Snap-on Incorporated

Third Quarter 2025 Results Conference Call

Thursday, October 16, 2025, 10:00 AM ET

CORPORATE PARTICIPANTS

Nicholas Pinchuk--*Chairman and Chief Executive Officer*

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PRESENTATION

Operator
Good day and welcome to the Snap-on Incorporated Third Quarter Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a Conference Specialist by pressing STAR then 0. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press STAR then 1 on a touch-tone phone. To withdraw your question please press STAR then 2. 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, Bailey, and good morning, everyone. We appreciate you joining us today as we review Snap-on's third quarter results, which are detailed in our press release issued earlier this morning.

We have on the call Nick Pinchuk, Snap-on's Chief Executive Officer; and Aldo Pagliari, Snap-on's Chief Financial Officer. Nick will kick-off our call this morning with his perspective on our performance. Aldo will then provide a more detailed review of our financial results. After Nick provides some closing thoughts, we'll take your questions.

As usual, we provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the webcast viewer, as well as on our website, snapon.com, under the Investors section. These slides will be archived on our website along with a transcript of today's call.

Any statements made during this call relative to management's expectations, estimates or beliefs or that otherwise discuss management's or the company's outlook, plans or projections are forward-looking statements, and actual results may differ materially from those made in such statements. Additional information and the factors that could cause our results to differ materially from those in the forward-looking statements are contained in our SEC filings.

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

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

Nicholas Pinchuk
Thanks, Sara. Good morning, everyone. Well, we believe our third quarter demonstrated encouraging momentum, continuing our progress, moving upward against one of the most challenging environments of our time...wars, inflation and tariffs...moving upward against the tides of seasonality and upward amidst the variability that always accompanies the late summer.

The quarter showed that the resilience of our markets, the momentum of our programs, the advantage of our strategy making in the markets where we sell, and of our structure, the flexibility provided by our 15 factories in the U.S. have driven us forward, and we believe it will serve us well for some time.

As we proceed today, I'll start with the highlights of our quarter. I'll provide my perspectives on the results, on our markets and on the path ahead, and then Aldo will give you a detailed review of the financials.

My thoughts regarding the past three months are that without question or qualification, our results are once again encouraging, fortified by the progress along our runways for both growth and improvement. It was another quarter of bearing witness to our building traction against the uncertainty and headwinds of today. You can see it in our -- third quarter sales, $1 billion. Third quarter sales of $1 billion $190.8 million were up 3.8% from the $1 billion $147 million recorded last year. Excluding $9 million in favorable foreign currency translation, organic sales increased by 3%.

And this third quarter was up sequentially over the second quarter results, again -- against normal seasonality and we believe it offers substantial evidence of ongoing momentum. The OpCo operating income margin was 23.4%. Now that includes 190 basis points from a recent legal settlement. So excluding that legal item -- OI margin was 21.5%, down 50 basis points, 20 of which were due to unfavorable currency, but 21.5% is still at a strong level and represents the second highest third quarter ever, despite the turbulence.

For Financial Services, FinCo OI of $68.9 million was down from the $71.7 million last year, a number that when combined with our OpCo result registered a consolidated OI margin of 26.9%. EPS was $5.02, $4.70 -- $4.71, excluding the $0.31 from the onetime legal benefit, representing the highest ever for a third quarter and overcoming a $0.09 impact from higher pension amortization costs. So those are the overall results, we think they're pretty good.

Now let's take a view of the markets. During the third quarter, the overall repair market remained favorable, displaying a continuing need and a rising complexity. Miles driven keeps growing. People move even in difficult times and they're holding on to their vehicles longer, requiring more upkeep. The car parc keeps aging. It's now averaging nearly 12.8 years.

In other words, people need repairs with solid regularity and the range of vehicle models needing work just is expanding and the vehicles keep getting more complex every day. The ever-expanding array of drivetrains, sophisticated motors, neural networks of sensors, multiple systems, a melding of hardware and software to control a growing range of functions. It all marks the trajectory of modern vehicles. It’s an environment of constantly rising repair challenges. In short, vehicle repair has never had a more promising future. And you can see it in the industry metrics. Spending on repairs up double digits, tech counts rising, wages continuing their upward march in keeping with the increasing skill required to keep the world mobile. So the techs are cash rich, but they're also confidence poor, certain of their value, but uncertain about the environment. They still want new tools that make the work easier, but they remain reluctant to commit to paying for big-ticket items with long-term financing. But in the turbulence, our strategy of pivoting toward faster payback items is taking hold and it's making gains.

Automotive repair is a great business, essential to our society and always advancing. Snap-on is well positioned for success with our short supply chains and the ability to redirect manufacturing, capitalizing on opportunities and on challenges as they arrive -- as they arise.

Now let's speak of the other side of vehicle repair, where Repair Systems and Information lies and our group operates. Repair shop owners and managers know they have to upgrade to keep pace with increasing complexity and to keep driving productivity. Technicians need to wade through more possibilities than ever to find the right fix. And RS&I can put them right on target, with our innovative hardware and powerful software, proprietary database offers faster, more accurate ways to navigate the thousands of repair procedures that confront a tech in a modern shop. It's a changing market in which dealerships and independents need to have the equipment and the specialty tools for tackling the advanced vehicles rolling into their garages. As we go forward, the momentum just keeps building and you can see it in the RS&I results.

For the critical industries, now this is the area where we have the largest global footprint operating across geographies and in multiple currencies. The rapid fire policies out of Washington and the headwinds politically and economically across the globe have clouded the prospects. Many of the players have adopted a wait-and-see approach, wanting the dust to settle for tariffs and for various other arenas before charting a course, fearful that the wind will suddenly change again and leave them embarrassed or disadvantaged.

But despite the continuing reticence, our order book keeps growing. In fact, despite everything, customers have started to commit and we saw a nice and very profitable growth in the quarter. Critical industries offer a great opportunity for our customized products that will drive productivity and though still attenuated, some of that potential is starting to shine through.

