Snap-on Incorporated

Third Quarter 2026 Results Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good day, and welcome to the Snap-on Incorporated 2026 Third Quarter Results Conference Call. [Operator Instructions]. Please note, this event is being recorded.

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

Sara Verbsky
Thank you, Chloe, 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've provided slides to supplement our discussion. These slides can be accessed under the Downloads tab in the webcast viewer as well as on our website, snapon.com, under the Investors section. The slides will be archived on our website along with a transcript of today's call.

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

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

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

Nick Pinchuk
Thanks, Sara. Good morning, everyone. As usual, I'll give you my thoughts on our markets, our results and on the way forward. Then Aldo will provide a detailed review of the financials.

Well, these really are interesting times. I mean, you don't have to look any further for confirmation of that than the Snap-on quarter. It takes some understanding, but our quarter is primarily marked by 3 major themes: the impact of diesel prices despite what is fundamentally a stable technician market; the continued rise in the critical industries reaching new heights; and Snap-on's capability to absorb substantial turbulence and despite the difficulties keep margins strong. The result of it all is that our numbers were mixed, marked by the turbulence, but with rays of light from the underlying strength of our enterprise shining through.

Now for the results. For the third quarter, our sales were $1,183.7 million as reported, representing a 0.6% increase. Adjusting for currency and acquisitions, organic sales were short by 2.8%, with mixed results across the corporation. We'll talk about that later. Opco operating income or OI for the quarter was $248.1 million, down from the $278.5 million last year, which is important to note,

included $22 million from a 2025 non-recurring legal settlement. The OI margin was 21%, lower by 240 basis points versus last year, but that included 190 basis points from the legal gain. Adjusting for the one-time legal item, the OI margin was down by 50 basis points.

Now the gross margin improved 10 basis points to what I consider a very robust 51%, strong despite the environment. It's a real demonstration of Snap-on's resilience. In effect, our margin combined strong gross margins and a belief in our way forward, impelling continued spending on maintaining and strengthening our advantages in product, in brand and in people even in a wave of turbulence, executing on the belief that -- our belief that the future holds considerable opportunity and our conviction that we want to attack that potential at full strength.

For the Financial Services, operating income of $68.3 million was down slightly from last year's $68.9 million. And the overall as-reported OI margin in the quarter, including both financial and opco, was 24.7%. Quarterly EPS was $4.64, below last year's level of $5.02, which again included a legal item from the prior year, and that was where the $0.31 boost in the 2025 numbers. Those are results.

Now let's talk to the markets. Vehicle repairs is a varying picture with subsectors of players having different perspectives, but the underlying market remains strong. When we visit the shops, as we have during the quarter, the garages are constantly crowded and full. And the owners and managers are always looking for more techs. It's the first thing they mention when you see them. And the technicians themselves, they're busy and prosperous and see continued stability in both work and income. So at its core, at the grassroots level, repair is strong. And you can see it in the numbers, household spending on fixing cars up mid-single digits and technician wages continuing to rise. It's still a great time to work in a garage.

So in this environment, technicians remain cash strong. They can buy what they want or need. But at the same time, there's still confidence for -- actually, based on a number of articles in I think respected publications, papers and magazines, the loss in confidence in the near future is a perspective that appears now to be more commonly present across the economy.

For the techs, this continues to play out as a reluctance for committing to the extended financial obligations that are associated with big ticket items. Loan originations are down again this quarter, reflecting that sentiment. So the focus is on quicker payback items like power tools and hand tools. In effect, the story we've been telling you for some time is a stable story.

So vehicle repair itself remains strong as it has been, but Snap-on's path to our tech customers are the franchisees. And up to this point, they've been relatively unaffected by the environment. But now the precipitous unprecedented acceleration in diesel fuel prices has grabbed their attention. The result is that franchisees have built cash to manage the rising fuel costs without stress by reducing inventory. You can see it in our results. Sales to vans were down, while volume off the trucks to technicians is stable. The resulting ripple drove significant variations in our results as the reduction wave is passing.

So while the numbers look turbulent, the underlying core tech market remains as it has been for some time. On the upstream portion of the vehicle repair, repair shop owners and managers, the market is mixed again. Independent shops are reasonably optimistic recognizing what could be called, I think the great days of automotive repair. Abundant opportunities for more work as the car parc evolves to ever more complex vehicles and they fully understand the need for more sophisticated systems that match those challenging trends, and Snap-on has just the products for the task.

For OEM dealerships, the view is quite different. The repair bays are full, but dealerships tend to be heavily influenced by new car sales, and that picture isn't as positive. Volume is down I guess impacted by the reduced number of new car model launches. Car buyers are not so enthusiastic about buying older models. And as you might expect, the trials of those lower volumes spill over into the repair departments, kind of attenuating the appetite for shop upgrades.

At the same time, lower vehicle introductions mean fewer tool-up programs to support new models, taking our already lumpy program business to lower levels. And you can see it in the RS&I numbers. In their numbers, overall volume is down, but much of that shortfall is driven by decreases in the EQS project-driven business, the lumpy business. So overall, vehicle repair is robust, but various sectors have been influenced by in-period challenges, I guess you could call it.

Now to the critical industries. This is where C&I operates, and I can tell you, it's looking good. Experts in this interlude are regularly declaring this economy is strong. Well, this is part of all that; military, general industries, natural resources, places where the penalty for failure is high and the need for repeatability and reliability justifies a Snap-on level product. It's a segment where the growing emphasis on precision and efficiency is driving demand for greater and greater customized products, and this is the Snap-on sweet spot. It's music to our ears.

