Snap-on Incorporated

2023 First Quarter and Full Year Results

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CORPORATE PARTICIPANTS

Sara Verbsky – *Vice President, Investor Relations*

Nick Pinchuk – *Chief Executive Officer*

Aldo Pagliari – *Chief Financial Officer*

PRESENTATION

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

I would now like to turn the conference over to your host today, Sara Verbsky, Vice President, Investor Relations. Ma'am, please go ahead.

Sara Verbsky
Thank you, Keith, and good morning, everyone. Thank you for joining us today to review Snap-on's first quarter results, which are detailed in our press release issued earlier this morning.

We have on the call today, 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 have 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?

Nick Pinchuk
Thanks, Sara. Good morning, everybody. Good morning. As usual, I'll start the call by covering the highlights of the first quarter, and I'll give you my perspective on what it all means. And then Aldo will provide a detailed review of the financials. Along the way, we'll cover the markets, they're robust, gangbusters. We'll also give you a view of our momentum: it's been unbroken and vibrant.

Once again, the story of our quarter is continued resilience. Our ability to navigate the complex while knowing that the flip of a calendar will bring new challenges. You could pick up any significant publication or listen or watch any business show and you will encounter a barrage of concerns, messages of adversity and contraction. But we know we can resist the difficulties, and so we have for the past three months and for quarter after quarter.

You see, we're armed with significant advantages. Our markets, displaying resilience, born out of criticality; our brand, standing above, delivering quality and reinforcing personal pride; our products, they clearly move the world forward by making the critical easier; and finally, our people, our team, experienced, capable and confident. We are encouraged by this quarter, and I'll tell you why.

Our reported sales in the period were $1.183 billion, up versus last year by $85.2 million or 7.8%, including $24.0 million or 240 basis points of unfavorable foreign exchange. Organic sales, they were up 10.2%, increases in every group, our 11th consecutive quarter of year-over-year operating expansion. Our OpCo operating income for the quarter was $259.8 million, including $7.6 million of unfavorable foreign currency, increasing by 16.5%. And the operating margin—the operating margin, it was 22%, rising 170 basis points over last year.

For Financial Services, operating income of $66.3 million compared to last year's $70.4 million. And that combined with OpCo resulted in a consolidated operating margin of 25.6%, an 80 basis-point improvement. And the first quarter's EPS, $4.60, up $0.60 or 15% from last year's $4.00. So, we believe our confidence and our ongoing optimism is clearly justified by the numbers.

Now, let's look closer at our markets. The automotive repair environment remains hot, demand across all disciplines. We continue investing in new products and accommodating the repair challenges of newer models, matching the increased complexity. As platforms change, the modification requires new tools to accomplish the task and we're keeping pace. Whether it's an internal combustion engine or an electric vehicle, the techs need an assist, and we're ready to bring it.

The updates create a range of challenges, new challenges, from accessibility issues associated with confined spaces requiring new designs of varying geometries, to tighter engineering challenges fueling the need for precision torque instrument, to the increasing number of fasteners enlisting our power tools to remove and install parts efficiently, to the rise of drive by wire. More electronics—the more the electronics, the greater the need for handheld diagnostics and special software that can communicate with and manage the neural network of computers and sensors.

We're seeing strength in OEM dealerships, as new models break on to the market, new arrays of essential tools, equipment and diagnostics are needed to service the different and unique characteristics of each vehicle. For independent repair shops, business is booming. If you're taking your vehicle in for service recently, you've witnessed this firsthand, the bays are full, and the parking lots are chockablock. And when I speak with our franchisees, they are enthusiastic, saying demand is robust. It's written all over the numbers. Garages are scheduled further out for shops of all types. Owners see the growth. They know they need technicians. And as you might expect, the rise in the tech count is substantial and the wages are moving up. And of course, this is all music to our ears.

We believe that with the new vehicle models, the rise of automation, the growing need for precision and the increasing vehicle complexity, we may be entering the golden age of vehicle repair and our numbers say it may be so. So, vehicle repair, it's a great place to operate for our Tools Group and for our Repair Systems & Information Group, RS&I. And we believe it's only getting better.

Now, let's talk about the critical industries, where Commercial & Industrial, or C&I, takes Snap-on out of the garage, solving tasks of consequence, representing our most significant international presence. It's an area where we're, I suppose, most subject to global headwinds, but the news is still reasonably encouraging. The critical industries kept rising across sectors, aviation, education, heavy-duty fleets, general industry and natural resources, all up. And the military, once down, is now rebounding with high demand.

And for geographies, North America was strong. Europe was improved even in the face of the ongoing war in Ukraine and the revenue disruption of the Brexit, and Asia Pacific remained mixed, variation across the landscape. But overall, the critical industry markets of C&I showed significant and broad positives, every sector. The first quarter is marked by substantial strides in that arena, and we see more opportunity on the horizon.

We believe there's abundant and ongoing potential all along our runways for growth, enhancing the van network, expanding with repair shop owners and managers, extending to critical industries and building in emerging markets, leveraging our expansive product line, wielding our strengthening brand and deploying the increasing understanding of the task, connecting to the customer, standing face-to-face in the workplace where the tasks are performed, observing the work, turning that insight into innovative new products and summoning the future for professionals. And we amplify that endeavor by applying a generous helping of rapid continuous improvement, or RCI, as we call it, driving our productivity and our margin upwards. So, that's our view of the market.

Now, let's turn to the groups. In the C&I Group, sales of $363.8 million, including $12.5 million of unfavorable foreign currency, increased 7% to last year. Organic sales were up 11.1% with double-digit gains in critical industries and specialty torque, that precision leading the way. C&I's operating income of $55.8 million, including $2.0 million of unfavorable foreign currency, represents an increase of 22.1% over last year, and the operating margin was 15.3%, up 190 basis points from the 2022 level, promising numbers.