So overall, our markets offer attractive opportunities. The ever-changing landscape does dampen some of the possibilities, but our operations again this quarter enabled by our broad and innovative product line, our distinctive and meaningful brand, and our committed, capable and battle-tested team displayed unmistakable momentum. Overcoming the uncertainty and taking advantage of abundant opportunity, that's the market.

Let's talk about the Groups. In C&I, third quarter sales reached $367.7 million, which compared to the $365.7 million of last year. The quarter's volume included $4.8 million of favorable currency translation and an organic sales decrease of 0.8%. From an earnings perspective, C&I's operating margin was 15.6%, a decrease year-over-year of 110 basis points with 30 basis points of that coming from unfavorable currency.

Gross margins, gross margins were a robust 40.9%, down 30 basis points, but a variance that is pretty much explained by the unfavorable currency. And it's a level that clearly demonstrates our resistance to the impact of the tariffs.

Results in the group were mixed across the business units, with the organic sales decrease primarily due to reductions in the Asia Pacific business, reflecting the quick relocation of the supply chains away from that region. Gains in Critical Industries and in Specialty Torque were the offset.

Critical Industry in particular, showed strengthening in the aviation, heavy-duty and natural resources sectors, demonstrating that criticality can overcome the uncertainty of the changing trade policy, and will continue to do so. Precision torque also continues to be a spark. The appetite for accurate measurement continues to rise. When the cost of failure is high, even a slight deviation is a problem and operators want confirmed precision.

Our Sturtevant Richmont production facility in Carol Stream, Illinois, knows it is first-hand. And in the quarter, it launched the all new TAC2 torque and angle click wrench. It is built for the task, securing essential components like hydraulic fittings on heavy-duty equipment in natural resources or agricultural applications, places where downtime in a remote area can be catastrophic.

The TAC2 offers a fast-charging cradle, making sure that the tool is always powered and at the ready without the weight and thickness of other tools that utilize onboard batteries. The wrench is also accompanied with an electronic module that communicates the torque value actually applied, allowing confirmation that the proper spec has been achieved and providing documentation for later review.

And finally, heavy-duty equipment contains considerable variation in fastener geometries. Our new unit features a unique mechanism that accommodates over 200 different adapters, enabling the device to physically address the wide range of fasteners used across different pieces of equipment. It consolidates dozens of tools into one model, the TAC2. A new level of flexibility, connectivity and ease of use and the customers love it.

Also, within C&I is our Power Tools operation, which is, which in the back half of the quarter, launched our new 14.4 Volt 3/8” Extra-Long Cordless Ratchet. This baby hits the tech right between the eyes. Manufactured in our Murphy, North Carolina plant, it's in a league of its own, a best-in-class 80-foot pounds of torque and a best-in-class 13-inch neck, 50% longer than any other offering. I mean this tool reaches farther into tight areas, applying greater power at the point of work. Everybody is talking about it. It speeds up repair and it's already a hit million-dollar product. Well, that's C&I, Critical Industries and Torque leading the way forward, leveraging customer connections to solve the critical, and navigating the turbulence in international markets.

Now let's move into Tools. Sales volume up organically 1%, increased activity in the international network, and slightly higher sales in the U.S. Notably, the volume is also up sequentially from the second quarter. An unusual pattern, we believe demonstrating that the group has momentum and continuing momentum going forward. The group's operating margin was a strong 21.7% up 10 basis points from 2024. And that was overcoming a 10 basis point impact from unfavorable currency.

Now the third quarter is where we hold our annual Snap-on Franchisee Conference, or SFC, as we call it. This year's event was in Orlando. Nearly 9,000 people attended...franchisees, guests, and of course, the Snap-on team. It was a weekend filled with hands-on training, interactions with our expansive product offerings, and some great fun, with a cavalcade of 155 buses, transferring the Snap-on crew to Disney's Hollywood Studios to celebrate our 105th anniversary. It was quite a weekend.

The product expo floor was our largest ever, spanning 185,000 square feet, well over 3 football fields, where our entire portfolio of products was on display in real work situations, a new feature this year, that enabled franchisees to witness first-hand the Snap-on difference in solving typical repairs.

It was another memorable SFC, one filled with inspiration, education, great new products and friendships, reinforcing the unique and special bond we have with our franchisees. The atmosphere and the outlook of the franchisees was extremely confident and positive. I've talked to many of them since. And they left pumped, were ready to hit the road and apply the lessons learned. And the icing on the cake, SFC orders were up nicely, increasing over last year by mid-single digits.

Hundreds of new products were on display at the conference. New innovative offerings derived from our customer connections, insight we gained directly in the workplace, faster payback products like our S6700 15mm socket forged in the Milwaukee plant. You see a traditional unit can't easily install cylinder head bolts on Ford 6.7-liter power stroke engines used on the range of trucks from F250 and above. That sophisticated power plant requires a precise 7-step torquing procedure that reaches nearly 300 foot-pounds. And here's the problem, a normal socket is quite challenged to handle such force and many a socket has been damaged trying to apply the power needed. On top of which, they're too big to avoid nearby obstacles. Completing the job with the standard tools often requires component disassembly to clear the way. So our engineers, acting on a customer connection, designed a purpose-built socket, increasing the wall thickness by 33% to withstand extreme force, and reducing the height for a more compact device, creating more access and higher durability in the same package. Snap-on customer connection and innovation, making a difficult task easier, faster and safer.

But Milwaukee did more. The plant just released the all-new cold forged Hog Ring plier. Funny name, I know. But it’s a real time saver when removing and reinstalling the upholstery to access sensors, heating or cooling elements, and wires located within the vehicle seats. See, we don’t always realize it, but complexity is not just under the hood or in the drivetrain. It exists all over the chassis. The new pliers are built to remove and install hog ring retention clips, keeping the seat cover tight, providing a factory appearance after repair and doing it with increased safety. The new tool makes a difficult but everyday task quite simple. And I’ll tell you, the reception has been boffo.