And you can see why when you look at the encouraging C&I numbers. It's not just this period. C&I keeps taking full advantage of the favorability, racking up gains quarter after quarter. So that's the market. Vehicle repair mixed, but with a strong core and the critical industries booming.

Now let's move to the segments. Let's talk about C&I. It was an encouraging demonstration of strength. Sales were $404.3 million, an organic sales gain of 7.4%, and that excludes the $10 million from the recent Hi-Force acquisition. It's an all-time high. It's a robust increase fueled by innovative new product launches and by the gains piling up in the Industrial business, driven by growing demand for our custom solutions in the military and general industries and in natural resources, broad volume progress across the critical industries.

From an earnings perspective, the C&I results get even better. Operating income of $74.7 million improved -- $74.7 million, improved $17.2 million or 29.9%, and the operating margin was 18.5%, up 290 basis points, another record for the group. Gangbusters.

And once again, the primary force was the Industrial division continuing to forge the path forward, taking Snap-on out of the garage very profitably. The C&I quarter was about leveraging customer connection, observing work and identifying complexity and engineering solutions that make work easier and our Murphy, North Carolina Power Tool Plant executed that process with precision.

Our power tools are designed to match specific repair tasks, not a broad range of industries. For instance, in September the team launched the first of its kind, our CTR851,14.4-volt 3/8" Drive Flex-Head Cordless Ratchet. Unlike any other tool in its category, the head pivots forward and backwards 30 degrees, 60% of total movement specifically developed for tight engine compartments. Techs love this tool. Modern engines are packed in, often requiring additional work to remove the barriers to access the components that need replacement or repair. Now this gem is vertically narrow, sliding between the hoses and frame rails with the pivoting head enabling the tech to set just the right angle of approach to reach the fastener.

And once engaged, 60-foot pounds of torque and 275 RPMs make quick work of extracting or installing a bolt. And the tool also has our Ring of Fire LED system, illuminating the workplace, another idea, especially powerful in confined spaces. The CTR851, a quick payback item, just what the techs are looking for. It's a great addition to our lineup for Murphy.

Another Murphy special is the CT9055 1/2-inch 18-volt Drive Cordless Impact. It's a beast in a small frame, its access and power. And this tool is packin' 1,400-foot pounds of torque, surpassing even pneumatic tool levels. This is the strongest 1/2-inch tool we have ever built. It makes lightning work of suspension jobs and heavy-duty applications, and it's fueled by our new Xcellerate tabless battery platform, longer run time and increased power. It's another innovation that's improving productivity and making complex tasks simple and our customers are impressed.

Well, that's the overview of C&I. Raising the bar. Organic sales up 7.4%, OI up 29.9% and operating margin, a new all-time high, 18.5%, a boffo quarter. C&I launching customized solutions, maintaining its strong momentum in the critical industries, extending out of the garage and reaching new heights and profitability.

Now let's turn to the Tools Group. Sales were $471.5 million, down 7% organically. Franchisees pulling down their inventory, freeing up cash, responding to the onset of accelerating fuel -- responding to offset accelerating fuel prices even while technician spending remains stable.

Operating income was $84.8 million compared to the $109.9 million last year. Lower volumes and continued investments in brand and product and people authored that margin. Operating margin was 18%, down 370 basis points. Now again this quarter we did see customer connection playing out in the Tools Group. For instance, our Algona, Iowa tool storage plant rolled out the new -- people often ask us, can we -- is the pivot going to keep going? Yes, it will. Our Algona, Iowa tool storage plant, rolled out the new KHP430A roll carts. It's available in 9 colors. And it's a small compact footprint that's ideal for moving tools around the shop floor, with 6 drawers and a deep 9-inch top compartment that organizes large items and a power strip for charges -- for chargers, lights and electrical devices. It's quite versatile.

And when I say manoeuvring tools, I mean a lot of tools. The one piece welded frame weighs in at 248 pounds, but it has a load capacity of 2,400 pounds. We aren't kidding when we say this will hold a ton of tools. Plus, the 2-piece sliding bed liner top glides under lifted vehicles, positioning the tech's arsenal tools right at the workplace, improving productivity and reducing wasted motion, going back to a larger box to retrieve a needed tool, and it's at a price point that qualifies as a faster payback item.

Tools Group is stretching quick payback to a wider array of products. Another example of customer connection centers on a task, I think that seems pretty simple to everybody, but it can quickly become a bigger problem. Take wheel-bearing dust caps. They're small basic components that help keep the grease in a hub assembly while keeping the dirt out, enabling the wheel to do -- it enables the wheel to do its job and roll smoothly down the road. You get the picture.

But replacement is usually a routine job. But when a dust cap doesn't seat properly, headaches start. A simple repair turns into damaged parts and rework and potential failure. Observing that challenge, our engineers developed our new A1310 DCT, especially for dust caps. It includes 3 different size adapters that can be used with a drive handle or paired with an air hammer. So it gives techs a wide range of flexibility depending on the application.

What makes the tool effective is its simplicity. The adapter cradles the metal cap and distributes the force evenly, helping push the part into place without deforming the outer shell. The result is an easier, more reliable seating of the component, but it creates a better seal with less risk of problems down the road. The kind of product that addresses that common frustrations that technicians run into every day, nothing flashy, just a smarter way to get the job done right, saving a lot of time, and it's based on feedback we received. The technicians have noticed it. They like it.