C&I demonstrated considerable growth, despite the ongoing uncertainty across geographies. One of the factors that's been attenuating C&I in the recent past was the impact of supply turbulence. You heard me say it on the calls, the customized kits with many different products are vulnerable to availability disruption. And one of the drivers behind the C&I rise were the improvements along the supply chain. During the period, we started to clean the logjams and reduced the impacts. The first quarter is evidence of that progress.

For some time, we've said that the demand in critical industries have been strong. It continued in the first quarter. And that positive is rooted in innovative products designed specifically for making a difference in critical tasks. One example is our new ATECH ¼-inch Drive Flex-Head TechAngle Micro Torque Wrench—it's sure a mouthful, but it's a great product. It's aimed directly at aircraft repair where the necessity for torque precision is rising, the need for power is increasing, and repair in tight spaces is becoming more common. Our new unit works on all three fronts.

The new wrench is almost a foot long, but less than an inch in diameter, configured to facilitate access deep inside engine compartments. It's also equipped with a 15-degree flex-head design, allowing it to avoid obstacles. And it uses our durable 72-tooth gear mechanism, enabling the tool to operate with small rotations when the barriers restrict motion, making it tough to wrench. The new ATECH has power, significant power, reaching 300-inch pounds, expanding the range by 20% and increasing the number of applications that a tool can cover, consolidating tasks from multiple devices into one convenient unit and eliminating changeover time. That's providing a nice productivity gain.

The unit has four alert modes, LCD, LED, vibratory and audible. Those four prevent over-torquing, even when the visibility is low, and the space is constrained. And when combined with the unit's accuracy of plus or minus 2%, the features serve to keep the fastening right on spec. The ATECH, accessibility, power and accuracy projects throughout the aviation sector. It's another hit product that helped drive C&I upward in this quarter. Well, that's C&I, on the rise, higher sales, stronger profits, powerful products and more to come.

Now on to the Tools Group. Sales of $537.0 million, up $24.9 million, including $7.1 million of unfavorable foreign currency, registering a 6.3% organic gain with high single-digit increases in the U.S.

and a low single-digit rise in the international network, and the operating margin—the operating margin was 24.5%, up 180 basis points against 80 basis points of unfavorable currency, boomshakalaka! This was a great number for us. We're really optimistic and encouraged by this. The vehicle repair markets are strong and resilient, and they trace an ongoing path of abundant opportunity. And once again, the Tools numbers back it up.

But beyond the quantitative evidence, I was just with some of our van drivers last week, and their view was incandescently positive. That's the only word I can use, without equivocation or without question, they say shops are busy. All our product lines are in high demand and their technician customers are brimming with confidence. It seems like the people of vehicle repair from top to bottom have great expectations for the way forward. And that positivity is evident in the continuing enthusiasm for big tickets, longer payback items, diagnostics and tool storage boxes. They continue to be major contributors to our results. You can see it in the success of the top of the line ZEUS+ handheld diagnostics units. You can find it in the reception of our latest addition to the EPIQ tool storage lineup.

The 68-inch EPIQ limited edition box, toolbox, we call it the Neon Stinger. It's generated considerable excitement with its eye-catching look, a gloss black body with the newest color in tool storage trim, neon hi-viz. I mean, this baby pops. Even at a less than bright light in, say, the corner of a shop of a repair shop, it stands out any place, giving the techs a chance to make a statement. And it's not just the glow. It also offers a range of powerful functionality. The speed drawer providing customizable organization, a power drawer with securable charging space, an LED power top spanning the entire length of the box, fully illuminating the drawers and the tools making them shine like the jewels they are.

The Stinger, it also offers 15 power outlets and 6 USB ports, all to ensure the tech's cordless tools, lights and accessories are always charged and ready to go. I'll tell you; demand was strong, and the Stinger was a Snap-on million-dollar hit product in the blink of an eye. So, the Tools Group, robust demand in all product segments and the momentum train just kept running throughout the quarter.

Now let's speak of RS&I. Sales reached $446.6 million, up $48.4 million or 12.2%, including $6.0 million in unfavorable foreign currency. Organic activity advanced 13.9% with double-digit increases in undercar equipment and OEM businesses is driving the gain, two big contributors. RS&I operating earnings were $104.6 million, rising 14.2% over last year, and the operating margin was 23.4%, up 40 basis points. Once again, this quarter software products and subscriptions were a significant plus. Along those lines, our Mitchell 1 division responsible for providing repair information software to independent shops, continued to succeed, pursuing customer connection and innovation by bringing great new improvements to shop efficiency.

And an example is at this year's meeting of the Heavy-Duty Technology and Maintenance Council in Orlando, Mitchell 1 introduced our powerful wiring navigation features specifically for trucks. It was immediately clear to large truck professionals that our new software would make it much easier and quicker for technicians to navigate the challenges of electrical issues on today's ever more complex vehicles, whether powered by internal combustion or battery cells. The feature makes a real difference. It's a significant aid to the truck repair world, enabling quick transition from one wiring diagram to another, following the wire without interruption between views. This is a significant time saver for the techs across the industry and the shops are noticing.

Mitchell 1 just released another great product. It's an automated work package function for its collision repair software. The new system gathers into one screen all the relevant information needed for collision jobs, overhaul procedures, illustrations and diagrams, all retrieved with one click of the button. One of the difficulties in collision repair is the multifaceted nature of the task. You need part details, repair procedures, system diagrams, but that information is usually found in separate places in varying categories within the vehicle's documentation. Our new system combines the data into a single work package that guides the technician progressively through the effective repair. It sounds really simple, but in fact, the consolidated and comprehensive information eliminates the 20 to 90 minutes that's ordinarily needed to prepare an effective guide for collision repair tasks. We believe the new software will be a big contributor to Mitchell 1's growth. It's a clear savings in an area that's rising in modern vehicle repair. With the increase of vehicle automation and the associated growth in sensor networks, collision repair is increasingly more important, and our new feature is right on target to ease of the way.

We keep expanding in RS&I. We keep expanding RS&I's position with repair shop owners and managers, offering more and more solutions for the day-to-day challenges, wielding customer connection and innovation, two essential components of Snap-on's value creation processes to drive winning new software and hardware. We're confident it's a successful formula and RS&I results reinforce that view.

