynergy. They know it will provide a quick payback. It's thinner, longer, stronger. And going forward, we'll expand that new 100-tooth technology throughout the Snap-on lineup, and we believe it will quickly become a must-have all across the industry.

Also in the quarter, our Algona, Iowa manufacturing facility released the new, quick payback, KRSC2430, a 36-inch Deluxe Shop Cart. With its smooth mobility and a substantial payload, it offers a technician an economical and attractive way to store the tools, but it also allows them to position their instruments adjacent to the workplace, increasing productivity, eliminating the time walking to and from the job. As a particularly special feature, the versatile lid on this cart serves as a durable workbench that when opened separates into two sections, allowing full and easy access to the deep 8-inch top compartment that's underneath.

The unit also includes a complete power strip where techs can charge their cordless tools, diagnostic platforms, lights and other electronic devices. The innovative cart’s also configured with two additional drawers underneath the sliding top, providing quick accessibility for essential and small items, preventing lost time from treasure hunting in large drawers for small-scale items. It's a common problem with other units, and so this will really save time for the techs. And like our top-of-the-line tool storage boxes, technicians can customize their cart, selecting from an array of colors and trims so they can project their own personal identity throughout the shop.

The KRSC2430…economical storage, attractive features, convenient mobility. We expect it will have strong and continuing appeal in this uncertain environment.

And shifting the product focus also required some repositioning in the factory, expanding the capacity to match customer preference. We're doing just that, moving to currently popular items, more dedication to short paybacks, to products like our flex and swivel sockets, and the new long nose pliers in Milwaukee, additional cart welding, breaking bottlenecks for our economical storage cart options in Algona, and doubling down on Cynergy production in Elizabethton, Tennessee.

Finally, our sales teams are being deployed to help franchisees, giving them added energy and more time in selling shorter payback items off their truck. Well, that's the Tools Group. Shifting tech preferences, pivoting operations to ensure the way forward, adapting products, capacity and sales focus, making the most of our strengths in the turbulence.

Now for RS&I. The group results confirmed what we've been saying all along, Snap-on is well positioned to support repair shops, dealers and independents, and keeping pace with the growing complexity of the car parc. RS&I sales in the quarter were $450.8 million, up $12.9 million versus last year, including an organic sales rise of $8.8 million that was authored by volume with vehicle OEM programs for new models and platforms, and by strong progress in undercar for both dealerships and independent shops; gains that served to offset the decrease in the big-ticket diagnostic items.

RS&I operating earnings for the quarter were $113.3 million, and the operating margin was a still strong 25.1%, but down 20 basis points, reflecting the mix shift to lower-margin undercar and the OEM-facing activities.

But just like other segments, RS&I’s advances are driven by new products. And even the aging car parc is filled with diverse and ever-changing models. Light-duty trucks and full-size SUVs are bigger than ever requiring a range of wheel configurations and sizes, some weighing over 100 pounds. And at the recent repair industry SEMA show in Las Vegas, we had one of our answers to that challenge on prominent display. Our new automated Armored Series wheel balancers, specifically designed for high-volume shops that require precision and reliability. Made from robust steel for enhanced and rugged durability, even in a small compact footprint, the balancer’s intelligent operating system uses sonar technology to automatically measure both the wheel and rim, eliminating the need for manual intervention; a great time saver in the shop. And for improved safety, the unit also includes a heavy-duty pneumatic lift that positions cumbersome tires on the spindle, making it unnecessary for the techs to physically lift or manipulate the heavy assembly, substantially avoiding the risk of strain. The balancer also includes a high resolution touch screen, an intuitive interface, and an effective ergonomic design. It's a powerful combination of accuracy, speed, durability and safety, and the SEMA crowd clearly noticed.

So that's RS&I. Shop repair remains robust. Vehicle complexity continues to advance. Abundant opportunities for a great future. The group has abundant opportunities for a great future and our RSI team has the products to take advantage.

Well, that's our quarter and our year. For the quarter, sales up 3.5% as reported, 2.2% organically. OI margin reached 21.6%, up 10 basis points. And the EPS was $4.75, rising 7.5% against the turbulence.

The period was marked by extraordinary positives in the critical industries that are C&I. The Tools Group, not reaching our standard, but displaying margin gains and pivoting to match the technician shifting focus. And RS&I, enabling both dealerships and independent shops to meet the challenges of higher complexity in new technologies.