In our Elkmont, Alabama plant, the local engineers addressed a customer connection observed with techs using a small number of small pocket screwdrivers to pry small components apart, separate terminal connectors, or remove seals. Well, screwdrivers are not meant for those jobs. It's quite unsafe and can lead to some pretty nasty cuts. So the Elkmont team developed a 3-piece pocket prybar set, just over 5 inches long, small enough for those close quarter, but tough jobs. This bundle made that common, but difficult work, much easier and safer. It was a wowza. Techs oversubscribed. It was really a brilliant move by the Elkmont guys.

Powering the Tools Group pivot, quick payback products from all over our American factories made the group's quarter. Big hits, continuing momentum, driving sequential growth, and authoring the strong levels of third quarter profitability. We like the Tools Group performance in the quarter and innovative new products forged the path.

Now RS&I. Sales of $464.8 million in the third quarter were up as reported 10% with an organic improvement of 8.9%, 8.9%. Higher activity with OEM dealerships and increased sales of diagnostics and repair information products led the way. Operating earnings for RS&I of $141.2 million in the period included a benefit of $22 million from the legal settlement and compared to the $107.3 million in 2024.

The operating margin for the quarter at RS&I was 30.4%, 25.6%, as adjusted to exclude the legal effect, still up 20 basis points from last year and overcoming 30 basis points of unfavorable currency. The RS&I quarter was marked by some strong performances in hardware and software. Sales of diagnostic repair information to repair shop owners and managers rose high single digits.

The new TRITON handheld had a strong quarter, its brighter screen, enhanced lab scope and powerful intelligent diagnostics, powered by billions of repair records, make it popular with franchisees and increasingly essential for advanced techs. At the same time, our sales to OEM dealerships grew by double digits. Snap-on is fast becoming the partner of choice for assisting automaker programs aimed at supporting new models or recalls. And that operation turned in -- what I would call -- a gangbusters performance in the quarter.

We have great confidence in our RS&I business. Our customers and industry partners share the same belief and was demonstrated as PTEN Magazine announced its esteemed 2025 Innovation Awards and People Choice Awards. RS&I was well represented with the APOLLO+ Fast-Track Intelligent Diagnostic platform, the JOSAM Cam-aligner for heavy duty trucks and Mitchell 1's Job View software, all recognized as winners in both designations.

RS&I also captured single awards for its Diagnostic Thermal Imager, its BK5700 Borescope, and for its Pro-Cut X19 Cordless Rotor Matching System. That's a mouthful. In fact, collectively, the corporation was honoured with a total of 25 PTEN awards across the 56 possible categories. We believe it's a true testament to our competitive advantage in product across the corporation.

But back to our RS&I. We're quite positive about RS&I's possibilities with repair shop owners and managers as the vehicle industry evolves, and the quarter supports that confidence. I mean 8.9% of organic growth, with higher margins…Boom Shakalaka! RS&I did good.

So those are the highlights of our quarter. Progress against big volatility and uncertainty, against seasonality, and against the variability of the third quarters. C&I, the power of our customized kits punching through cuts, through reticence in critical industries, withstanding the Asia-Pacific supply chain disruption. Tools Group, great products, confident franchisees, strong sequential momentum. The pivot continue with traction. Profitability remaining strong. RS&I, organic sales up 8.9%. Strong gains with both OEM dealerships and with independent repair shops. Great new and decorated products, both hardware and software, powered by our proprietary repair and diagnostic data. All enabling technicians to make complex repairs easier, and it showed in the numbers.

And the overall corporation, sales up 3.8% as reported, 3% organically. Gross margins, 50.9%, resilient and resistant, holding firm in the times of unprecedented sourcing turbulence. OI percentage 23.4%, 21.5%, excluding the legal benefit, still very strong and among the highest ever for the third quarter. 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 third quarter are summarized on Slide 6. Net sales of $1 billion $190.8 million in the quarter, represented an increase of 3.8% from 2024 levels, reflecting a 3% organic sales gain and $9 million of favourable foreign currency translation. Sales in our automotive repair markets were up, led by the strength in our Repair Systems & Information Group, which included solid gains with OEM dealership and independent repair shop owners and managers, as well as higher sales of diagnostic products through our franchised van channel.

Within the industrial sector, our C&I group, sales to critical industry customers increased in the quarter, but those gains were more than offset by continued weakness in the export activities of our Asia-Pacific operations. Consolidated gross margin of 50.9% improved sequentially from 50.5% in the second quarter and compared to 51.2% third quarter last year.

The year-over-year decline of 30 basis points primarily reflected 20 basis points of unfavourable foreign currency effects. While Snap-on is relatively advantaged in the current tariff environment, generally manufacturing products in the markets where they are sold, our costs can be affected by trade policies. In the third quarter, the impact of tariffs was largely offset by the higher sales volumes and benefits from the company's RCI initiatives.

With respect to the unfavourable foreign currency effects, similar to last quarter, although to a lesser degree, Snap-on incurred negative transaction impacts associated with the year-over-year strengthening of the Swedish Krona versus the Euro and the U.S. dollar. As a reminder, Snap-on has factories in Sweden serving both the C&I and the RS&I groups that export throughout Europe and into the United States as well as into emerging markets.

Operating expenses as a percentage of net sales of 27.5% compared to 29.2% last year. In the quarter, as noted in our press release, operating expenses included a $22 million benefit from the settlement of a legal matter. The 170 basis point improvement in the operating expense ratio is primarily due to the 190 basis point benefit from the legal settlement, which was partially offset by higher brand building and promotional investments as we celebrated our 105th anniversary.

Operating earnings before financial services of $278.5 million in the quarter, including the benefit from the legal settlement, compared to $252.4 million in 2024. As a percentage of net sales, operating margin before financial services of 23.4%, including 190 basis point benefit from the legal settlement, compared to 22% reported last year.