So, those are the highlights of our quarter. Continued momentum, our 11th straight period of year-over-year operating growth, C&I is showing strength, gaining against the supply turbulence of the day. RS&I remaining robust, rising with software and hardware. The Tools Group, a healthy and enhanced van network, aiming for more organic sales in the quarter up 10.2%; OpCo operating margin 22% and EPS $4.60, up 15% over last year, a significant increase. It all adds up. It all serves to provide clear evidence and powerful testimony that Snap-on has emerged from the great withering in the COVID, stronger than when it entered, and the enterprise is continuing that upward trend with capability and conviction. It was an encouraging quarter.

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

Aldo Pagliari
Thanks, Nick. Our consolidated operating results are summarized on slide 6. Net sales of $1.183 billion in the quarter increased 7.8% from 2022 levels, reflecting a 10.2% organic sales gain, partially offset by $24.0 million or 240 basis points of unfavorable foreign currency translation. The organic sales increase this quarter includes broad-based gains across all of the segments.

From a geographic perspective, we experienced double-digit year-over-year organic sales growth in North America and low single-digit organic gains in Europe. Consolidated gross margin of 49.8% improved 110 basis points from 48.7% last year. Contributions from the increased sales volumes and pricing actions and benefits from the Company's RCI initiatives more than offset the effects of higher material and other costs as well as 20 basis points of unfavorable foreign currency.

While the supply chain environment has somewhat improved, we believe the corporation continued to navigate effectively costs and other challenges associated with the ongoing conditions. Operating expenses as a percentage of net sales of 27.8%, improved 60 basis points from 28.4% last year. Operating earnings before financial services of $259.8 million in the quarter compared to $223.1 million in 2022. As a percentage of net sales, operating margin before financial services of 22% improved 170 basis points from last year's first quarter.

Financial Services revenue of $92.6 million in the first quarter of 2023 increased 5.6% compared to $87.7 million last year. Operating earnings of $66.3 million decreased $4.1 million from 2022 levels and included a return to what we believe to be a more normal level of provisions for credit losses than those recorded last year. Consolidated operating earnings of $326.1 million in the quarter compared to $293.5 million last year. As a percentage of revenues, the operating earnings margin of 25.6% improved 80 basis points from last year. Our first quarter effective income tax rate of 23.1% compared to 23.7% last year. Net earnings of $248.7 million or $4.60 per diluted share, including $0.12 of unfavorable impact associated with foreign currency, increased $31.3 million or $0.60 per share from 2022 levels, representing a 15% increase in diluted earnings per share.

Now, let's turn to our segment results for the quarter. Starting with C&I on slide 7. Sales of $363.8 million increased from $340.1 million last year, reflecting a $36.2 million or 11.1% organic sales gain, which was partially offset by $12.5 million of unfavorable foreign currency translation. The organic growth primarily reflects double-digit gains in sales to customers in critical industries and in the segment's specialty torque business as well as low single-digit increase in the segment's European-based hand tools business.

With respect to critical industries, the sales gains were wide ranging in the quarter. In addition to higher activity across general industry, sales to the military were robust as were sales to technical education, aviation, and natural resources. Gross margin of 38.8% improved 240 basis points from 36.4% in the first quarter of 2022. This was primarily due to higher sales volumes including increased activity in the higher gross margin critical industries, pricing actions, and benefits from RCI initiatives. These improvements were partially offset by the effects of higher material and other costs.

Operating expenses as a percentage of sales of 23.5% in the quarter increased 50 basis points from 23% in 2022, mostly due to increased sales in higher expense businesses. Operating earnings for the C&I segment of $55.8 million increased 22.1%, from $45.7 million last year. The operating margin of 15.3% improved 190 basis points from 13.4% last year.

Turning now to slide 8. Sales in the Snap-on Tools Group of $537.0 million compared to $512.1 million a year ago, reflecting a 6.3% organic sales gain, partially offset by $7.1 million of unfavorable foreign currency translation. The organic sales growth reflects a high single-digit gain in our U.S. business and a low single-digit increase in our international operations. Sales in the quarter were up year-over-year in all product lines. Gross margin of 47.3% in the quarter improved 180 basis points from 45.5% last year. This increase is primarily due to higher sales volumes and pricing actions, lower material and other costs, and benefits from RCI initiatives, partially offset by 80 basis points of unfavorable currency effects.

Operating expenses as a percentage of sales of 22.8% were unchanged from last year. Operating earnings for the Snap-on Tools Group of $131.7 million, including $6.1 million of unfavorable foreign currency effects, increased $15.7 million from last year, while the operating margin of 24.5%, including 80 basis points of unfavorable currency effects, improved 180 basis points from 22.7% in 2022.

Turning to the RS&I Group shown on slide 9. Sales of $446.6 million increased 12.2% from $398.2 million in 2022, reflecting a 13.9% organic sales gain, partially offset by $6.0 million of unfavorable foreign currency translation. The organic gain is comprised of double-digit increases in sales of undercar and collision repair equipment and in activity with OEM dealerships, and a mid-single-digit gain in the sales of diagnostics and repair information products to independent shop owners and managers. Gross margin of 43.5% declined 110 basis points from 44.6% last year, primarily due to increased sales in lower gross margin businesses and the effects of higher material and other costs. These declines were partially offset by benefits from pricing actions and savings from RCI initiatives as well as 30 basis points of favorable foreign currency effects.

Operating expenses as a percentage of sales of 20.1% improved 150 basis points from 21.6% last year, primarily due to benefits from sales volume leverage and higher activity in lower expense businesses and savings from RCI initiatives. Operating earnings for the RS&I Group of $104.6 million compared to $91.6 million last year. The operating margin of 23.4% compared to 23% reported a year ago.