Well that's the Tools Group. Soaring diesel costs, franchisees leveraging inventory, tech spending steady, and the group weilding insights and observations to design application-specific products.

Now let's turn to RS&I. Sales in the quarter were $454.7 million, down 2.2%, including $15.6 million from the recent Diesel Laptops acquisition and an organic shortfall of 5.5%, primarily due to the low and lumpy volumes in the OEM segment that derived from fewer new model release programs. But we did see progress with our database and shop management solutions.

And reflecting that somewhat, OI in the quarter was $116.1 million compared to the $141.3 million last year, but that included $22 million from the legal settlement -- from the legal payment. Now the group's operating margin was something else. It was 25.5% a strong number, but down 490 basis points -- down 490 basis points from last year, but that is that 490 basis points included 480 basis points due to the legal settlement in 2025.

Actually, margins were quite robust. Gross margin was 48.1%, up 110 basis points from last year. And the OI margin was 25.5%, comparing pretty closely to last year's 25.6% as adjusted for the legal settlement, and that's all despite the reduced volume.

You can see the core strength, the -- you can see RS&I's core strength coming to life on our new electronic parts catalog, or EPC, built by our team in Richfield, Ohio. This software helps dealership parts counters run much more smoothly. You see a big part -- a big parts department challenge is that every component on a vehicle can be described in at least a dozen different ways. You got technician jargon. You got OEM descriptions, parts numbers, stock numbers and repair manual terminology and more. And they really line up. So when the phone rings, how does the parts department take the tech speak and translate it into a hard -- a barcode that's on the shelf that translates to something on the shelf. Well, that's where we have an edge, a real edge, utilizing our 3.4 billion proprietary repair records.

We employ large language models to connect all those dots. A parts representative can enter the phrase or terminology given and presto, they locate just the part, just the SKU, regardless of nomenclature. And just as importantly, the system sees the part that's proposed and recommends related items that should also be replaced or installed at the same time, making sure the repair is done right the first time. I guess it's a great efficiency driver and it's fast becoming a must-have, making RS&I a vital cog in driving dealership success.

We have great confidence in our RS&I business. And our customers and industry partners share the same belief. That fact was on display as the Professional Tool & Equipment News, PTEN, announced the esteemed 2026 Innovation Award and People's Choice Awards. And the group, RS&I, was well represented on that front with winning products like our TRITON handheld diagnostic platform, our PRO-LINK heavy-duty diagnostic platform, Mitchell 1's Manager SE Inspections feature and Challenger's Adapter Cart, all recognized as winners by the techs who actually use the tools every day. In fact, collectively, the corporation was honored with a total 23 PTEN awards across the 54 possible categories. We believe it's a true testament to our

competitive advantage and product across the corporations. RS&I, expanding its reach with repair shop owners and managers, confronting the increasing complexity, focusing on developing innovations that simplify the difficult, and helping shops prosper along the way.

So those are the third quarter results. Tools Group, sales below our standards, impacted by accelerated seasonal turbulence, tech demand remaining stable, launching new products and maintaining the network.

C&I, a boffo quarter, standing resilient, 7.4% organic increase, operating margin that represents a new record of 18.5%, up 290 basis points, making great strides in releasing our compelling power tools and precision torque products, purpose-built to make work easier, and an expanding array of customized solutions driving growth in the critical industries worldwide.

RS&I, gross margins up 110 basis points. Operating margin, 25.5%, balancing the headwinds about equal to last year despite the turbulence.

And overall, the corporation as reported sales about flat. Gross margins up 51%, strong and up 10 basis points versus last year. And OI margin, 21%. Snap-on navigating the wave of diesel turbulence, holding steady against the wind.

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 $1,183.7 million in the quarter represented a decrease of $7.1 million from 2025 levels, reflecting a 2.8% organic decline, partially offset by $25.6 million of sales from acquisitions. Heightened turbulence related to the ongoing conflicts in the Middle East and Ukraine, including the rapidly escalating price of diesel fuel during the quarter, dampened the sales in our automotive repair markets, which led to lower sales to our mobile van network.

With respect to our Repair Systems & Information Group, substantial changes to the rollout of new OEM vehicle platforms impacted sales in the quarter. These declines were moderated by continued higher activity in our industrial-facing end markets within our Commercial & Industrial sector or the C&I group.

Consolidated gross margin of 51% remained steady and compared to 50.9% in the third quarter last year. The improvement of 10 basis points primarily reflected savings from the company's RC&I initiatives, partially offset by higher material costs. Operating expenses as a percentage of net sales of 30% rose from 27.5% last year, primarily due to a 190-basis-point nonrecurring benefit from a legal settlement in 2025 as well as from our continued investments in support of our brand and other business opportunities.

Operating earnings before financial services of $248.1 million in the quarter compared to $278.5 million in 2025, which included a $22 million benefit from the legal settlement. As a percentage of net sales, operating margin before financial services of 21% compared to 23.4% reported last year, including the 190-basis-point benefit that occurred in the third quarter of 2025.

Financial Services revenue of $98.6 million in the third quarter compared to $101.1 million last year, while operating earnings of $68.3 million compared to $68.9 million in 2025. Consolidated operating earnings of $316.4 million compared to $347.4 million last year, which included the

benefit from the legal settlement. As a percentage of revenues, the operating earnings margin of 24.7% compared to 26.9% in 2025, which included the benefit from the legal item.