And the full year, 2023 sales of $4,730.2 million, up 5.6% organically, an OI of over $1 billion, rising 10.5%, an OI margin of 22%, an increase of 110 basis points. 110 basis points, we like that. And EPS of $18.76, up $1.94 or 11.5%. It was another encouraging year.

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

Aldo Pagliari
Thanks, Nick.

Our consolidated operating results are summarized on slide 6. Net sales of $1 billion, $196.6 million in the quarter represented an increase of 3.5% from 2022 levels, reflecting a 2.2% organic sales gain, $9.1 million of favorable foreign currency translation and $5.5 million of acquisition-related sales. Sales were strong in our businesses serving critical industries this quarter, while activity in our automotive repair market was mixed.

Consolidated gross margin of 48.3%, including 20 basis points of unfavorable foreign currency effects, compared to 48.5% last year. Benefits from lower material and other costs and savings from the company's RCI initiatives were offset by the effects of a higher mix of sales in lower gross margin businesses.

Operating expenses as a percentage of net sales improved 30 basis points to 26.7% from 27% last year, primarily due to lower corporate expenses and benefits from higher sales volumes, partially offset by increased investment in personnel and other costs.

Operating earnings before financial services of $257.9 million in the quarter, compared to $248.0 million in 2022. As a percentage of net sales, operating margin before Financial Services of 21.6%, including 20 basis points of unfavorable foreign currency effects, compared to 21.5% last year.

Financial Services revenue of $97.2 million in the fourth quarter of 2023 compared to $88.3 million last year, while operating earnings of $67.9 million compared to $63.9 million in 2022.

Consolidated operating earnings of $325.8 million in the quarter compared to $311.9 million last year. As a percentage of revenues, the operating earnings margin of 25.2% compared to 25.1% in 2022.

Our fourth quarter effective income tax rate of 21.4% compared to 22% last year, while our full year 2023 tax rate of 22.5% compared to 22.8% last year.

Net earnings of $255.3 million or $4.75 per diluted share, reflected an increase of $16.4 million or $0.33 per share from 2022 levels and represented a 7.5% year-over-year improvement in diluted earnings per share.

Now let's turn to our segment results for the quarter, starting with the C&I group on slide 7. Sales of $363.9 million increased from $343.2 million last year, reflecting an $11.6 million or 3.3% organic sales gain, $5.5 million of acquisition-related sales, and $3.6 million of favorable foreign currency translation. Organic growth includes a double-digit gain in sales to customers in critical industries, partially offset by a double-digit decline in sales of power tools. With respect to critical industries, sales to the military were robust as was activity in the aviation sector.

As previously announced, during the quarter, Snap-on acquired Mountz Inc., a leading developer, manufacturer, and marketer of high-precision torque tools. The acquisition complements and expands Snap-on's torque offering for a variety of critical industry applications. The operating results of Mountz are reported within the C&I group.

Gross margin improved 150 basis points to 39.2% in the fourth quarter from 37.7% in 2022. This was largely due to increased sales volumes in the higher gross margin critical industry sector, pricing actions, savings from RCI initiatives, and 30 basis points of benefits from acquisitions. These improvements were partially offset by 60 basis points of unfavorable foreign currency effects.

Operating expenses as a percentage of sales rose 60 basis points to 24.3% in the quarter from 23.7% in 2022, primarily due to a 30 basis point impact from acquisitions, as well as from investments in personnel and other costs.

Operating earnings for the C&I segment of $54.1 million, including $1.4 million of unfavorable foreign currency effects, compared to $47.9 million last year. The operating margin of 14.9%, including 50 basis points of unfavorable currency effects compared to 14% in 2022, reflecting an improvement of 90 basis points.

Turning now to slide 8. Sales in the Snap-on Tools Group of $513.3 million compared to $542.7 million a year ago, reflecting a 5.7% organic sales decline partially offset by $1.6 million of favorable foreign currency translation. The organic decrease reflects a high single-digit decline in the U.S. business, partially offset by a mid-single digit gain in our international operations.

Gross margin improved 200 basis points to 45.2% in the quarter from 43.2% last year. This improvement primarily reflects decreased sales of lower gross margin products, which includes lower sales of items where the Snap-on Tools Group serves as a distributor for products made by our C&I and RS&I groups.

Operating expenses as a percentage of sales rose 180 basis points to 23.6% in the quarter from 21.8% in 2022, largely due to the lower sales volume.