Now turning to slide 10. Revenue from Financial Services of $92.6 million increased from $87.7 million last year, primarily reflecting the growth of the loan portfolio. Financial Services operating earnings of $66.3 million, including $700,000 of unfavorable foreign currency effects compared to $70.4 million in 2022. Financial Services expenses of $26.3 million were up $9 million from 2022 levels, including $8.1 million of higher provisions for credit losses. The year-over-year increase in provisions reflects both the growth of the portfolio as well as a return to what we believe to be a more normal pre-pandemic rate of provision.

For reference, provisions for finance receivable losses in the quarter were $14.2 million, as compared to $6.3 million in the first quarter last year. In the first quarters of 2019 and 2018, provisions for losses were $12.5 million and $15.8 million, respectively. In addition, the gross worldwide extended credit or finance receivable portfolio has increased 7.5% year-over-year, and we believe the delinquency and portfolio performance trends currently remain stable. As a percentage of the average portfolio, financial services expenses were 1.1% in the first quarter of 2023 as compared to 0.8% last year.

In the first quarters of 2023 and 2022, respective average yield on finance receivables were 17.7% and 17.6%. In the first quarters of 2023 and 2022, the average yield on contract receivables were 8.7% and 8.5%, respectively. Total loan originations of $300.9 million in the first quarter increased $55.3 million or 22.5% from 2022 levels, reflecting a 25.1% increase in originations of finance receivables and a 9.2% increase in originations of contract receivables. The increase in finance receivable origination reflects the continued strong demand for big ticket products sold by our franchisees during the quarter.

Moving to slide 11. Our quarter-end balance sheet includes approximately $2.3 billion of gross financing receivables, including $2.0 billion from our U.S. operation. The 60-day plus delinquency rate of 1.5% for U.S. extended credit compares to 1.6% in 2022. On a sequential basis, the rate is down 10 basis points, reflecting the seasonal trend we typically experience between the fourth and first quarters. As it relates to extended credit or finance receivables, trailing 12-month net losses of $45.1 million represented 2.46% of outstandings at the end of the first quarter. While this was up 12 basis points from a year ago, it is 45 basis points lower than year-end 2019.

Now turning to slide 12. Cash provided by operating activities of $301.6 million in the quarter compared to $193.9 million last year. The increase from the first quarter of 2022 primarily reflects lower year-over-year increases in working investment, improved net earnings and lower cash tax and compensation payments. Net cash used by investing activities of $72.9 million included net additions to finance receivables of $49.6 million and capital expenditures of $23.0 million.

Net cash used by financing activities of $152.1 million included cash dividends of $86.1 million and the repurchase of 356,000 shares of common stock for $87.2 million under our existing share repurchase programs. As of quarter end, we had remaining availability to repurchase up to an additional $345.4 million of common stock under existing authorizations.

Turning to slide 13. Trade and other accounts receivable increased $20.7 million from 2022 year-end. Days sales outstanding of 62 days compared to 61 days at 2022 year-end. Inventories increased $16.0 million from 2022 year-end. On a trailing 12-month basis, inventory turns of 2.4 compared to 2.5 at year-end 2022. The growth in inventory primarily reflects higher demand, including inventories to support new products as well as critical industry projects. Additionally, to better assure availability given the dynamics of the current supply chain situation, our level of safety stocks and in-transit parts components and raw materials are up, as are year-over-year costs associated with finished goods.

Our quarter end cash position of $833.8 million compared to $757.2 million at year-end 2022. Our net debt to capital ratio of 7.4% compared to 9% at year-end 2022. In addition to cash and expected cash flow from operations, we have more than $800 million available under our credit facilities. And as of quarter-end, there are no amounts outstanding under the credit facility, and there are no commercial paper borrowings outstanding.

That concludes my remarks on our first quarter performance. I'll now briefly review a few outlook items for 2023. We anticipate that capital expenditures will approximate $100.0 million. In addition, we currently anticipate that our full year 2023 effective income tax rate will be in the range of 23% to 24%.

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

Nick Pinchuk
Thanks, Aldo, for that detailed financial review. Well, that's Snap-on's first quarter. It is an encouraging performance, demonstrating clearly the breadth, the depth and the length of our extraordinary advance. The breadth, progress across each of the operating groups. C&I, gaining on the challenge of customized kits amidst supply turbulence and rising above the difficulties of geographic reach in troubled times. Tools Group, continuing its upward trend, taking full advantage of the hot resilient vehicle repair market, reaching yet another margin high. RS&I, riding the wave of vehicle complexity and new model introductions, registering another quarter of boffo growth. The period was positive all across our enterprise.

Our quarter also had depth. The record was strong from top to bottom, up and down the P&L. C&I, 11.1% organic growth and the OI margin was 15.3%, up 190 basis points. RS&I, organic sales rising 13.9% and OI margin a strong 23.4%, 40 points over last year. The Tools Group, organic activity increasing 6.3%, more in the U.S., high single digits. And we spoke of the eye-catching brilliance of the Stinger toolbox. Remember, it really pops. Well, something else that pops is the Tools' OI margin. It's something to catch attention. It pops like a neon sign, 24.5%, up 180 basis points directly against 80 basis points of unfavorable foreign currency. All that added up to strength across the corporation, organic sales advancing 10.2%, up big, even in the uncertainty. OI margin, 22%--22%--representing a rise of 170 basis points. And the final tally of it all, EPS, it was $4.60, up by a clear distance over any comparison.

And finally, our performance is marked by length, by the extended positive trend. It was the 11th consecutive quarter of year-over-year operating gain. The world is evolving as we thought it would. New equipment and software are being needed to follow the acceleration of model change and new technologies. The vehicle repair market is looking like it's approaching a golden age, more technicians, wages rising, collective and individual optimism across the sector. And we saw our momentum extending in the quarter, a positive view that was confirmed by the voice of the franchisees. And moving forward, we believe that the momentum will continue. And we are confident—we're confident that we're positioned to make the most of the abundant opportunities, growing and improving. We've done it period after period, and we did it again in the first quarter.