Financial services revenue of $101.1 million in the third quarter compared to $100.4 million last year, while operating earnings were $68.9 million compared to $71.7 million in 2024. Consolidated operating earnings of $347.4 million, which includes the legal benefit, compared to $324.1 million last year. As a percentage of revenues, the operating earnings margin of 26.9%, including the legal settlement, compared to 26% in 2024. Our third quarter effective income tax rate was 22.6% in 2025 and 22.9% 2024.

Net earnings of $265.4 million, or $5.02 per diluted share, including a $16.2 million, or $0.31 per diluted share after-tax benefit from the legal settlement, compared to $251.1 million, or $4.70 per diluted share in 2024. In addition to the benefit from the legal settlement, when comparing the quarter's EPS with the third quarter of the prior year, diluted earnings per share also included approximately $0.09 per share of increased year-over-year nonservice net periodic pension expenses, primarily from higher amortization of actuarial losses.

Now let's turn to our segment results for the quarter. Starting with the C&I group on Slide 7. Sales of $367.7 million compared to $365.7 million last year, reflecting a 0.8% organic sales decline, which was more than offset by $4.8 million of favourable foreign currency translation. The organic decrease includes a mid-single-digit reduction in the segment's Asia-Pacific business, partially offset by low single-digit gains with customers in critical industries and in the specialty torque operations.

Overall, the organic sales decline largely reflects a reduction in certain cross-border sourcing activities in the current trade situation, which was offset by improving demand from our critical industry customers, including the United States and international aviation as well as technical education.

Sales to the U.S. military were down year-over-year. However, order activity has been increasing despite the uncertain timing of funding for some government-related projects. Gross margin of 40.9% in the third quarter compared to 41.2% in 2024. This decline was due to 30 basis points of unfavourable foreign currency effects.

In the quarter, higher material and other costs were offset by increased sales in the higher gross margin critical industry sectors and by savings from the segment's RCI initiatives. Operating expenses as a percentage of sales of 25.3% in the quarter compared to 24.5% last year, largely reflecting the impact of lower sales in the Asia-Pacific business as well as increased personnel and other costs.

Operating earnings for the C&I segment of $57.5 million compared to $61 million in 2024, the operating margin of 15.6%, improved sequentially from 13.5% in the second quarter and compared to 16.7% last year.

Turning now to Slide 8. Sales in the Snap-on Tools Group of $506 million compared to $500.5 million a year ago, reflecting a 1% organic gain and $600,000 of favourable foreign currency translation. The organic increase reflects a low single-digit rise in the segment's international operations and slightly higher sales in the U.S. business.

During the quarter, we believe the introduction of new products like the next-generation TRITON Diagnostics platform, combined with our ongoing pivot to shorter payback items was successful in overcoming the continuing uncertainty and the confidence of technician customers in the current environment. Gross margin declined 50 basis points to 46.8% in the quarter from 47.3% last year, mostly due to a year-over-year shift in product mix.

Operating expenses as a percentage of sales improved 60 basis points to 25.1% in the quarter from 25.7% in 2024, largely reflecting the higher sales volumes. Operating earnings for the Snap-on Tools Group of $109.9 million compared to $108.3 million in 2024. The operating margin of 21.7% improved 10 basis points from last year.

Turning to the RS&I Group shown on Slide 9. Sales of $464.8 million rose $42.1 million compared to 2024 levels, reflecting an 8.9% organic sales increase and $4 million of favorable foreign currency translation. The organic gain includes a strong double digit increase in activity with OEM dealerships and a high single-digit gain in sales of diagnostic and repair information products to independent repair shop owners and managers. These gains more than offset a low single-digit decline in sales of undercar equipment, including collision repair products.

Gross margin declined 40 basis points to 47% from 47.4% last year, primarily reflecting increased sales of lower gross margin products, higher material and other costs, and 20 basis points of unfavorable foreign currency effects, partially offset by savings from RCI initiatives.

Operating expenses for the RS&I Group in the quarter included a $22 million benefit from the previously mentioned legal settlement. Operating expenses as a percentage of net sales improved 540 basis points from last year, primarily due to a 480 basis point benefit from the settlement as well as from the higher sales volumes.

Operating earnings of $141.2 million, including the $22 million legal benefit compared to $107.3 million last year. The operating margin of 30.4%, including the 480 basis point benefit, compared to 25.4% reported in 2024.

Now turning to Slide 10. Revenue from Financial Services of $101.1 million compared to $100.4 million last year. Financial Services operating earnings of $68.9 million compared to $71.7 million in 2024. Financial services expenses of $32.2 million compared to $28.7 million last year. The increase is primarily due to $2.5 million of higher provisions for credit losses as well as a rise in personnel and other costs. As a percentage of the average financial services portfolio, expenses were 1.3% in the third quarter of 2025 and 1.1% in 2024.

In the third quarters of both 2025 and 2024, the average yield on finance receivables was 17.7% and while the average yield on contract receivables was 9.1%.

Total loan originations of $274.1 million in the third quarter represented a decrease of $13.9 million or 4.8% from 2024 levels, including a 4.9% decline in extended credit originations. The reduction in extended credit origination mostly reflects continued lower sales of discretionary big-ticket items such as tool storage units.

Moving to Slide 11. Our quarter end balance sheet includes approximately $2.5 billion of gross financing receivables, with $2.2 billion from our U.S. operation. For extended credit, or finance receivables, the U.S. 60-day plus delinquency rate of 2% is up 10 basis points from the third quarter of 2024 and also reflects a typical seasonal increase from the rate reported last quarter. Trailing 12-month net losses for the overall extended credit portfolio of $71.4 million represented 3.59% of outstandings at quarter end. We believe these portfolio performance metrics remain relatively balanced considering the current environment.

Now turning to Slide 12. Cash provided by operating activities of $277.9 million in the quarter compared to $274.2 million last year. Net cash used by investing activities of $21 million, mostly reflected capital expenditures of $19.9 million. Net cash used by financing activities of $180.9 million included cash dividends of $111.5 million and the repurchase of 250,000 shares of common stock for $82 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional $306 million of common stock under our existing authorizations.