Operating earnings for the Snap-on Tools Group of $111 million compared to $116.1 million last year. The operating margin of 21.6% compared to 21.4% in 2022.

Turning to the RS&I Group shown on slide 9, sales of $450.8 million, compared to $437.9 million in 2022, reflecting a 2% organic sales gain and $4.1 million of favorable foreign currency translation. The organic increase includes a high single-digit increase in activity with OEM dealerships and a mid-single-digit gain in sales of undercar equipment. These gains were partially offset by a high single-digit decline in sales of diagnostic and repair information products to independent shop owners and managers.

Gross margin was unchanged from last year with benefits from lower material and other costs and savings from RCI initiatives, offset by increased sales in lower gross margin businesses.

Operating expenses as a percentage of sales rose 20 basis points to 19.9% from 19.7% last year, primarily reflecting increased personnel and other costs.

Operating earnings for the RS&I group of $113.3 million compared to $10.6 million last year. The operating margin of 25.1% compared to 25.3% reported last year.

Now turning to slide 10. Revenue from Financial Services increased $8.9 million to $97.2 million from $88.3 million last year, primarily reflecting the growth of the loan portfolio. Financial Services operating earnings of $67.9 million compared to $63.9 million in 2022.

Financial Services expenses were up $4.9 million from 2022 levels, including $3.9 million of higher provisions for credit losses. The year-over-year increase in provision reflects both the growth of the portfolio, as well as a return to what we believe to be a more normal pre-pandemic rate of provision.

For reference, our gross worldwide extended credit or finance receivable portfolio has increased 8.5% year-over-year, and we believe the delinquency and portfolio performance trends currently remain stable.

In the fourth quarters of 2023 and 2022, the respective average yield on finance receivables were 17.8% and 17.6%. In the fourth quarters of 2023 and 2022, the average yield on contract receivables were 8.9% and 8.6%, respectively.

Total loan originations of $33.1 million in the fourth quarter represented an increase of $3.4 million or 1.1% from 2022 levels.

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. The 60-day plus delinquency rate of 1.8% for U.S. extended credit was up from 1.6% in 2022 but was the same as in the pre-pandemic period of 2019. On a sequential basis, the rate is up 30 basis points, reflecting the seasonal uptick we typically experience between the third and fourth quarters.

As it relates to extended credit or finance receivables, trailing 12-month net losses of $50.4 million, represented 2.59% of outstanding's at quarter end, which compares to 2.51% as reported at the end of last quarter.

Now turning to slide 12. Cash provided by operating activities of $296.9 million in the quarter, represented 114% of net earnings and compared to $210.6 million last year. The improvement as compared to the fourth quarter of 2022 largely reflects lower year-over-year increases in working investment, which included a reduction in inventory in 2023 as well as higher net earnings.

Net cash used by investing activities of $104.6 million included $42.6 million for acquisitions, net additions to finance receivables of $42.2 million and capital expenditures of $21.1 million. Net cash used by financing activities of $149 million included cash dividends of $98 million, and the repurchase of 217,000 shares of common stock for $60.9 million under our existing share repurchase program. As of year-end, we had approximately $282.9 million of common stock under our existing authorizations available for repurchase.

Turning to slide 13, trade and other accounts receivable increased $29.6 million from 2022 year-end. Days sales outstanding of 60 days compared to 61 days as of 2022 year-end. Inventories decreased $27.2 million from 2022 year-end. And on a trailing 12-month basis, inventory turns of 2.3% compared to 2.5% at yearend 2022. Our year-end cash position of $1.15 billion compared to $757.2 million at yearend 2022.

Our net debt to capital ratio of 3.8% compared to 9% at yearend 2022.

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

That concludes my remarks on our fourth quarter performance, and I'll briefly review a few outlook items for 2024.

We expect that capital expenditures will be in the range of $100 million to $110 million. In addition, we currently anticipate that our full year 2024 effective income tax rate will be in a range of 22% to 23%.

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

Nicholas Pinchuk
Thanks, Aldo.

The Snap-on fourth quarter and full year. Geographic variation, shifting customer perspective, growing macro uncertainties, all overcome by Snap-on's ability to wield its advantages, making the most of opportunities, continuing its positive and upward trend now demonstrated over multiple quarters and a significant number of years.