You see, we do have decisive advantages in our product, authored by customer connection and innovation, easing the way for critical tasks, making a clear difference with professionals. We have an advantage in our brand, marking the serious and the professional, bringing pride and dignity like no other name. And we have an advantage in our people, our team, challenge tested and fully dedicated. And we believe the resilient markets and these considerable advantages will enable Snap-on to maintain its momentum and continue its rise into the second quarter, throughout 2023 and well beyond.

Now before I turn the call over to the operator, it's appropriate that I speak to our franchisees and associates, our team. I know many of you are listening. This quarter is encouraging, but those who would ask why or how need only look to all of you. For the considerable part you played in this performance, you have my congratulations. For the extraordinary commitment you've given to our team, you have my admiration. And for the unfailing confidence you hold in the Snap-on future, you have my thanks.

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

QUESTIONS AND ANSWERS

Operator
Yes. Thank you. At this time, we will begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we'll pause momentarily to assemble the roster.

And this morning's first question comes from Christopher Glynn with Oppenheimer.

Christopher Glynn
Thank you. Good morning, everybody. I was curious, Nick, about the C&I kind of showing some stepped up organic growth there. You talked about the supply chain easing a little bit. So curious if you're seeing past due backlog kind of diminish here and where you are in that stage. And is overall backlog continuing to grow, because it sounds like the breadth is becoming quite assertive.

Nick Pinchuk
Backlog is still pretty strong. I mean, the 11.1%, the increase—by the way, it was bigger than that really in the critical industries. So that wasn't borne out of the backlog. Pretty much the backlog is still there. And what you're seeing is we're getting some of the repair challenges underway. I'm not declaring complete victory over the supply turbulence, but it looks a lot better this quarter than it has in the past. Plus, you have the military coming back in that period. The military was down before. So, you have those two factors driving critical industries upwards, and that's pretty good. And we still have a pretty strong backlog sitting there. Orders just keep coming. Everybody likes Snap-on's customized products.

Christopher Glynn
Okay. And in the press release, you mentioned the period continues the Snap-on value creation process and you referred to considerable capacity for improvement. Could you elaborate on some of the specifics that undergird that statement?

Nick Pinchuk
Yes. We could be a lot more efficient in selling off the vans. This is one of the reasons that authored our business going upwards in the Tools Group, one of the principal components of driving it upwards, we could do better than that. Our factories could be more efficient because they're chockablock. They're up to their eyeballs. We're trying to expand them. We're working on the expansion, and we're pounding the RCI into those expansions. So that will help us quite a bit. So, you see that. And I think in a lot of ways, RCI applies to the product business because as the complexity in repair goes up, it needs new products. And having a large number of new products really necessitates a real focus on RCI in the actual customer connection and innovation process and so we'll drive that through.

So fundamentally, we see a lot of opportunities. Our business is sort of like that, Chris. We sort of structurally have opportunities because we have 85,000 SKUs. We're pretty vertically integrated in a lot of places, in some cases raw steel comes in the back of the factory and through a number of different processes, from forging all the way to plating to make it look like jewels and putting in the hands of the end user, we have tremendous verticality. So, we have horizontal, 85,000 SKUs and a verticality. That creates a lot of interest for continuous improvement. So, we have lots of confidence in our ability to do better.

Christopher Glynn
Great. If I could sneak one more in, just want to go a little deeper into the military. That had been soft for some time, and it sounds like it's a pretty sharp and resetting levels there. Just curious if you could give some color on—I think lumpiness is part of the military story, too. So just curious how to factor that aspect in.

Nick Pinchuk
I think we're seeing an encouraging situation. I mean, we were spitting up blood all over the military in further quarters. It was a big negative for us, it was really not there. But now it seems to have come back in a number of different projects, and they're not huge projects, they're smaller projects. So, we interpret it as an opening of the spigot. The guys in military tell me this, every time a new administration comes in, regardless of who it is, there's a new sheriff in town, they raise, we're going to have new procedures, the new procedures actually don't work. And so eventually, the war fighters say, I need tools, and therefore, the spigot opens. That's what's happening now.

Christopher Glynn
Thank you.

Operator
And the next question comes from Bret Jordan with Jefferies.

Bret Jordan
Good morning, guys.

Nick Pinchuk
Hey, Bret.

Bret Jordan
I think you called out sort of strength in some of the higher ticket items. Could you give us some more color on that, sort of what the hand tools versus high ticket and then storage versus diagnostics within the higher ticket product mix?

Nick Pinchuk
Sure. Look, hand tools are about consistent with the growth this period. So, if you're looking for mix, there's really not a mix story along the product lines, we don't see. If you step back, you look at it, there's a lot of product, particularly hand tools, they're about equal to our growth, give or take, equal to our growth.

And in terms of big ticket, you have diagnostics being stronger than tool storage because we just introduced and we introduced the big ZEUS+, I think it's $12,000. This is a monster, the top-of-the-line handheld diagnostic. And so that's been selling robustly. And you see that together with tool storage in the originations this quarter. So, I think for the selling to the franchisees' quarter, you're seeing a good big ticket, a little bit more with diagnostics this quarter than in past quarters because of the ZEUS launch and then you see hand tools kind of keeping pace with the average. Everybody else, the other cats and dogs are floating around in there.

Bret Jordan
Okay. And then a question on the credit business, I mean, obviously, underlying rates have come up and I think your yield was 17.7 or so. Is there the potential to bring your yields up? Can you pass through some of the higher base rates on those loans, or is that—

Nick Pinchuk
I'd love to answer this question, but Aldo needs to have at least one question. So, I'll let—

Aldo Pagliari
Bret, probably not. And the reason for that is we hold our rates, they're not the lowest rates in the world. They are reflective of the credit profile of the customers that we serve. So, they certainly are competitive in the segment where we play. But our rates have been kind of steady over the decade, not just the years, decade, and we're funded long, as you probably recall. And therefore, we don't have the same upward pressure on our cost of funds for the next several years. So, as a result of that, we tend to hold the program steady. So, the uptick you see right now really is probably reflective a little bit of the slightly better profile of customers as maybe compared to a year or so ago, but it's very slight, right, 17.6 to 17.7.