Turning to Slide 13. Trade and other accounts receivable of $925.7 million included $25.1 million of foreign currency translation, $17.7 million from the legal settlement and a greater mix of sales with longer payment terms. This represented an increase of $110.1 million from 2024 year-end.

Days sales outstanding of 71 days compared to 62 days at year-end 2024. Inventories increased by $81.1 million from 2024 year-end, primarily due to $38.9 million of currency translation, improving demand trends, and some investment intended to mitigate supply chain uncertainties. On a trailing 12-month basis, inventory turns of 2.3 compared to 2.4 at year-end 2024.

Our quarter-end cash position of $1 billion, $534.1 million compared to $1 billion, $360.5 million at the end of 2024. In addition to our existing cash and expected cash flows from operations, we have more than $900 million available under our credit facilities. There were no amounts borrowed or outstanding under the credit facilities during the year, nor was any commercial paper issued or outstanding in the year.

That concludes my remarks on our third quarter performance. I'll now review a few outlook items for the fourth quarter of 2025. With respect to corporate costs, we currently believe that expenses will approximate $27 million. Additionally, as recognized in the previous three quarters of 2025, we expect to incur approximately $6 million pre-tax in the fourth quarter of increased non-service pension costs largely due to higher amortization of actuarial losses. These noncash costs are recorded below operating earnings as part of other-income-and-expense-net on our statement of earnings and will have about a $0.09 per diluted share negative effect on EPS in the fourth quarter of 2025.

We expect that capital expenditures for the year will approximate $100 million and following our assessment of the One Big Beautiful Bill Act during the third quarter, we continue to 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 and net earnings.

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

Nicholas Pinchuk
Thanks, Aldo. That's our third quarter. It was encouraging and marked with words like resilience, momentum and advantage. It represents meaningful progress. Progress clearly won against some unprecedented turbulence, gains captured against the headwinds of seasonality, and increases against the variability of the late summer period. As such, we believe we leave the quarter more confident and stronger than when we entered.

The pivot in the Tools Group is building traction. The potential for critical industries and specialty torque is breaking through. Our expansion with repair shop owners and managers continues to rise, and our advantage in strategy and structure, which fortifies our resistance to tariffs, demonstrated its efficacy. And you can see it reflected in the group and the numbers.

C&I, year-over-year gains realized, and sequential improvement demonstrated, fueled by progress in Critical Industries and Precision Torque. Gross margin holding firm in a time of trial.

The Tools Group, another positive quarter. OI margin up, building -- holding to strong levels. OI margin up and holding to strong levels. Momentum continued, sequential growth displayed, and the pivot to quicker payback items strengthened.

RS&I, continuing expansion with repair shop owners and managers, 8.9% organic growth, gains in hardware and software, and yet another strong performance in OI margins. And it all came together for an encouraging overall performance.

Sales for the corporation up organically 3% with sequential gains. Gross margins a powerful 50.9%, down 30 basis points, but primarily due to currency. OI margins of 23.4% or 21.5% excluding the legal action, the second highest ever third -- second highest third quarter ever. And an EPS of $5.02, $4.71, excluding legal, the highest ever third quarter in a very turbulent time.

As we go forward, we proceed with confidence because we believe our markets will remain robust and Snap-on will benefit from our advantages. In strategy, making in the markets where we sell. In structure, enabled by the flexibility of our factory array. In products, we make work easier and more reliable and everybody knows this. In brand, Snap-on really is the outward sign of pride and dignity for working men and women. And advantage in people, our team is skilled, battle-tested, committed, and always aims high. And we believe this combination of advantages will propel our corporation's even stronger performance as we proceed through 2025 and well beyond.

Now before I turn the call over to the operator, I'll speak directly with our franchisees and associates. I know many of you are listening. We've spoken today of momentum, of performance and of new highs. We know that all of that has been created by your extraordinary effort in the past 3 months.

For the success you've achieved this quarter, you have my congratulations. For the energy and skill I see you bring to the corporation every day, you have my admiration. And for your ongoing confidence and dedication to the future of our enterprise, you have my thanks.

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

QUESTION AND ANSWER

Operator
Thank you. At this time, we will now begin the question-and-answer session. [Operator Instructions].

Our first question comes from Christopher Glynn with Oppenheimer.

Christopher Glynn
Thanks. Good morning, guys. I wanted to dive into some of the businesses at RS&I. For the diagnostics and repair systems, I think, five quarters of growth now more consistency than I've seen in the past. Usually, it's been a little lumpier with new product splashes and then some lulls. So, I don't know anything to read into this kind of consistency?

Nicholas Pinchuk
Well, I think, we'd like to believe we've gotten the launches a little bit better. You said yourself, Triton was launched last quarter and had a good quarter last quarter and this quarter. The other thing about it is this quarter, I think versus the prior quarter, we had pretty good performance on a sequential basis across the line. And this has been something that you kind of need. You can't just always depend on new launches. Although as we go forward, you're going to see more new launches happening this year, you know a launch or two happening this year.

So, you get that in the -- but the sort of the holy grail in diagnostics is to make hay with the launch and then -- but not lose volume with the other businesses, and that happened this quarter. So we feel kind of good about that. But we'll see how it goes going forward. We'd like to see that happen. And I think we're starting to get some understanding of how to promote both the launch and the existing platforms side by side.

Christopher Glynn
Great. And then just on the other two pieces. OEM, it sounds like that kind of share accrual is kind of building on itself and has some legs. And then on the undercar, does that feel like that's stabilizing or still kind of firmly in (inaudible)?

Nicholas Pinchuk
Yes. It looks like -- undercar looked like it stabilized this quarter. I mean, it was down okay, we don't like that. But it was down a lot less than in past quarters. So, it didn't hurt RS&I as much maybe. It wasn't as much of an offset. It was part of the idea of the 8.9%. I mean that may not be the highest quarter, RS&I ever had. But in this kind of environment, I think it's supersonic. And so that worked out pretty well.