The quarter did see the change in technicians' perspectives. And in pivoting to adjust, the Tools Group volume did not meet our standards, but the tools team did blunt the difficulty with favorable mix and RCI driving improvement of OI margins up 20 basis points with the gross margin rising 200 basis points.

The story with repair shop owners and managers was somewhat different. They recognized the need to upgrade, and RS&I increased this rise in participation in OEM programs and extended its gains in undercar equipment, particularly in the expanding collision space.

And finally, we saw C&I register another quarter of increasing importance to the corporation with the critical industries rising double digits and achieving another leap in margin, reaching new and significant levels. And it all resulted in a fourth quarter advancement against some substantial headwinds.

Sales were up 3.5% as reported, 2.2% organically. OI margins of 21.6% increased 10 basis points and an EPS of $4.75 rising 7.5%, all representing progress in a time when it all was not where we'd like it to be.

But I believe the bright-line story in this period is the full year. Sales for the corporation increased 5.6% organically. OpCo OI margin rose 110 basis points, another significant advance in a long line of gains, reaching 22% for the first time, and the EPS was $18.76, up versus all comparisons. And it was all authored by some noteworthy performances. The Tools Group, not encountering the smoothest sailing but still achieving an OI margin of 23.6%, an increase of 150 basis points. RS&I, sales up 6.7% organically and an OI margin of 24.3%, up 70 basis points off a strong base. And C&I, facing a landscape of challenges, but growing 4.2% as reported, 5% organically with an OI margin of 15.5%, up 140 basis points against 50 basis points of negative currency. And perhaps the biggest story of all is the emergence of the critical industry business, growing strong double digits in all four quarters demonstrating that we really can roll the Snap-on brand out of the garage at considerable margins.

We see the quarter and the year as demonstrating that Snap-on does have multiple runways for progress. And if one of our segments is challenged, we can still move forward achieving clear and continuing advancement driven by the other parts of the enterprise. And as such, we're encouraged by our present and by our future. We believe that with our advantages in product, everyone recognizes we know work and we do make tasks easier. In brand, everywhere you go, everywhere you go among the people of work, the Snap-on sign is displayed and spoken of with great pride. And in our people, a team, battle tested, who find the way forward and upwards despite the challenges. The results of 2023 say it's so. And we believe, enabled by those advantages, Snap-on will overcome, will achieve, and will advance, continuing the positive trend throughout 2024 and well beyond.

Now before I turn the call over to the operator, I'll address our franchisees and associates. I know they're all listening.

I've spoken today with belief and confidence on our current situation and on our way forward, but I do so principally because I know the capability and the quality demonstrated over and over by all of you. For your contributions in authoring our achievements, you have my congratulations. For the skills and energy you bring to our corporation every day, you have my admiration. And for the commitment you consistently display for the future of our mutual 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, 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 comes from Luke Junk with Baird. Please go ahead.

Luke Junk
Good morning, everyone. Thanks for taking the question here. Nick, for starters, I was hoping you could just expand. I know you mentioned some of these things in the prepared remarks already, but if you could just expand on Snap-on's most important growth drivers in the Tools Group as we go into 2024 here, really irrespective of what the market is giving you? And if you pivot aggressively enough, do you think that you can grow the Tools business this year?

Nicholas Pinchuk
Yes, I think we can. I mean, I think we've done it. We did it in the pandemic era coming out of the pandemic when confidence was kind of stilted in the Tools Group. If you look at the first four quarters after the pandemic, it was mostly on shorter payback items, so we can make a good business out of that. We made it at the tail end of the financial recession as well. So, we think that's the capability.

I’d say simply, as you might say, what we saw coming out of the SFC, everybody was sort of “business as usual,” pumped up, and they were ordering to a general mix of product. And then mid to late October or November things started to look a little different to our franchisees and they wanted to make a pivot because they had been through this rodeo before, and so they wanted to redirect. That's what we're doing.

We think we have great things in hand tools and in diagnostics and in tool storage carts and maybe some of the lower lines of tool storage boxes themselves like at the classic series. So, we're going to focus on that. That doesn't mean we're going to abandon the bigger ticket items, things like maybe Triton and so on in diagnostics, which we believe is very strong, or our boxes, but we're going to shift our focus.

And it's important to talk about the capacity, Luke, because remember, we were already kind of bumping up the capacity, and we're fighting to expand it. And so, what you want to do in this situation is try to use that expanded capacity in a redirected manner, so we actually have the volumes in the places we think are selling now.