Bret Jordan
Okay. And one last question for you then on the cost input side. What's the cadence, and whether it's metals pricing or labor, obviously shipping has come down, but how are you seeing the input cost cadence trending?

Aldo Pagliari
So, look, the cost is similar—similar. There's slight pockets of improvement. Every once in a while, you still have to resort to a spot buy when you're looking at materials. So, I'd say the most broadly speaking, as I think we said earlier, is that there's some improvement, but every day you have to remain agile, flexible. There's always a new challenge when you walk in the door. So, modest improvement, but still, you have to bring all your resources to the table to effectively manage it.

Bret Jordan
Okay, great. Thank you.

Operator
Thank you. And the next question comes from Gary Prestopino with Barrington Research.

Gary Prestopino
Good morning, everyone.

Nick Pinchuk
Good morning, Gary.

Gary Prestopino
I have a question for Aldo, so he's getting a second question.

Nick Pinchuk
Oh, no.

Gary Prestopino
Oh yes. Well, I have one for you, too. In the other category, Aldo, there was a $15.2 million, it looks like positive and if you tax effect that, it's about, I think, $0.20 of earnings, $0.21 of earnings. What exactly

is that?

Aldo Pagliari
I don't know if you're looking at other income, but if we're looking at that—

Gary Prestopino
Yes.

Aldo Pagliari
Actually, believe it or not, Gary, on the cash that we have on hand, we're earning a much higher level of interest income than what we did last year. You might remember, about a year ago, you were getting hardly nothing on your money. Now effectively, the corporation is earning about 4.75% on whatever cash it does have.

Gary Prestopino
Okay. All right. So that explains that. And then I just want to get a question on the diagnostics and the software. Nick, it's growing, are you finding that there are shops that, and I can't believe that this is possible, that did not have any diagnostic capabilities that are rapidly adapting it because of the more of the electronics on the models, or are entities just looking to upgrade and buy a more powerful machine?

Nick Pinchuk
Well, look—sure, there are shops that don't have diagnostics. I mean, there are guys who think they can do it themselves. And by the way, you can repair it yourself, but it takes more time. And so, the more experienced technicians think they can get through it, some of them, particularly in truck shops, you'll see that more. But generally, diagnostics are an upgrade and they're upgrading the software. And what happens, the good thing about this, like I say in the remarks, is the more drive by wire, the more you need more advancements in both the software and the hardware. It's one of the reasons why the ZEUS+ has been such a boffo hit, is that it really does move everything forward, bigger screens, make it easier from a hardware point of view, and it's got enhanced software.

And we tried to emphasize that. We keep coming up with ideas like Mitchell 1, like the wiring diagrams for trucks. That may not sound like much, but it's really helpful because if you have to keep trying to find the wire in a new view, it's a real puzzle sometimes. And the whole thing about collision, collision is booming. And so, writing software for collision, we're kind of, I think in kind of one of the only few that are trying to do that, and we see that being very positive. So, there's a lot of opportunity floating through there.

Most of it, though, it really depends on the shop. If you're talking about just the vehicle repair shop, most of them are upgrading what they have already. In some cases, the shop certainly has something. That would be it. In some cases, you're adding technicians that are using more diagnostics or don't have a diagnostic now, they're borrowing. In other cases, if you look at truck or collision repair, they're just starting to get diagnostics. That's a little more fertile ground for it.

Gary Prestopino
Okay. And then as you sell these higher-ticket diagnostic products, I would assume that the software package that comes with it or is associated with it is also a higher ticket versus the low-end diagnostic.

Nick Pinchuk
I'll tell you what, Gary, I don't know how we can afford to sell it for the price we do, but we do. We view it as a high value, but yes, the software is more—Gary, when you buy the initial package, you get

software for a period of time, like six months in the package. And so, then you could take a subscription then that will start after six months, or you can wait until six months over and take a subscription or you can wait for six months and buy a title. But if you're talking about, let's take a look at a discrete purchase would be like buy a title, which would be six months of new software, ZEUS is higher than the next level down and the next level down. So, it's higher.

Gary Prestopino
And just lastly, do you foresee a situation where as more EVs proliferate through the car parc that you would develop a diagnostic tool that's just specific for EVs?

Nick Pinchuk
Sure. Yes, that's a long time off there because first, what would happen is a diagnostic unit that would handle internal combustion and EVs because they're going to be sharing the space for a long time. They're going to be chewing the same dirt on a highway for a long time. And so, the real thing is you're going to need a broad group of that, both in software and tools. That's what's going to happen. Eventually, EVs may take over or plug-in hybrids or whatever evolves in that situation, and that will move the car parc, but it's a long wait process. There's no singularity here. But once they start to get some presence in the market, you have to start including them in your diagnostic software so that you help the technicians deal with them as you helped them deal with the 650-horsepower BMW M5 Competition.

Gary Prestopino
Okay, thank you very much.

Operator
Thank you. And the next question comes from Elizabeth Suzuki with Bank of America.

Elizabeth Suzuki
Great. Thanks for taking my question. First, I wanted to ask about the financing arm in terms of your outlook, I mean, do you see risk to originations if your customers start shifting from some of these bigger ticket items to smaller ticket and as credit conditions more broadly kind of tighten, does that have an impact on your customers' ability or willingness to take on additional debt for those large purchases?

Nick Pinchuk
Actually, I don't know. That's a big question. There's a lot of hypotheticals in there. I don't think we see a risk right now. People seem to be robust in terms of the big ticket items. One of the messages of our point is, and I think I said when we were at the conference, there almost seems to be two economies, the financial economy and the physical economy. And the physical economy right now seems pretty pumped to me. And we see that with the take-up of big-ticket items. That expresses their confidence.

Really, and in past downturns, it hasn't been the rates that influenced, because our rates stay the same, it hasn't been the rates or the actual money of technicians that influences the choice. It's their mental view. To paraphrase, what was it, Jim Carville in the 1992 election, it's the psychology stupid. And so basically, in the great financial recession, we would have said the economy is glum, repair shops hum. And they kept going. And so yes, but they were getting up every day and getting bad news for breakfast on all the shows and reading the paper, so they were worried about taking long-term, long payback items, but they had the money.

