

Snap-on Inc. (SNA)

\$150.09 (As of 08/10/20)

Price Target (6-12 Months): **\$159.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: B

Summary

Shares of Snap-On have underperformed the industry year to date. The stock came under pressure following its second-quarter 2020 results, wherein the bottom line lagged the Zacks Consensus Estimate while the top line surpassed the same. Moreover, both metrics fell year over year mainly due to currency woes and lower sales in almost all segments. Results were also hurt by tough economic environment and unprecedented COVID-19 impacts. However, it is witnessing improving trends which is likely to continue in the near term. Also, management's solid cash position is likely to help Snap-on to stay afloat amid this ongoing pandemic. Apart from these, its RCI program, designed to enhance organizational effectiveness and minimize costs, bodes well. In fact, gains from the plan have provided some cushion to the second-quarter results.

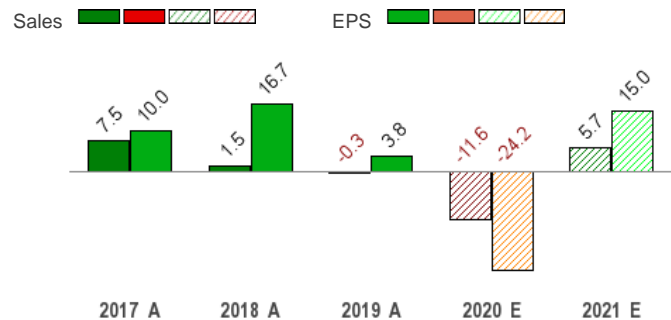
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$172.61 - \$90.72
20 Day Average Volume (sh)	418,265
Market Cap	\$8.2 B
YTD Price Change	-11.4%
Beta	1.36
Dividend / Div Yld	\$4.32 / 2.9%
Industry	Tools - Handheld
Zacks Industry Rank	Top 49% (124 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.6%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	1.7%
Expected Report Date	10/15/2020
Earnings ESP	0.0%
P/E TTM	14.2
P/E F1	16.2
PEG F1	1.9
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	862 E	810 E	890 E	940 E	3,486 E
2020	852 A	724 A	823 E	898 E	3,297 E
2019	922 A	951 A	902 A	955 A	3,730 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.57 E	\$2.44 E	\$2.76 E	\$2.95 E	\$10.68 E
2020	\$2.60 A	\$1.91 A	\$2.19 E	\$2.52 E	\$9.29 E
2019	\$3.01 A	\$3.22 A	\$2.96 A	\$3.08 A	\$12.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

Headquartered in Kenosha, WI, Snap-on Incorporated is a global provider of professional tools, equipment, and related solutions for technicians, vehicle service centers, original equipment manufacturers (OEMs) and other industrial users. Products include a broad range of professional hand and power tools; vehicle diagnostics and service equipment; business management systems; and other tool and equipment solutions.

The company offers its products and brands via multiple sales distribution channels across over 130 countries. Snap-on's major geographic markets comprises the United States, Mexico, Argentina, India, the United Kingdom, China, Brazil, Canada, Germany, Australia and Japan.

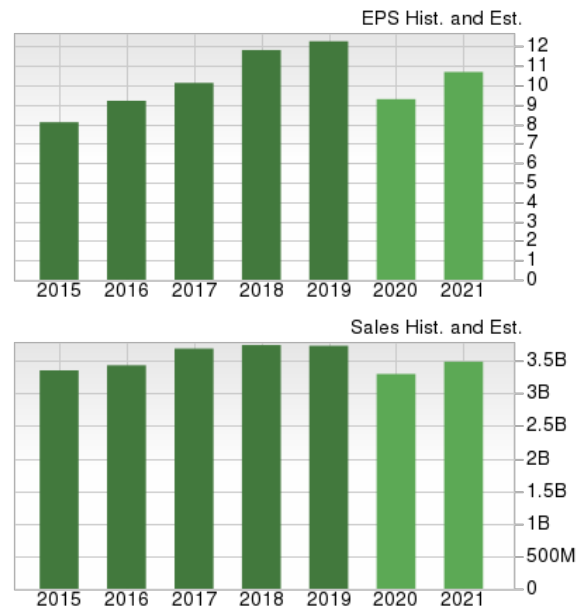
Notably, Snap-on operates under the following segments:

Snap-on Tools Group (40.8% of 2019 Total Revenues): The segment consists of the business operations serving the worldwide franchise van channel.