So, we feel pretty good about that. Our product lineup is good. As I said, product leads the way. We've got a great array of hand tools coming forward. We got new tool boxes, diagnostics, power tools, all those things are going to work for us, we believe. So, the way forward is, one, continue to drive the products, make sure we can actually deliver them. And then thirdly, as always, to try to help the franchisees in selling, giving them more time to sell. Sometimes it might take a little longer in this situation, so that's why we're deploying our field guys to get out there and provide a little bit more energy and time to the actual selling process.

So, we think it's a reasonable pivot. Again, it's not our first rodeo. It's not the Tools Group's first rodeo. So, we think, okay, things have changed a little bit. We know how to respond.

Luke Junk
Thanks for that. And then I guess a related question would be the shift in mechanic sentiments that you saw mid fall. Just how do you think that influences the appetite for credit here? And as you tracked either originations or just other trends in book, I'm thinking more from the demand side, Nick?

Nicholas Pinchuk
Well, yes, you probably see less credit used in that situation. I mean the originations were, I think Aldo said down 1% in the United States in the quarter. So, I mean, I think you see that kind of thing. And if you go back and you look at our numbers, say, coming out of COVID, say quarter three and four of 2020 and first and second quarter of 2021, you'll see that kind of phenomenon. So that could be the case.

Now, this is early days for this. One of the good thing about this is our people sensed it right away. And so, sensing it they changed their order. That put a little strain on the factory because when you change the orders, it makes the capacity shrink a little bit. So, you have those kinds of things. So, I believe you may see a little pivoting away from that.

Now, I think this is right in tune with everything. I do believe, I've said it many times that there is a kind of bifurcated economy, there's a financial economy, the kinds of people that I said in my talk, my remarks, that were talking about the recession is coming, the recession is coming, and the people are saying we're going to have a soft landing now. But the people at the grass roots level have a different view of the world level. And if you look at *The Wall Street Journal*, the front page says in the paper edition, there's an article saying just this.

Actually, I met a bunch of franchisees, and I met a huge number of people in the factories and in the garages in places like Conway and Louisville and Elizabethton, Tennessee and Milwaukee, and they all kind of say the same thing. They've got jobs, they got the cash coming in, but every day they get up and get bad news for breakfast. And you start to wonder about what's going to happen. So, it's not that things are bad today, but people worry about how things are going to happen and what's going to happen in the future. And I think all of us looking at the events might say that's true.

Luke Junk
Okay. And then maybe a final question. This one might be for Aldo. Just hoping to unpack what happened in the power tools business, specifically this quarter. If we look at the intersegment sales, it seems like things maybe stepped down quite a bit. I'm just trying to reconcile what you saw in order trends versus your impression of underlying trends in power tools. Is it possible that there is sort of a onetime adjustment in orders to level set inventory on the vans in power tools? Am I thinking about that right?

Aldo Pagliari
So, in some ways, there's another buffer stock in between. The Tools Group maintains its own levels of inventory. So, you're right Luke, simply the Tools Group had less need to buy as much in power tools and diagnostics in the quarter. It doesn't mean necessarily that that flows one to one through to the vans because you have inventories in between, both inventories at the van itself and the inventories in the hands of the Tools Group. But the lower sales from C&I and from RS&I to the Tools Group reflects actually pretty much power tools and diagnostic related products.

Nicholas Pinchuk
Actually, I'd offer that what you're seeing a phenomenon is, you're seeing, as Aldo said, some adjustment there. And if you actually take a careful look at C&I, you see they actually had a boffo quarter to their traditional customers. But what happens in the power tools business is our new CT9038 came out 18 volt, it sold great, then this happened. And that kept selling, but the bigger ticket items in power tools, like the 18 volts, just dropped off and people tended to want the 14.4 volt. Our supply chains are a little longer for that. We couldn't supply all of that. So, you have that kind of situation. But if you look at the Tools Group level, power tools are not down an especially an outstanding amount. It's mostly between the Tools Group and C&I.

Luke Junk
Got it. I'll leave it there. Thank you.

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

Patrick Buckley
Hi. Good morning, guys. This is Patrick Buckley on for Bret. Thanks for taking our questions.

Nicholas Pinchuk
Okay.

Patrick Buckley
Could you talk a bit more on pricing versus units within the Tools Group? And then looking ahead, are pricing actions on the table here? Or is it more focused on pushing the shorter payable tools?