Our third quarter effective income tax rate was 22.3% in 2026 and 22.6% last year. Net earnings of $243 million or $4.64 per diluted share compared to $265.4 million or $5.02 per diluted share in 2025, which included a $16.2 million or $0.31 per share after tax benefit from the legal settlement. Excluding the $0.31 legal benefit, earnings per share as adjusted in the third quarter of 2025 was $4.71.

Now let's turn to our segment results for the quarter, starting with C&I group on Slide 7. Sales of $404.3 million rose $36.6 million compared to 2025 levels, reflecting a 7.4% organic gain and $10 million from acquisitions. Sales to customers in critical industries rose mid-single digits in the period, including robust activity with the U.S. military and continued higher sales in general industry end markets.

The group also benefited from another quarter of double-digit gains in our specialty torque business, which included a strong performance from our high-precision electronically controlled Mountz product line. Our Asia Pacific operation also grew in the quarter, registering a high single-digit increase, advancing in both their cross-border activities and in their local markets. Overall, the C&I group continues to make progress with gains across North America as well as in Asia and other emerging markets.

Gross margin improved 60 basis points to 41.5% in the quarter from 40.9% last year, mostly due to the increased sales and savings from the segment's RC&I initiatives. Operating expenses as a percentage of sales of 23% in the quarter improved 230 basis points from last year, primarily reflecting the higher sales volumes and a 130-basis-point benefit associated with the sale of a building, partially offset by a 40-basis-point impact from acquisitions. Operating earnings for the C&I group was $74.7 million compared to $57.5 million in 2025, and the operating margin of 18.5% improved 290 basis points from last year.

Turning now to Slide 8. Sales in the Snap-on Tools Group of $471.5 million compared to $506 million last year, reflecting a 7% organic sales decline. The organic decrease was due to a high single-digit decline in the U.S. and a low single-digit reduction in the segment's international operations. During the quarter, we believe that deepening economic uncertainty and rapid increases in diesel fuel prices impacted franchisees' willingness to expand their purchases, leading to a drawdown in van inventory as they use destocking to generate cash.

Gross margin of 46% in the quarter compared to 46.8% last year. The 80-basis-point decline primarily reflected the lower sales volume. Higher material costs were offset by 60 basis points of favorable foreign currency effects. Operating expenses as a percentage of sales of 28% compared to 25.1% in 2025. This increase was mostly due to the lower sales but also include continued investment in supporting the Snap-on brand. Operating earnings for the Snap-on Tools Group of $84.8 million compared to $109.9 million in 2025. The operating margin of 18% compared to 21.7% last year.

Turning to the RS&I Group shown on Slide 9. Sales of $454.7 million compared to $464.8 million a year ago, reflecting a 5.5% organic decline, partially offset by $15.6 million of acquisition-related sales. The organic decrease largely reflects lower sales to OEM dealerships. This resulted from a sharp reduction in program-related activity in the period, particularly across North American OEMs as they adjust rollouts of new vehicle launches. Gross margin for the RS&I Group of 48.1% improved, 110 basis points from last year, primarily due to the favorable business mix.

Operating expenses as a percentage of sales of 22.6% compared to 16.6% in 2025, which included a 480-basis-point benefit from the legal settlement. The remaining year-over-year increase of 120 basis points is mostly due to lower sales volumes. Operating earnings of $116.1 million compared to $141.2 million last year, which included the $22 million benefit from the legal settlement.

The operating margin of 25.5% compared to 30.4% reported in 2025. Excluding the 480-basis-point benefit from the legal item in 2025, operating margin as adjusted declined 10 basis points versus last year. Now turning to

Slide 10. Revenue from Financial Services of $98.6 million decreased $2.5 million from last year primarily due to the lower interest income resulting from a year-over-year decrease in the size of the average finance receivable portfolio in the period.

Financial services expenses of $30.3 million decreased from $32.2 million in 2025, mostly due to $2.3 million of lower provisions for credit losses. As a result, financial services operating earnings of $68.3 million compared to $68.9 million last year. In the third quarters of both 2026 and 2025, the average yield on finance receivables was 17.7% and the average yield on contract receivables was 9.1%.

Total loan originations of $270.6 million in the third quarter represented a decrease of $3.5 million or 1.3% from 2025 levels.

Moving to Slide 11. Our quarter-end balance sheet includes approximately $2.5 billion of gross financing receivables with $2.1 billion from our U.S. operation. For extended credit, or finance receivables, the U.S. 60-day plus delinquency rate of 2.1% is up 10 basis points from the third quarter of 2025.

Trailing 12-month net losses for the overall extended credit portfolio of $70.1 million represented 3.63% of outstandings at quarter end, down sequentially from 3.7% in the second quarter of this year. We believe that these portfolio performance metrics remain relatively balanced considering the current environment.

Now turning to Slide 12. Cash provided by operating activities of $247.7 million in the quarter compared to $277.9 million last year. Net cash used by investing activities of $18.3 million in the quarter included capital expenditures of $24.7 million. Net cash used by financing activities of $205.3 million included cash dividends of $126.1 million and the repurchase of 220,500 shares of common stock for $87.1 million under our existing share repurchase programs. As of quarter end, we have remaining availability to repurchase up to an additional $431.2 million of common stock under our existing authorizations.