Commercial & Industrial Group (32%): This segment comprises business operations providing tools and equipment products and equipment repair services to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchise distribution channels.

Repair Systems & Information Group (27.2%): The segment consists of business operations providing diagnostics equipment, vehicle service information, business management systems, electronic parts catalogs and other solutions for vehicle service to customers in the worldwide vehicle service and repair marketplace.

Financial Services: This segment offers financing options, such as loans to franchisees' customers and Snap-on's industrial and other customers for the purchase or lease of tools, equipment and diagnostic products on an extended term payment plan. In addition, the segment provides business loans and vehicle leases to franchisees.



Reasons To Buy:

- ▲ **Strategies to Boost Growth:** Snap-On's robust business model helps in enhancing value-creation processes, which in turn improves safety, quality of service, customer satisfaction and innovation. The company's growth strategy focuses on three critical areas, namely enhancing the franchise network, improving relationship with repair shop owners and managers, and expanding critical industries in emerging markets. Moreover, Snap-On is dedicated toward various strategic principles and processes aimed at creating value in areas like Rapid Continuous Improvement (RCI). The RCI process is designed to enhance organizational effectiveness and minimize costs besides helping Snap-On to boost sales and margins, and generate savings. Savings from the RCI initiative reflect gains from the continuous productivity and process improvement plans. Management intends to boost customer services along with enhancing manufacturing and supply chain capabilities through the RCI initiatives and further investments. This apart, Snap-On's ability to innovate bodes well. The company has been investing in new products and increasing brand awareness across the world as well.
- ▲ **Financial Flexibility:** Snap-On boasts a healthy balance sheet that offers it the financial flexibility to enhance shareholder returns and drive future development through value-added investments aimed at accelerating growth. The company ended the second quarter with cash and cash equivalents of \$686.2 million. Although the company ended second-quarter 2020 with long-term debt of \$1436.7 million, up 51.7% from \$946.9 million at the end of 2019, its net debt to capital ratio of 0.18 at the end of the second quarter reflects an improvement from 0.22 in the year-end 2019 level.
- In 2020, the company expects to deliver coherent growth and leverage capabilities demonstrated in the automotive repair arena. It also expects to develop and expand the professional customer base in the automotive repair business, as well as in adjacent industries, additional geographies and other areas like critical industries. Backed by these initiatives, the company now expects capital expenditure of \$75-\$85 million for 2020, up from the earlier guided view of \$70-\$80 million. Also, it has more than \$800 million in credit facilities, which is likely to help Snap-on stay afloat amid the pandemic.
- ▲ **Shareholder Friendly Moves:** Snap-On's commitment toward enhancing shareholder value is evident from its constant dividend payment and share repurchase programs. In the reported quarter, it did not repurchase any shares but paid out cash dividends of \$58.7 million. At the end of the quarter, the company had an additional \$334.4 million remaining under its current share repurchase authorization. On Aug 6, 2020, the company declared a quarterly cash dividend of \$1.08 per share, payable Sep 10.

Snap-on's business model helps in enhancing the value-creation processes that focuses on safety, quality of service, customer satisfaction and innovation.