Nicholas Pinchuk
No. Pricing, except in exceptional inflationary times, which we've all been through more or less recently, we get 30 to 40 basis points of pricing, something like that. Most of our advancement comes from RCI and new product, which gets its margins. We get our margins from new products.

We don't plan changing that approach. We're not really going to make a major adjustment in pricing going forward. This is more about shorter payback versus longer payback. Think of it this way. If you just take a simple thing as a tool storage unit, you can buy a big Epic and boy, they are great. People love them. They bring people up and show them their box, and they say, this is my dream, but that's not a quick payback. That's a longer payback. You got to work a long time and get efficiency from the size of that and the features in that to get a payback.

But if you get yourself a cart, you can move from your workplace out into the shop, particularly in some of these independent shops, out into the shop yard or all over the shop. And that gives you immediate savings in time just there. And so that's the kind of thing I'm talking about is that shift to the idea, is this thing going to pay for me right away, pay me back right away? Wrenches do that, particularly like the Cynergy I talked about here, which is a leap forward in terms of reliability and access and swing arc and making jobs easier and able to beat the flat rate faster. So those are the kinds of things we're betting on.

We've seen it work before. So, I think the good thing about this is the Tools Group saw it and started to move on it.

Patrick Buckley
Got it. That's helpful. Thank you. And then was there anything notable to call out in the corporate expense line? Q4 seemed to take a step down from the run rate we saw in the past few years.

Aldo Pagliari
So, we had lower spending in the quarter on legal expenses in particular. We had a favorable settlement on a matter, so it was able to reduce our expenditures in the quarter. But the run rate for corporate expenses is running in a typical fashion.

Nicholas Pinchuk
Actually, in total, it's $113 million in the year. That's up $5 million to $6 million year-over-year.

Aldo Pagliari
$113 million versus $1.08 million.

Nicholas Pinchuk
Yes.

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

Operator
The next question is from Scott Stember with Roth MKM. Please go ahead.

Scott Stember
Good morning. Thanks for taking my questions.

Nicholas Pinchuk
Sure.

Scott Stember
Nick, could you split out the different sub segments within tools, hand tools, power tools, obviously, sounds like power tools were down and storage units, things like that? Thanks.

Nicholas Pinchuk
Well, being down 5.7% is not a lot of good news to go around. The big kahuna moving downwards was diagnostics. They saw the diagnostics, and we have several ranges of diagnostics and the latest introduced was the SOLUS. It's the low end of – I don't want to say low end – it's the lowest priced version of our product. That did okay in the quarter, not as well as we might have hoped in these situations, but what kind of went down was ZEUS, the top of the line and the next one down the Triton, and ZEUS had been introduced last year in the fourth quarter, so those comparisons were around. But the biggest kahuna down was that.

And then after that, I think actually Tool storage is up slightly, but all because of carts, pretty much because of carts. Shop and tech items were down. So, hand tools were down some. But if you looked at it, one of the things that drove the margins, I think the important point out of that, Scott, what drove the margin improvement in the Tools Group despite the lower volume was that the stuff they make, the carts at Algona, the tool storage items, and the hand tools were a bigger portion of their sales than in the prior year. So that that wielded a much greater mix, because what the Tools Group sells for hand tools and tool storage, they get both distribution and manufacturer margins. For things like diagnostics and power tools and shop and tech stuff, they only get the distribution margin. So, there's a pretty big difference between those. So, you can get some pretty good news or bad news depending on how that mix works.

Scott Stember
So, going forward, obviously, you're focusing on quicker payback items. So, obviously, that would be hand tools? You're going to start cranking that up a little bit more?

Nicholas Pinchuk
You would say it this way. I mean we like to think, Scott, that we could find quicker payback items in everything. Hand tools clearly mostly often, I shouldn’t say often, are quick payback. The technicians can see quick payback. Certain versions of tool storage, as I've said, the carts in particular, which tend to be substantially cheaper and more efficacious because they're kind of an option to add on to a big box, or somebody can't afford a lot and wants to just get in Snap-on tool storage in some way at an affordable level. And then the lower end of that product, the classic series, which we're working on having in terms of programs coming up, which we've got scheduled for February and March. And so that would be the case.

Diagnostics, it all tends to be bigger ticket items. There is the SOLUS at the lower end, and we’re liable to bring out a new diagnostic at some point during the year, which creates interest. But the lower ticket items is just at the bottom end of diagnostics.