Turning to Slide 13. Trade and other accounts receivable of $922.1 million represented an increase of $40.7 million from 2025 year-end levels, including $12.2 million from acquisitions.

Days sales outstanding were 68 days at the end of the third quarter and compared sequentially to 70 days at the end of the second quarter and to 67 days in 2025 year-end. Inventories, including $18.5 million from acquisitions, increased by $54.4 million from 2025 year-end. On a trailing 12-month basis, inventory turns of 2.3x at the end of the period compared to 2.4 at the end of last year.

Our quarter-end cash position of $1,670.0 million compared to $1,624.5 million at the end of 2025. That concludes my remarks on our third quarter performance. I'll now review a few outlook items for the remainder of 2026.

As a reminder, the fourth quarter of 2025 contained an extra week of operating results associated with the company's fiscal calendar. In 2026, we returned to a 52-week fiscal year with 13 weeks in the fourth quarter. While the impact of this additional week was not material to Snap-on's consolidated fourth quarter 2025 total revenues or net earnings, our financial services segment did earn an additional full week of interest income from its financing portfolio. At the consolidated level, the net earnings benefit from the additional week of financial services interest income was largely offset by a corresponding additional week of fixed expenses, primarily personnel-related costs.

We expect the capital expenditures for the year will be approximately $100 million and we currently anticipate that our full year 2026 effective income tax rate will approximate 22%.

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

Nick Pinchuk
Well. Thanks, Aldo. Well, that's the Snap-on quarter, marked by three large themes. First, the accelerating and seemingly limitless rise in diesel during the quarter, and the franchisees reducing inventory as a reaction to that unprecedented wave, despite the fact that technician markets remain stable. And you can see that in the Tools Group results. Sales to the vans down 7%, even as the volume off the franchise trucks is stable.

Second, the continuing rise of our critical industries business, weilding our advantages in customized products to a stronger effect. And that trend was quite visible in C&I's encouraging results. Sales up 10% as reported, organic activity rising by 7.4%, C&I volume reaching an all-time high and the group's OI margin 18.5%, up 290 basis points, another all-time high.

The C&I story again this quarter was a reminder of the robust and rising potential in the critical industry sector, of our growing power to take advantage of that opportunity, and of the capability of our team to bring -- the capability our team brings to bear in rolling the Snap-on brand out of the garage with strong profitability.

Finally, the quarter is a demonstration of our ability to hold strong margins even in the midst of considerable and unusual headwinds and that's all visible in our gross margins, strong in an absolute and relative sense. 51% for the corporation, up 10 basis points despite the varying environment.

And looking forward, we believe we have a continuing opportunity to progress. The diesel wave appears to have flattened, and our principal markets, vehicle repair and critical industries are both fundamentally strong. And we have the ability to capitalize, building our advantages in product, brand and people, strengths in which we have kept investing in the midst of turbulence. And as such, our product line keep expanding and the offerings really do make work faster and easier.

Our brand stands alone. It really does represent the outward sign of the pride and dignity working men and women take in their profession. We hear that every day. And our people really are experienced, battle-tested, and committed to Snap-on’s success. So as we proceed on our path forward, we believe that with our markets and our clear advantages in product and brand and

people, we will meet the turbulence and return to our well-established positive trajectory throughout the quarters and the years ahead.

Now before I turn the call over to the operator, I'll speak directly to our franchisees and associates. I know many of you are listening and our resilience in these particularly challenging times is deeply rooted in your endeavors. So for your contributions to the advancement of our enterprise, you have my great respect. For the energy and capability you bring to bear every day, you have my admiration. And for your unwavering dedication to our team and its future, you have my thanks.

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

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question-and-answer session. [Operator Instructions]. The first question today comes from Scott Stember with ROTH. Please go ahead.

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

Nick Pinchuk
Morning, Scott.

Scott Stember
Just wanted to dig into the commentary about sales off of the truck. When you say stable, are we talking flattish in the quarter? And then you also talked about how the diesel wave seems to be flattening. Have you seen a reversal in October of orders?

Nick Pinchuk
First of all, we don't give guidance, so I won't comment on October. I'll tell you this, though, is that the sales off the truck are up, but not by much. So, but they're positive. So that's where you see all this playing out, is the negative in the Tools Group and the sales off the van that are that are kind of, as they were, that's what we call stable.

If you're talking about, yeah, flattening, all you got to do is look at the diesel prices. The diesel prices have flattened. So I don't know where they're going, but I think our people have mentally absorbed where the diesel prices are now.

I don't know what they're going to do about that going forward, because if they stay at the current level, they'll still want to have some cash to make it easier when they stay at that level. If it comes down, I don't know what'll happen. It's hard to predict what they'll do with the inventory. But it does create a future potential at some time, but the timing of that potential is not necessarily clear.

Scott Stember
Got it. Good to hear that about the coming off of the van. So could you just give us an idea of what is moving? Has there been any -- I imagine there hasn't been any breaking of that trend of not buying higher-ticket items. Is there anything in particular that, off the van, that was noticeable that was positive?

Nick Pinchuk
Yeah, look, I think power tools. Power tools, I talk about power tools, because they seem to be incandescent these days. They're really good. We have a good product line, and we've had a series of -- I talked with a guy at the SFC who, something I didn't mention, a long-neck ratchet, he sold 115 of them. And I don't know how many customers he has, but that seems like every other customer or so.