So, I don't anticipate the money going away, but they could change their attitude, depending on how much bombardment occurs. I think really, that's how we see the world playing out. Repair is essential. It keeps going. But the mentality of the customers can shift between big ticket and small ticket. We say, if you want evidence, you can go back to just out of the COVID. Coming out of the COVID everybody had money and garages never stopped, but they were focusing on small ticket items, not big ticket. And when they started to get more comfortable and they had the psychological recovery and exhilaration, they started to go big ticket. That's what we see now.

Elizabeth Suzuki
Yes. Got it. No, it certainly makes sense that the sentiment is a little different here on Wall Street than it is on Main Street. I get that. All right. Thank you for that.

Nick Pinchuk
Okay.

Operator
And the next question comes from Scott Stember with ROTH MKM.

Scott Stember
Good morning, guys.

Nick Pinchuk
Good morning, Scott.

Scott Stember
Nick, you're talking about how collision is booming. I just wanted to flesh that out a little bit. How much of it is just from, I guess, a volume standpoint at the collision level, which I guess you could see with increased purchases of undercar or just collision equipment versus increased demand of diagnostics for ADAS for the collision side?

Nick Pinchuk
It's both of those. I think increasingly in the collision area is people are more and more interested, as we go forward, in the ADAS situation where you're talking about calibration and setting the neural network of sensors. And also, things like we talked about with Mitchell 1 with the special collision focused software because people are seeing that job more and more.

Two things are happening—three things are happening, I suppose. The first one is a lot of different materials in a car now. So you just can't bend steel, you have to cut different like carbon fiber and so on. So, there's a lot of different physical products that we sell that make that. That's a long-standing trend. And then as the neural networks have become more ubiquitous, they need a lot of software and hardware that's focused on that to recalibrate and do that. And then thirdly, collision shops are getting more jobs because the collision is taking more time. When you hammer your bumper, see how much it costs you or how long it takes you to get it replaced. Those are taking more time. So, there's more work for collision shops. So, they're seeing three factors: one, the materials; two, addressing the neural network; and three, just handling the volume and getting productivity.

Scott Stember
Got it. And just housekeeping in the Tools segment, sell-in to the van channel versus sell-through, were they pretty much in line?

Nick Pinchuk
They were in line, pretty well balanced this quarter. They go up and down, but we pretty much feel as though they're kind of matching up, and they have. They fluctuate from quarter-to-quarter. But this quarter is pretty evenly keeled. Maybe there's a little bit more selling off the van than selling into the

van, maybe a little bit, but not anything significant. So, [indiscernible] is pretty solid.

Scott Stember
All right. And just last question, just going back to Bret's question about, I guess, the composition of the Tools Group. It sounds as if tools were up—or hand tools were up in line with the overall segment. Can you maybe just talk about anything to point out new products out there, is it different selling tactics? Is it bundling of certain things? Just trying to see what's behind that.

Nick Pinchuk
A lot of different things. I mean, fundamentally, the big kahuna in the Tools Group this time is ZEUS+, a big ticket item, $12,000 a pop. So that's rolling through that business. And so that's the thing that gets your attention. I talked about this Neon Stinger, and I really meant it, it was flying off the shelf. We showed it at our kickoffs and people loved it because it does pop, and technicians want to make a statement. So, tool storage has got some nice products. So, you have a new model in diagnostics that's driving that. You have some really nice innovations in tool storage. And in hand tools, you have a number of different things, some of which are things like new pliers. We have a range of new pliers that everybody loves. I was talking to the franchisees, like I said, a couple of weeks ago. And these guys whipped out these pliers and started talking about how great they are and easy to sell because they're so functional, talon grip, they hold on really well, three positions, so you can handle any kind of job. People love them. So, you see that. Plus, we're bundling some things like impact sockets, putting together some impact sockets where they weren't bundled before. So, impact sockets are things you use for very hard and difficult like trucks, you really need a lot of power. So, the sockets have to be of a different dimension, less hard but stronger, thicker wall and those kinds of things. So, we see those coming out, maybe focused on the truck shops. So those are the kinds of things that are driving the situation. But it's always that way. There's always a story around product.

Scott Stember
Got it. That's all I had. Thanks, guys.

Nick Pinchuk
Okay.

Operator
Thank you. The next question comes from David MacGregor with Longbow Research.

David MacGregor
Good morning, everyone. And thanks for taking my questions.

Nick Pinchuk
Hi, David.

David MacGregor
Hi. Let me start off by just asking about the revenue mix overall. Are you seeing a shift in the percentage of revenues from technicians versus independent garage owners and dealerships?

Nick Pinchuk
Not really. I mean, let me say this. Only in this way, not in the Tools Group for sure. I don't see it in the Tools group. You could argue that all right, you tend to get garage owners who are also technicians, they are the probably number one buyer of a ZEUS+. So, in that way, you might see more of that. But every time you roll out the top of the line diagnostic unit, you're seeing that. So, adjusting for our expectations in that way, I don't see any change in the Tools Group.

If you go to RS&I, while software and diagnostic sales to independent repair shops were up, the two big pounders in RS&I was the OEM businesses following the new models and the equipment. But equipment is split pretty much equally between garages and independent. So generally, you'll see a slight shading toward OEM garages on the RS&I side. You won't much of a mix change on the Tools side except for the fact that ZEUS+ seems to always, the big kahuna, always sells, has a strong shop buy. That's pretty much it. Other than that, we don't see any changes.

David MacGregor
Just staying on the garage owners for a minute, Nick. Your contract receivable is up 9.2%. Is it your sense that garage owners are maybe starting to face a little more difficulty securing credit, returning to Snap-on Credit as an alternative?