And then power tools can have I don't want to say big ticket items, but the 18 volts are a little more expensive. 14.4 volt is a lot more affordable, and you tend to have a very focused application for it, where the 18-volt tends to be broader applications. You bring that power to any place, whereas the 14-volts tend to be saying, I got this problem in this particular chassis area of the car that I see, so I'm going to use that 14-volt. So, that tends to be quick payback as well. Those are the kinds of things you see.

Scott Stember
Got it. And then just a last question on the bigger picture. You said that the overall market, the underlying conditions look pretty strong. You're not seeing any warning signs for the businesses themselves in demand? I mean O'Reilly reported last night, and they said that their professional business was up double-digits. So, I just want to make sure that this is not a canary in the coal mine that the underlying business—

Nicholas Pinchuk
I don't think so. I mean, everybody says the business is good. I mean, I don't know. First of all, I have two answers to that. One is the metrics. If you look at the BOL data, that all seems positive. I mean, the miles driven are up in that. It's a long way thing. But household spending on repair, up 4% year-over-year. That's a pretty good number.

The number of techs up 4.5%. It used to be 1%. They're growing at 4.5%. The technician wage is up at 7%. So those kinds of things are good things and the car parc, of course, keeps growing, and so they keep pumping it in. And the auto industry, while this doesn't make a difference too much, is starting to come back, and they're still rolling out those new technologies. So, all that seems to be from a quantitative point of view seems to be positive.

Now the Bureau of Labor data can trail, so I don't know, and people have questions about that. But then, when you go out in the windshield survey and you talk to not only the people, our franchisees who are out there every day, but to talk to the general people who work, they think cash is rolling for them. They're not going to say they're cash rich, but they are. And so, I think things look good right now. And I don't expect this to change.

Scott Stember
Got it. And just to firm up a follow-up on something you said earlier. You would not be surprised to see the Tools Group return to positive organic growth?

Nicholas Pinchuk
Well, we don't give guidance. But I think I said like four times in my remarks, they weren't at standard.

Scott Stember
Got it.

Nicholas Pinchuk
We expect them to grow. If we don't, if we don't grow, they will be below our expectations.

Scott Stember
Got it. That’s all I had. Thank you.

Nicholas Pinchuk
Sure.

Operator
And our last question today comes from David McGregor with Longbow Research. Please go ahead.

David McGregor
Yes. Good morning, everyone and thanks for taking my questions. Let me just start by sort of picking up on the last line of questioning. It sounds like hand tools and storage is doing maybe a little bit better

in relative terms, but that's also where you were adding capacity in Elizabethton and Milwaukee and Algona. Are you doing a little bit better because you finally just have a little more capacity and you're able to liquidate some of that backlog? Or is there maybe a better underlying demand story in those categories?

Nicholas Pinchuk
That's a complicated question because of the situation. I mean, I guess, I don't know. I think this way, though, I'm pretty sure we're doing better because we had in the queue some ability to adjust for shorter payback items in those areas. That's pretty much the way I can answer it.

Now what I will tell you is, this is an operating guys song is that when you're thinking that you're going to have promotions rolling out of your factories and all of a sudden your customers come up and say, never mind, we want to go over here, this tends to create a lot of, shall I say, inefficiencies, so you have to adjust to that. So I don't think we got the full result of the capacities we had hoped, the capacity expansions we had hoped to get in the fourth quarter because of those changes. They just sub optimize what you've added. And so that's a factor in all of this.

Yes, some of the backlog for tool storage was down. So we liquidated some of that, but we still have backlog in those areas. So, it's a complicated answer, I think. You might have some of that. But on the other hand, we couldn't fulfill it as much. We couldn't have liquidated as much as we would have had we been able to roll in the way we had planned to roll in our production plans coming out of the SFC.

David McGregor
Okay. Just a couple of other questions for you, Nick and Aldo, the trucks, I would love to get your sense, your organic growth was down 5.7%. What do you think the truck sell-through was?

Nicholas Pinchuk
I sort of know what it was, and it was better than that in the quarter and for the year, it generally was better. This all tends to come out in the wash though in the long run. But in the fourth quarter, the trucks were not down. They were still down, but not anything like the Tools Group.

David McGregor
Down low single digits?

Nicholas Pinchuk
Yes. Sure. So, you would say you don't know, but they've kind of liquidated some things. And part of it is, if you pick a particular product and you say you shift to that product, we do have inventory, but the point is sometimes you don't have that product and you have to make changes in the factory, and sometimes we couldn't even deliver what they wanted.