So power tools is selling well, it sold well in the quarter. And these carts are selling okay. And so, like as I talked about, which is kind of reaching up, making them semi-quick payback items, and they tend to be popular.

Scott Stember
All right. And just one last question on RS&I. Outside of the OEM dealer orders, can you give us an idea of how some of the other sub-segments did?

Nick Pinchuk
Well, I think we say that basically, anything associated with the OEM dealers didn't do that well. The parts catalog business, which is associated, they did okay, but generally it was sort of that. I mean, there was a lot of mix. Diagnostics, it didn't have a most robust quarter. It didn't launch anything this quarter. Mitchell 1 did great. So you look at those kinds of things. So I think we say in our notes that sales to the OEM dealerships were down, and maybe to the independent shops was kind of flattish in this situation in total.

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

Nick Pinchuk
Okay. Sure.

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

Bret Jordan
Hey, good morning, guys. Could you talk about sort of what you're hearing sort of about franchisee health and sentiment? I guess the largest public auto dealer reported yesterday and commented about negative car accounts and service. Are they concerned beyond diesel that there's some softening at the absolute garage level?

Nick Pinchuk
You mean our franchisees?

Bret Jordan
Yeah. Yeah.

Nick Pinchuk
No, no, I don't think so. I mean, look, who knows? They don't seem that way. We just met with a bunch of franchisees and we met with -- during the quarter, we met with a bunch of them in the in the Northeast, franchisees and shop managers and technicians, and then we just met with a bunch of franchisees from the -- what we say the north central region, around St. Louis.

And they -- first thing out of their mouth was diesel prices. And then they started waxing eloquent about some of the power tools and some of the products we were taking out. So I didn't get that feeling. I got the feeling that it's just as I described. The underlying business was pretty good in repair.

I do think, as I said, you probably know this better than I do, that I'm not sure the dealerships are doing that well, because they always pay attention to new car sales. I don't know. I've read a bunch of articles and we kind of hear talks about that from my dealer friends about the lack of new models making a difference. And I do think, isn't car sales down this year? Are car sales down this year in the United States, a couple, 3%?

Bret Jordan
Yeah. What they're seeing is customer pushback on pricing of the service. So I think you're seeing some customer reaction to what's been high inflation in labor and parts pricing, so you're seeing…

Nick Pinchuk
You're talking about the dealerships?

Bret Jordan
Yeah, yeah. It's not so much the launch cycle, it's the service bays.

Nick Pinchuk
But, you know Bret, the dealerships' repair shops are, you feel like the management is a descendant of Jesse James when you go in there anytime and get pricing. People were pushing back all the time, I think. Really, I mean people have complained about it. It's why independent shops have held so long, robustly, against the dealerships, is because the pricing drives everybody to independent shops once it's off the warranty. This is not new.

Bret Jordan
And on that same topic of affordability, you said you're stretching quick payback. If we think about like a same-SKU tool price, or is the incremental product offering sort of targeting a lower trend or selling price to make this more affordable, or has there been any change in pricing?

Nick Pinchuk
What I meant by that, a good example of that is in tool storage. You've got the big boxes. These things are monsters. There's a lot of sheet metal. There's a bunch of features in it, and they go for, I don't know, five figures, stuff like that. And then -- but we're making a robust expansions in the cart side of that, less sheet metal, cheaper, so more within the reach.

So if people need storage, they're not going to be paying a huge amount of money. They can buy a cart. By the way, the cart I talked about holds two tons of tools. So, I mean, I think or a ton of tools, rather, sorry, a ton of tools. So that's what I meant by that.

We're stretching the designs to come down some in places, in categories where we used this, and people would say, "Well, they're definitely big-ticket." We're trying to get, maybe you could argue, middle-ticket out of that.

Bret Jordan
Okay. And sorry, just to round out that first question. I guess, is there a metric that you use internally to sort of measure the health of the franchisee or their liquidity? Like delinquencies on contract receivables or I assume there are no delinquencies since you bought that.

Nick Pinchuk
Yeah. No, we look at a bunch of different things, but a lot of the things are imprecise, because they don't have to report everything on all these things. So, generally, my best feeling is when I talk to them. And so I always feel pretty good about -- I've felt pretty good about talking to them lately, except for the diesel thing. I think the diesel -- the diesel thing shook them up. If you look at diesel, if you put yourself back in the third quarter, it was looking like it was going to the moon. This is what…

Bret Jordan
Is their response to higher diesel visiting their customer less frequently, or just…?

Nick Pinchuk
No, I don't think so. You would think maybe. I mean, look, there are thousands of franchisees, so probably someone aren't doing that, but I don't think it's a common phenomenon.

Bret Jordan
Okay, great. Thank you. Appreciate it.

Operator
The next question comes from John Babcock with Barclays. Please go ahead.

John Babcock
All right, good morning, and thanks for taking my questions. Just a quick follow-on there from one of the questions earlier. Do you think that franchisees are now holding a level that they're levels of inventory that they're happy with, or do you think that there's still a little bit more that has to fall out there? And then also, have you guys started adjusting production to account for the pullback that occurred this past quarter?

Nick Pinchuk
Well, we already ate it. But the thing is, is that, look, the pullback, I don't expect them to go further. Although, those could be famous last words. I don't know. But I think the way that -- if I look at the numbers in the pullback this quarter, that's got them okay for some time. So I don't think that's going to happen in the near term. I don't see them doing that. Look, I think -- I don't think they think -- franchisees like inventory.