And some of it had to do with narrowing in that gap. And you've rightly said it that the OEM, the OEM business is both programs happening and share gain. We used to talk about lumpiness, and it still could be -- it's still a lumpy business, but we have share gain component on top of this, which tends to offset some of it.

Christopher Glynn
Okay. Great. And then C&I, I didn't hear about your Europe hand tools, assuming it's kind of flattish. Does that feel pretty steady?

Nicholas Pinchuk
Yes. Do you know France? It gives me a headache.

Christopher Glynn
Not personally.

Nicholas Pinchuk
You know, I mean -- No. Look, I think the thing we're noticing is the grassroots in Europe are starting to display that, in fact, they have made for a couple of quarters, display the same kind of uncertainty or reticence that you see in the United States. So, you see a bifurcation in Europe, where the -- I would call it, maybe the transactional business with individuals, the up and down the street business is kind of flattish. Strong -- not so strong, but there's hay to be made in projects, which is part of the success of critical industries in this quarter.

Christopher Glynn
Great. Thank you. I'll pass it along.

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

David MacGregor
Yes, good afternoon, Nick, Aldo, Sara. Good morning, I guess. I'm in a different time zone.

Nicholas Pinchuk
It is morning, you are right.

David MacGregor
No, I'm in Greece. I'm on the other side of the world. Yes, I want to ask about the sequential, sequentially strong volume and tie that back to maybe some of the investments you've made over the last couple of years in capacity. And I'm just wondering if that incremental capacity now gives you the ability to fulfil on the SFC orders a little faster? And if that's really what's driving this? And if so, how do we think about the margin improvement in 4Q?

Nicholas Pinchuk
I mean, I think you're right to point out that the capacity increases that we did over the last two and a half years has been-- helps you match better the ups and downs of the volume. But I think the SFC this year was not necessarily a component in the sequential improvement. Actually, I don't think it was at all.

The sequential improvement really primarily effects our more effective pivoting that had certain products, one of which was diagnostics, but there were others like air conditioning and so on, that tended to push things forward. And so that's why we feel pretty good about that. And the SFC effect is beyond that sequential improvement.

We do -- we -- I made a lot of them in my remarks, and the sequential improvement really is although it's a pretty big deal for us because we don't see it very often, and we think it does indicate momentum. Going out after the SFC, you're going to see that play out. But the SFC had some great orders, but not many of them got in the third quarter I think.

David MacGregor
Do you feel like you may be pulled forward a little from 4Q here? Or should we expect 4Q to be...

Nicholas Pinchuk
I don't think so. I don't think so. I don't think so. I think SFC has just -- yes, go ahead.

David MacGregor
No, that's a good enough answer. I guess I'm just trying to, secondly, square or try to square the strength in unit volume with the 1% organic growth in Snap-on Tools, which suggests maybe price was down. How much of this is mix, how much of this is promotions and will we see this again in 4Q?

Nicholas Pinchuk
Well, look, I think some of it might be promotions. But let's put it this way. The margins were up pretty good. The margin was 21.7%, up 10 basis points -- and the gross margin was down, I guess, 40 basis points, but that was against 10 or 20 basis points of currency. So it wasn't a big fluctuation. I don't think that's a factor. I mean, I think is the volume might be -- I don't know if I recognize so much that the volume was that high compared to the sales. But in fact, I don't recognize that at all. I kind of just think it was kind of a quarter that had always its variable mix. And it went through, had good profitability, and the U.S. had increases, which is the second one in a row and we're pretty positive about that. So, I don't think we're worried so much about that situation. Certainly, we don't think the pricing is eroding. If we thought the pricing -- I mean, if the pricing was eroding, you'd see it in the gross margins, and we're not seeing anything like that.

I'm just going to say, David, you know this very well. One of the big kahunas in this quarter for the Tools Group was diagnostics and it isn’t one of the biggest margin businesses for the Snap-on Tools Group because it shares the margin with another one of our divisions, the Diagnostics division, and still the gross margins held.

David MacGregor
Yes. Okay. Yes, that's an interesting point. And then finally, just off the truck sales, how you're feeling about -- I know you've got good data on that. How would that have compared with the selling?

Nicholas Pinchuk
The off the truck sales was a little bit higher than -- a little bit lower than the -- to the truck sales. I think, though, we see this all the time. It's within, I think, the range of variability that happens in those two businesses. They always seem to come out about the same in the year. Last year, for example, the on the truck, off the truck was -- while it had variability from quarter-to-quarter was dead nuts at the end of the quarter, equal. So I think we kind of -- so there's nothing there. It's a little bit lower, but it's nothing that has us concerned about that. It's just within the margin of the usual variability.

David MacGregor
So there's a little bit of restock going on. Is it your general sense that the franchisees are still pretty liquid? They've still got very good liquidity. So if 2026 ends up being a better year, they're in a good position to restock up in advance of that?

Nicholas Pinchuk
Yes, I think there's some of that. But I think -- look, I think the uncertainty thing has to be fixed. I think they're starting to catch some of the uncertainty. And so I think that has to be fixed. And then when they get back, do they go back to their old levels? I don't know. I don't know. But there is that possibility going out in the future at some time. But we're not looking for restocking to be a

major push. We never really plan it that way. Sometimes it can affect the variability from quarter-to-quarter. But generally, like I said, it all kind of evens out.

David MacGregor
Thanks for your thoughts, Nick.

Nicholas Pinchuk
Sure.

Operator
Our next question comes from Scott Stember with ROTH Capital. Go ahead.

Scott Stember
Good morning and thanks for taking my questions.

Nicholas Pinchuk
Morning, Scott.

Scott Stember
Within Tools, obviously, it sounds like diagnostics had the best performance. Can you maybe just flesh out how hand tools did, how power tools and tool storage just to give us a sense of how it broke up?