David McGregor
Let me just shift to credit for a second if I could. And Aldo, you normally share the breakdown on originations between finance receivables and credit receivables. Would you be kind enough to do that for us again this quarter?

Aldo Pagliari
The EC receivables, the originations were down, and that was more than offset by contract receivables. And similar to the results of the Tools Group, EC originations in the United States were down more than what we saw internationally. It was actually up in terms of EC originations. So that kind of gives you some of the blend.

David McGregor
Okay. And I guess within those origination numbers, can you distinguish between merchandise versus franchisees flipping RA into EC?

Aldo Pagliari
Actually, I was pleased to say, I know what you're asking, David, actually, in the quarter, there's less than what would be the typical mix of what we call transfers, RA transfers where they transfer items from the revolving accounts over to EC. There's actually less of an effect of that. But for the full year, it's very consistent with where we expect it to be. So, there's been no signs of franchisees using the credit company to finance their operations by moving things from their revolving accounts across I think that's what you're after.

David McGregor
Yes. And do you get a sense that there's an opportunity here to maybe, I mean, you've got a very high-quality credit portfolio. I don't think that's ever been in doubt. Certainly, that's our sense. Do you get a sense there's maybe an opportunity here to relax a little on the credit standard in order to reinvigorate demand?

Nicholas Pinchuk
No.

David McGregor
That was a nice tight answer, Nick.

Nicholas Pinchuk
Well, if that was me.

Aldo Pagliari
If you think about what we said, if people are lacking confidence to some degree for big-ticket items, I don't think the way home is to discount the interest rate you're going to charge those to provoke a sale. So discounting isn't usually our style. It doesn't mean we might not come up with creative promotions and bundling and things like that, but I don't think discounting is the way home.

David McGregor
And so, what's the take on the regional kickoffs? Just help us think through first half what you're seeing in regional kickoff.

Nicholas Pinchuk
I think we usually comment on the kickoffs usually in the first quarter call. But in general, and we tried to shift the kickoffs at the last moment for it, we took a different approach to kickoffs this time. We saw this problem. We tried to concentrate on shorter payback items that seemed to go reasonably okay with those items. And then we established a little more program in February and March, thinking that if we kind of stretch the kickoffs into other months, then we would be able to have better adjustments to the current situation. So that's sort of what we did in the kickoff.

I was at one in Las Vegas. They usually send me to Deadwood, North Dakota. This time, I got to go to Las Vegas. And we had the Canadian guys there and that seemed to go okay. They seem to be positive. The franchisees don't seem to be daunted by this. They just report what they see.

David McGregor
Right. The last question for me is just maybe on the competitive dynamics, you've been fairly steady in terms of the number of trucks you have on the road now for quite a number of years. I gather maybe there's a few more company-owned versus franchisee owned within the mix overall. But at the same time, your competitors have been increasing the number of trucks on the road. You sense this is starting to have a little bit of an impact on you? Do you feel like maybe there was a little bit of share loss this quarter versus some of your peers?

Nicholas Pinchuk
I don't know. I never like to talk about share. I never talked about share when our numbers were booming upwards, and I don't talk about it now.

You could think that, but I don't think so. I think, look, I think we're covering the universe with the 3,400-or-so franchisees that we have. So, you could argue that some locations might be seeing competition where they haven't, but there are a few locations, David, that don't have any competition. So, what does happen sometimes is, okay, one or two or three, one of the other competitors will put somebody in place. But that guy, our guy in that territory has already been dealing with people and the other guy has its own competition and it might create more business, but I never hear the franchisees saying that. So, while you logically might think that would be the case, and we think about it all the time, and I ask the question all the time, but they almost never say that. In fact, never.

David McGregor
Are you seeing any change in franchisee attrition rates?

Nicholas Pinchuk
No, that's pretty held the same, pretty much the same in the quarter. So just in the quarter, I think we saw more longer in the tooth guys leave in the quarter, an interesting phenomenon. But that's just a sort of anecdotal view of it. That could make some difference, but I don't think we worry about that in particular in terms of the day-to-day dynamics of the competition.

David McGregor
Got it. Thanks very much. That’s all I’ve got. Good luck, gentlemen.

Nicholas Pinchuk
Hi, thanks.

CONCLUSION

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

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

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