They like to have it, and the reason is, John, is because it allows them to strike while the iron's hot. If they go out and somebody says, "I'd like a new tool storage box, and I want a blue one." If they don't have a blue one and they order one, by the time they get back, the guy's wife may had talked him out of it, or something like that, or he may have had second thoughts.

And so, they like to strike, so they like more inventory. I don't see them trying to -- I don't see them being satisfied with this level necessarily. I'm not saying they're widely dissatisfied. They can get along without it, but it isn't as powerful as when you have, a fairly robust inventory on the van and in someplace maybe in a warehouse.

John Babcock
All right, thanks. In terms of like the products, did they pull back on any particular type of products? Was it higher-priced products, lower-priced products? Where was the most of their...

Nick Pinchuk
Actually not. It was pretty much across the board.

John Babcock
Okay. Got you. Helpful. And then just last question before I turn it over. Material costs, you talked about that being a little bit of a headwind for the Tools Group. I was wondering if you might be able to provide a little bit more color there.

Nick Pinchuk
Material costs is -- I think it's primarily associated with steel when we talk about material costs. I mean, there's some freight involved there, freight costs when you're when you're shipping. But, look, I think our guys have managed over that. So while I have it and -- while we have it in the discussion, material costs, really, if you look at the gross margins, it doesn't appear we're suffering, I'd say. I think we're managing them. We have offsets like from rapid continuous improvement and other things.

John Babcock
Yeah. Understood. Thank you.

Nick Pinchuk
Sure.

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

David MacGregor
Yes. Good morning, everyone. Good morning, Nick.

Nick Pinchuk
Hi, David.

David MacGregor
Hey, I wanted to start off by just asking about the SFC and just any observations you could offer on this year's SFC? And then it seems as though there may have been a larger than normal order cancellation around that event this year. So, I wonder if I could just start off by getting you to talk about that?

Nick Pinchuk
Sure. Look, the SFC in Washington is always by population weaker. It isn't one of the more -- it isn't the most popular. If you go to Orlando, more people go. That's simply -- It's on the margins, but so on. The SFC -- I know that people give different views of this, but the SFC orders weren't that strong. They were already down. People were pulling back at the SFC. So, we came out of that somewhat lower than we might have expected, and that's what you're seeing there.

Now, I will say that the franchisee -- if you talk to the franchisees and you didn't look at the order numbers, you might say, "Well, okay, everything's hunky-dory." They were pretty positive, but the numbers ended up metastasizing in that way, and I think when we talked to people afterwards, which is why we went out and talked to people, it was it was about diesel prices.

David MacGregor
Right. So, on the SFC, it sounds like you had sort of good ticket response, but the traffic was down. And then, talk about the cancellation...

Nick Pinchuk
Also, I wouldn't say good ticket response. I would say, it was okay, but it wasn't up to our standards. I would say we're -- I don't like to use words like disappointment or anything like that, but the thing is, it wasn't where we hoped.

David MacGregor
Got it. And then what about the cancellation rates afterwards?

Nick Pinchuk
I don't think they're any different, actually, in this situation. So it's not -- this is not higher cancellations or anything. We started to see this for in -- you never know, third quarter is squirrely, so you never know an order pattern as you go through the months, but when you get to the SFC and you see weak -- not where you think it should be, you start to know that something's amiss.

David MacGregor
Got it. And then, how should we be thinking about franchisee attrition here? Do these kind of conditions shake loose the marginal franchisee into retirement, or what are you seeing?

Nick Pinchuk
Yeah, it can, but the franchisees, like I said, the sales off the van aren't down. They're okay. So I don't think I don't know, I'm not sure. I realize there's a lot of turbulence floating around, and people could say, "Yeah, I want out," or "I get tired." Mostly, people retire at a certain age, that's what tends to drive this, and it tends to be the classes that drive a lot of it. Of course, as you say, marginal franchisees get under pressure. But a lot of those guys probably wouldn't have made it anyway. So, I don't think we see that. What drives the up and down, I think, is the aging.

David MacGregor
Got it. And then on the -- you're talking about the fact that franchisees are becoming a lot more cautious, what are the implications there for revolving account credit? Are we likely to see more flips into the end of the year, or how are you feeling about RA?

Nick Pinchuk
I didn't say Wait a minute. I don't know. I don't think I said more cautious about the franchisees. I'm not sure. I don't think the franchisees are more cautious. I think this is a very specific phenomenon. They looked at this diesel price, and they said, "This thing is bad. It's going to cost me more money. I don't want to give up I would still want to give my son the G.I. Joe with the Kung Fu Grip, as they say, for Christmas.

And so, therefore, I don't want to cut back anything else. I'd just as soon pull back a little bit now, and give myself a little cushion for the future." But I think their attitudes aren't really that bad. They're not -- I don't think anything's changed at the basic. Fundamentally, one of the things we try to convey here, not much actually changes the Tools Group, except for the diesel price.

David MacGregor
Got it. And then last question is just capital allocation. Pretty lazy balance sheet right now with all that cash. What are your thoughts on putting that to work?

Nick Pinchuk
Well, I think -- look, I think we -- what we say, our capital allocations, we're working capital intense, so therefore, you need it for that. We like acquisitions. We like the dividend, it's in perpetuity, so we get to look at what dividend we're going to. Then we look at share buybacks, we look at them all.

David MacGregor
Okay. Thanks very much, Nick.

Nick Pinchuk
Sure.