Nicholas Pinchuk
Yes, tool storage had another occluded quarter. You can -- I guess you can see part of it, you see hints of that in the originations, what was originations down 4.9% in total for EC. And that's about the same as last quarter. So they were -- they were down both. Tool storage wasn't that strong. And that's despite the fact that there was good sales of diagnostics. Hand tools did not have a great quarter which happens from time to time. So that wasn't very positive in the quarter.

Diagnostics was up big. And then we had some good news in things like air conditioning and other smaller items from our Shop & Tech. Power Tools didn't have a great quarter except at the end of the quarter, when it introduced a new product, it had a gangbusters month, and so we felt pretty good about that. And so while Power Tools didn't contribute so much for that, overall, it really helped at the end of the quarter with this new product because that was -- once the franchisee saw those babies, they loved them.

Scott Stember
Got it. And then on C&I, it sounds like, particularly for things that are based on government funding, still some delays in orders, but you talked about the backlog of orders starting to build up again. Can you maybe just talk about that dynamic?

Nicholas Pinchuk
Yes. Look, I think what's happening here is anybody that's associated with resourcing or changing a supply chain in a big way, if that's their primary focus, like generally as you're rightly based on -- I think I might have said this, if I didn't, it was just by process of elimination, the military was down again, although not down as much as the prior quarter, a little bit better. But the other thing that is weaker was general industry, which is a big business for us. And what you're seeing, Scott, is anybody who's got factories I think is sitting there saying, what the hell do I do? Because if you look at it, it may -- it seems to most people like the tariffs have settled down since Liberation Day.

But Canada, Mexico, China, three of the top four sourcing partners for manufacturers in the United States for general industry in the United States, they're still unsettled. There's no trade deals with those countries now and they're pretty big numbers. They're double -- deep double-digit numbers. And as you saw, China just got threatened with another 100%. So those people in that sector are much tighter in whole keeping their powder dry.

If you're looking at other places, that was the sort of message, I think, subliminal message I was trying to make. Places like aviation, if you're just talking about maintenancing airframes and education and other places, those things are pretty good. Natural resources is pretty good, because they're not really worried about this reshoring. So that's what's happening in the big-ticket items in the United States. Then if you go to Europe, there's not so much worry about the tariffs as much and so projects are good business in Europe these days.

Scott Stember
Great. And then just last question on the legal settlement. Can maybe just talk about that a little bit?

Nicholas Pinchuk
Well, I think I've told you all I'm prepared to tell you. The -- I think the legal settlement, I think, it's pretty clear, it was in Repair -- it pertains to the Repair Systems & Information Group. It did not -- it's not a follow-on or related to the prior legal settlement of the prior year. So other than that, I don't think I'm going to comment on it. I'll just let it lay out where it is. And…

Scott Stember
Got you.

Nicholas Pinchuk
I think we pretty -- I think we have it pretty much all in this quarter.

Scott Stember
Got it. Fair enough. Thanks again.

Nicholas Pinchuk
Yes. Sure.

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

Bret Jordan
Hey. Good morning, guys.

Nicholas Pinchuk
Good morning.

Bret Jordan
Could you talk about the cadence of the tool sales off the truck in the quarter? Is the mechanic feeling -- I guess you've always talked about their uncertainty or recently talked about their uncertainty, but is that reasonably stable or was there any notable trend in the quarter?

Nicholas Pinchuk
I don't think there's any notable trend in the quarter. I mean, it's hard – look, Bret, for us, the third quarter is normally so squirrely that we can't find any trend in there, because we've got the SFC at the back and so you don't know how people will order, because a lot of new tools – there were hundreds of new tools that were at the SFC.

And then the other problem is, of course, we punch through the franchisees to the technicians and the franchisees sometimes take vacations around the SFC and that can screw you up. So we don't have any good feel. All we have is windshield information. And my view is that they're still pretty uncertain.

This 100-plus tariffs on China couldn't have helped the certainty. I think it only makes it seem worse. Now, they're not rightly -- they're not affected by that, but they're worried about the macros, I believe. We see the same kind of thing a little bit in Europe, emerging in Europe, but it's been pretty consistent when you talk to people.

And part of the reason it's like this is, I think, you've got a group of people who uniquely are at the bottom end of the credit scores. They're subprime customers, but they have pretty reliable incomes based on the vehicle repair. So, therefore, they're making their money, but they don't have a lot of cushion.

So if the world goes awry, they're worried they're in trouble. And so anything that thinks that there might be macro problems, I think, tends to worry them. We see -- we saw that a couple of times, particularly like in the Great Financial Recession. This is the kind of thing they're worried about. So I don't see that getting better. Now the Middle East was a kind of positive. We'll see how that plays out. Maybe things will get better because of that.

Bret Jordan
I think it's a question, given the inflationary environment, and tariffs are tough to predict, but what do you see same-skew inflation contributing to growth in 2026, just from a pricing outlook standpoint?

Nicholas Pinchuk
I don't know. It didn't contribute much to us this time. You might say pricing was like, a percent or so. I don't know. I actually don't have a view of that, because I think the tariffs muddle a lot of things. I don't know whether you call inflation. I don't know, some guys are talking about it. I mean, GM was talking about $6 billion of tariffs? And you got other players in our sector talking about big numbers in tariffs.

So I don't know how they play out in pricing. We'll see. I think it's tough to predict that. I know that basic inflation, like beef and milk and other things, are up some, but I think people have kind of ingested that. That may play some small background thing. And I think the big factor, though, I think, in the future will be what happens with tariffs across any particular industry.

Bret Jordan
Right. But as you stood today, would a $100 wrench be $105 in 2026 just as materials and wage and everything else is sort of upward biased or what do you build as a model for that?

Nicholas Pinchuk
Well, Yes, probably the one you have now won't be $105, but we'll have a new one by then that'll be $110.

Bret Jordan
Okay. All right.