Nick Pinchuk
Oh, you know—

Aldo Pagliari
Most of the contract receivables are with the franchisees and the van leases and inventory. So, that's—

David MacGregor
Yes. So, let's throw them in there as well and just say, is this group facing any more of a challenge on securing credit?

Nick Pinchuk
David, it's a logical extension of higher credit maybe. But I'm not hearing it. I don't know. You're a windshield guy, too. I mean, I don't hear it in my windshield surveys, nobody is saying that. And I would just offer, our impression was based on how our franchisees are and how they say the technicians are, is the balance sheets are pretty robust. So yes, that might happen, but I don't think we're seeing it happen now. I don't think that's occurring right now. I think this is a pretty robust sector. We didn't see it get manipulated during the great [indiscernible]. They were more cautious, but they were still pretty plush. So, I don't know, it could happen, but I don't hear it anyway.

David MacGregor
Okay. Thanks for that. And then just on storage and maybe any of the other categories where you've got large backlogs, can you just give us some sense of how far back those backlogs are extending and—

Nick Pinchuk
Too far. That's why we're expanding the factories. Look, I was at these franchisees, I don't know, you can take this with how many grains of salt you wish, but these guys are telling me they can sell every tool storage box they get. Backlogs go back. I don't want to really get into that. Sorry. But it's pretty substantial, probably longer than we would like. But sometimes we wonder, I tell you what, just a key, look, sometimes we wonder, is it better if the backlog is long. It makes people want them more. I don't know. You know what I mean? Because everybody wants a Snap-on box, it seems. So maybe it just makes it more attractive, like if you have to wait for a car for a long time. But we'd like to bring this backlog down. That's why we are enhancing our factories, in all categories really. Virtually all of our product lines are up to their eyeballs in trying to turn out the factories. But the one that chases the most is tool storage because everywhere we go, people say, I need more. I need more. I need more.

David MacGregor
Is there a reason then, Nick, why at the regional kickoffs you were offering discount packages on storage? It seems odd that you'd be discounting something that's so heavily backlogged.

Nick Pinchuk
Because we offer discount packages all the time. That's part of the reason to buy now. You could say, okay, you don't have to have the discount package, but in reality, David, our franchisees are conditioned to sell off a kind of deal. Our art is to make that deal attractive but leaner or richer depending on how we want to move the product.

David MacGregor
Got it. Last question for me is just, I guess, given the strength in big-ticket sales, Nick, combined with, whether you're on Wall Street or Main Street, there's a slowing macro out there. I guess, what gives you confidence you aren't pulling forward technician purchasing power that adversely impacts hand tools sales and future growth at some point down the road?

Nick Pinchuk
Actually, I don't worry so much about hand tools. I don't. I mean, hand tools have been strong come hell or high water. I think. I've only been here 15 years, so maybe it's not long enough. But the thing is it seems though hand tools, if you're talking about the longer payback items, like I was talking to Liz, sooner or later sometimes the psychology of it all breaks through and even the guys who are working every day and pulling in the money, they say, I want to keep my powder dry for a while, sometimes. But that's a psychological balance, which I think right now there's tremendous reservoirs of optimism in the people of work. It's different than the big companies.

If you look at the National Association of Manufacturers and you look at small manufacturers versus large manufacturers, there's all of a sudden, a big divide between them in terms of their optimism, their outlook. The small guys have almost never been higher. So, I think this is part of what it is. I think there's a lot of talk, as you say, there's a lot of talk, and justly so, I'm not saying it's wrong or anything like that, but when I walk into a garage or meet the franchisees, they're saying, who's this guy, this guy Powell, I don't even know who he is.

David MacGregor
Got it. Well, it was a good quarter. Congratulations, Nick.

Nick Pinchuk
Thank you.

Operator
And the last question comes from Luke Junk with Baird.

Luke Junk
Thanks for getting me in here. I know we're maybe a little limited for time, so I'll just ask one question today. And what I was really hoping to understand is, Nick or Aldo, if you could just unpack the gross margin gains, we saw both in the Tools Group and C&I this quarter a little bit more. Especially what I'm hoping to understand how much normalization we're seeing right now in the margin in terms of price and what's going on with material costs and whether you think that's sustainable or even there might be more opportunity as we go from here. Thanks.

Nick Pinchuk
Well, look, I like to do this, so I'll do this. Look, in C&I it's simple. Critical industries, boomshakalaka!

Critical industries are the highest margin business in that area. And the margins are robust, and they did pretty well. And like we talked about the military, and I don't know if you heard that call, but the military tends to be, it's a base by base type of product we're getting that's moving it. And that tends to be pretty good.

So, I think that's one factor you're seeing there that's pretty strong. The critical industries were up greater than 11%. And that's what drove the margins I think, principally, there were other things. I mean another thing is that generally the supply chain is getting better, but some of the stuff you go out and buy a whole bunch of stuff and when you spot buy, you buy a lot because you don't want to have to not have them. So, some of that stuff is working its way through. So, it's a very complex mix. We are seeing some abatement. That should continue. But mostly, the big factor there, the 190 basis points had to do with critical industries doing well. The customized kits are great for us, and they sold, we broke some of the bottlenecks, and we did well in that situation. So that's C&I.

If you look at Tools Group, there's no product mix story that I think guys were wondering; if there were, it wasn't that. But it is the fact that there is an attenuation in the commodities, so the commodities, which Tools Group is very vertically integrated, so they buy commodities in a lot of situations. So, they get a nice pop from that. And so, they're getting some improvement in that situation. Of course, they're taking their foot off the pricing in concert with that. And then the Tools Group has been hammering away at RCI. So, you see a lot of that happening in this situation. So, we think the whole thing is sustainable.

Now, I'm not telling you that the OI margin for the Tools Group is going to be the same next quarter, but we believe they could go higher. Not necessarily next quarter, but we think there's room to move up from RCI and a rationalization of the situation.

Luke Junk
Great. Thanks for that, Nick.

Nick Pinchuk
Sure.

CONCLUSION

Operator
Thank you. This concludes the question-and-answer session. I would like to return the floor to Sara Verbsky for any closing comments.

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