Operator
The next question comes from Quinn Fredrickson with Baird. Please go ahead.

Quinn Fredrickson
Hey, good morning.

Nick Pinchuk
Morning.

Quinn Fredrickson
Question on Tools Group operating margins. Just the decremental margin there seemed kind of sharp, wondering if you could just split out how much was just lower volume versus the brand building and other cost factors you called out, and would you expect to moderate some of your investment if the environment continues to remain somewhat challenging, or do you see attractive enough...

Nick Pinchuk
Well, look, I think the Tools Group, there were a bunch of things that happened in the Tools Group. There's some product mix that's driving through that. In other words, they had if you look at gross margins, they had better sales of power tools and of torque as part of it its sales to the vans. And then and for those products, Quinn, they split the margins with C&I. So, their margins -- while the margins are great for the corporation, they aren't as good for any one particular division. So you had some of that rolling through.

There was a volume component in gross margin, and then a volume component in the OE. The OE -- I think gross margins were down like 80 basis points, 60 basis points, something like that. And so, that wasn't bad, given the volume. So volume and mix there. If you look at it all -- the big kahuna in that was OE margins, and there was volume and we continued spending in things like training.

You roll out the product, you roll out -- see, one of the things we've found out is in trying to do the pivot for lower payback items, you've got to keep rolling out a lot of new products, and you need to train the field to be able to deal with this. You need to jack up the training, and so that's part of the cost. The SFC, even though I talked about it being a little bit down, we spent money on the SFC, and maybe we could have pulled back on that, but we considered the effect.

I think the numbers were pretty high for a Washington event, so we kept that up there because we wanted to brand build. I mean if you're selling the top-of-the-line product, I think it's somewhat

questionable whether you should pull back on investing in product and brand and people. So you won't see us pull back, I don't think. I don't foresee that right now.

Quinn Fredrickson
All right. Thanks, Nick. And then second question, just in RS&I on the OEM dealerships. You discussed delays to vehicle launches. Just as you look forward, are you seeing anything in the program pipeline, perhaps new year model launches that gives you confidence activity could improve ahead, or is visibility still fairly limited?

Nick Pinchuk
The visibility is kind of limited, because I think the OEMs are kind of, trying to figure out what they want to do around this, and having worked for Ford myself in engineering and finance, there's a lot that goes into launching one of these programs. So we know about programs, but we don't know about the timing when they launch. We're not confident of that timing, because there's a whole bunch of variation. And secondly, more than that, we don't know when they pull the trigger on the programs. It doesn't necessarily happen on the day of the timing. So we have that in place. I think we'd expect it to improve somewhat, but I think we're in a flatter period for that business.

Quinn Fredrickson
Got it. Thank you.

Nick Pinchuk
Sure.

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

Gary Prestopino
Hi. Good morning, all. Hey, Nick, in your experience with running the company, ex-ing out what happened during the pandemic, have you ever had something of this magnitude like an exogenous shock on the franchise channel that, impacted their purchasing power, and if you did, how long did it take to correct that?

Nick Pinchuk
I never saw anything like this, so concentrated. I mean diesel prices have gone up, have gone up before, but these things rose 40% in the third quarter. That's like a rocket ship, and that's actually -- look, a lot of this, Gary, wasn't -- I don't think it was that they needed the cash. It was that they're pretty savvy small businessmen, and they say, "This thing is getting out of control with diesel." And by the way if you look at it, third quarter is about the time when I think America started thinking, "Wait a minute, this Iran thing looks like it has no resolution."

And so I think this kind of psyche surrounding the diesel got to them, and they said, "I want to get some cushion." It's not so much pressing, as the fact that they wanted cushion. So, it isn't they took back more inventory than they needed to pay one month's worth of higher diesel prices. But I think they're -- I think when we talk to them, they're cushioning against this going on for a while.

Gary Prestopino
Okay, but I guess what I'm having a lot of problems squaring here is -- again, I'm not the smartest guy in the world, but volumes were stable. Sales were down, which I guess that's indicative of maybe a product mix, right? But...

Nick Pinchuk
No, wait a minute. Well, no, wait. Go ahead. Go, keep going.

Gary Prestopino
No, go ahead. If I'm wrong on that point, then I can stop.

Nick Pinchuk
No, so wait. Wait, let me try to explain. Sales were down because they decided not to -- in general, it's kind of a group think, says, "I want to get ahead of this diesel thing, so I'm not ordering that much." But they still sold to the van drivers. To the -- they still sold to the technicians. And the sales to the technicians were up slightly, year-over-year. So that's the thing. They pulled back despite the fact there wasn't any emergency in the technician market.

Gary Prestopino
Okay. Well, what I was leading to is that, okay, so the technician market is okay. They -- the franchisees pull back their sales. I mean are they going to be short inventory going into this quarter, and that's kind of where I was?

Nick Pinchuk
Well, no, I don't think they'll be short, but inventory is kind of flexibility about what you sell. I can strike now. It's like inventory is about is -- they have a catalog, and they have all kinds of electronic things to show people the tools. But the inventory is there so they can hit the guy right away. "You want this, I put it in your hand." And so if you reduce your inventory, you've got less capability to do that. The effect on an individual franchisee is quite variable, and it varies from time to time, depending on the situation that presents itself, presents him in the garage.

Gary Prestopino
Okay. Thank you.

Nick Pinchuk
Sure.

Conclusion

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

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

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