Nicholas Pinchuk
I don’t think -- I think 5% would be a large pricing for us. Look, we're already priced ahead of everybody else. I guess the question is, if you're asking us, what will we do if other people price? We'll do that on a product-by-product basis. That's the way we would adjust it. I don’t -- but I don't see us necessarily raising our prices hugely unless things change. So far, there hasn't been any huge expansion in the marketplace.

Bret Jordan
Great. Thank you. I appreciate it.

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

Luke Junk
Hey, Nick. Good morning.

Nicholas Pinchuk
Good morning.

Luke Junk
Just wondering, anything interesting to call out within the SFC orders? I think you said in the mid-single digits. I guess I'm thinking just hints of traction and big ticket in that number, maybe continued diagnostics momentum or just anything else that you thought was interesting?

Nicholas Pinchuk
No. I don't think we saw anything unusual in that regard. I think the thing would be, I suppose, just what I said, that they were up nicely. But I want to remind you that these are orders, not sales. So it has to play out. And there can be cancellations and all that stuff. It's better than a poke in the eye with a sharp stick, of course, to have orders up. And the orders this year, I think, go out through December.

And I think there is nice -- there was nice take-up throughout that period of time. So we feel pretty good about it. But it has to play out. There's nothing special about mix in this situation. I think people -- well, I could say, I think people thought hand tools sold pretty well and so that was our -- we got orders pretty well. But it always does.

Luke Junk
Got it. What about diagnostics growth within the Tools Group specifically? Just wondering if it might have been at or maybe even above that high single-digit growth rate that we saw within RS&I. If storage is weak, hand tools not up, power tools either, it seems like that was really the story of Tools Group this quarter. Is that fair, Nick?

Nicholas Pinchuk
Yes. Tools Group was -- had bigger growth than -- but the RS&I. Remember I said that the Diagnostics and Information, diagnostics to independent repair shop owners and managers was up double digits in a quarter. That was in RS&I. So it was up double digits in RS&I. And the Tools Group was every bit as good as that or more.

Luke Junk
Got it. And then last question for me, just maybe if you could double click on the Asia-Pacific business, kind of update us on what that business looks like today. I know there's a couple components of that and kind of the specific exposure that you've got to those supply chains being moved away from...

Nicholas Pinchuk
Yes. I will. I will. I will. It's two pieces of business, of course. There's the -- before you start breaking down by country, there is the internal business, which is pretty much exports and there's the external business. So internal business, dog food. Terrible, because we shifted. We tried to adjust the supply chain. So the Asia-Pacific business in C&I is not so good. That's why we called it out. But that was mostly internal. External, selling in the markets actually wasn't too bad.

I'm kind of proud of our Asian team, because they pretty much...China was up and India was up and Southeast Asia was up. So they did a great job in terms of catching up. And I don't know if you've been following things in China, but the economy there isn't so good. And India is kind of always a basket case. And even though they say they're growing, it usually is difficult to determine what they're talking about.

And the Thailand Prime Minister just got decapitated, not decapitated, but taken down for being on a phone call with one of the Cambodian Prime Ministers and criticizing their generals. And Korea just lost -- had some problem with this prime minister. So, you see a lot of turbulence there, but our guys have done a good job overcoming.

Luke Junk
I will leave it there. Thank you, guys. Thanks.

Nicholas Pinchuk
I'm sure.

Operator
Our final question comes from Gary Prestopino from Barrington Research. Please go ahead.

Gary Prestopino
Hi. Good morning, all.

Nicholas Pinchuk
Good morning, Gary.

Gary Prestopino
What impact did FX have on EPS this quarter?

Aldo Pagliari
It was $0.01 of negative news, Gary.

Gary Prestopino
Okay. Thank you. And then regarding how well you did in the RS&I business with the dealerships, particularly OEM dealerships, are you seeing a movement here for these OEM dealerships to start increasing their capital equipment outlays after a couple of years and maybe not doing so or is this just -- does it just kind of go in kind of bunches up and down cycles on a quarterly basis?

Nicholas Pinchuk
No. No. I think, look, I think that's a pretty big question. I mean, there's a lot of segments to RS&I, even within the dealership business, but I generally think you're seeing a constant drumbeat in the dealerships and in the independent shops realizing that there's all these new features and benefits and powertrains that they have to adjust to. So you're seeing some of that.

Now part of the reason why OEM is big this quarter is because you're also seeing a drumbeat of new models coming out. And I think, this idea of pivoting from electric vehicles to internal combustion are going to even keep that going. So, and on top of that, we're gaining some share. So I think, that particular business, Yes, it's going to have some variation from quarter-to-quarter in terms of what it sells, but I think it's pretty solid.

I think that's a place where the economy is pretty strong. The people -- that people need to repair to maintain the mobility, people keep driving, the car parc keeps aging, all those things drive business in that area. It -- they won't be explosion or anything like that, but I think it's going to be a good growth. We say that the RS&I business should grow and we say we should grow at 4-6% and ordinary times we say RS&I should be in the middle.

Gary Prestopino
Okay. Sounds good. And then just lastly, getting back to the order rates coming out of the conference and that doesn't -- the translation in the sales, is there any -- is there a correlation that you can look at? I mean, or is that all over the place, one conference you could have great orders, but then it doesn't translate into sales and vice versa.

Nicholas Pinchuk
That's right. That's what happens. I don't know. We don't -- I go down there and every time they tell me that, the orders were great, or the orders were lousy, I come back depressed or ecstatic/ and many times it doesn't play out that way in the fourth year. This year though I think we've tried to guard against that. We tried to make the packages smaller. So the cancellations would not, which is what the variability comes out of because people get down there and their eyes are too big for their stomach. And I think you have good -- you certainly have good orders spread out into the fourth quarter. So I think that's pretty positive.

Gary Prestopino
Well, did you come back depressed or ecstatic this year?

Nicholas Pinchuk
I'm ecstatic, but…

Gary Prestopino
Okay.

Nicholas Pinchuk
I'm kind of a sucker for good news.

Gary Prestopino
Okay. Thank you.

Nicholas Pinchuk
Sure.

Conclusion

Operator
That 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.