Reasons To Sell:

▼ **Soft Q2 Results:** Despite reporting a sales beat, Snap-On's bottom line lagged the Zacks Consensus Estimate in second-quarter 2020. Further, both bottom and top lines declined year over year. Results were affected by the tough economic environment and unprecedented COVID-19 impacts. From April to June, the company witnessed a declining sales trend. The metric declined 23.9% to \$724.3 million in the reported quarter due to 22.9% fall in organic sales and adverse impact from foreign currency translations. Evidently, Snap-On's consolidated operating margin contracted significantly to 18.9% in the reported quarter. Consequently, shares of Snap-On have lost 11.4% year to date compared with the industry's 9.9% decline.

Snap-On's second-quarter 2020 results were affected by tough economic environment and unprecedented COVID-19 impacts. Moreover, adverse currency remains a drag.

▼ **Currency Headwinds:** Snap-On's cross-border presence exposes it to the adversities of fluctuations in currency rates. The company's top line in second-quarter 2020 included \$14.4 million of negative impacts of foreign currency. Unfavorable currency also hurt operating income by \$3.8 million. Moreover, adverse currency impacts of \$6.9 million, \$2.3million and \$4.8 million were witnessed in the company's Commercial & Industrial Group, Tools Group, and Repair Systems & Information Group, respectively. Unfavorable currency might continue to be a deterrent for the company's performance in the coming quarters.

▼ **Drop in Consumer Sentiment May Impact Sales:** Any drop in consumer confidence — a key determinant of the economy's health — may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors, including unemployment levels and high household debt levels, which may negatively impact their sentiments. For now, the novel coronavirus has wreaked havoc. Again, job losses and lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focusing on necessities for the time being.

Last Earnings Report

Snap-on's Q2 Earnings Miss Estimates, Sales Beat

Snap-on posted second-quarter 2020 results, wherein the bottom line lagged the Zacks Consensus Estimate while sales surpassed the same. Further, the top and bottom lines decreased year over year. Results were affected by the tough economic environment and unprecedented COVID-19 impacts. From April to May and June, the company witnessed a declining sales trend.

Quarter Ending **06/2020**

Report Date	Jul 31, 2020
Sales Surprise	2.37%
EPS Surprise	-1.55%
Quarterly EPS	1.91
Annual EPS (TTM)	10.55

Q2 in Details

Snap-on's adjusted earnings of \$1.91 per share in second-quarter 2020 missed the Zacks Consensus Estimate of \$1.94. Moreover, the figure was down 40.7% from the year-ago quarter's adjusted earnings of \$3.22 per share.

Net sales declined 23.9% to \$724.3 million but beat the Zacks Consensus Estimate of \$708 million. The downside can be attributed to soft organic sales to the tune of 22.9% and a \$14.4-million adverse impact from foreign currency translations. However, the growth was offset by \$2.3 million in contributions from acquisitions.

Further, the company's adjusted operating earnings before financial services totaled \$95.1 million, down 49.9% year over year.

Adjusted operating earnings of \$152.7 million were down 39% from the prior-year quarter. Additionally, adjusted operating earnings margin contracted significantly to 18.9% in the quarter under review.

Segmental Details

Sales at **Commercial & Industrial Group** fell 21.8% from the prior-year quarter to \$261.9 million due to an organic sales decline of 20.2% and currency headwinds of \$6.9 million. This was somewhat offset by \$0.7-million gains from acquisitions. Sales decline in critical industries and the power tools operation to the tune of mid-teens hurt the segment.

The **Tools Group** segment's sales fell 20.3% year over year to \$323.3 million due to a 19.7% decline in organic sales and a \$3.3-million impact of currency headwinds. Organic sales were hurt as sales in the United States fell by mid-teens and in international franchise operations by 40%.

Sales at **Repair Systems & Information Group** declined 29.8% year over year to \$245 million. Moreover, organic sales at the segment dropped 29.5% from the year-ago quarter due to lower sales to OEM dealerships and softness in undercar equipment to the tune of more than 30% along with sales decline of mid-teen digit in diagnostics and repair information products to independent repair shop owners and managers. Further, unfavorable currency rates hurt the top line to the tune of \$4.8 million. However, sales of \$2.3 million from buyouts aided growth.

Nevertheless, the **Financial Services** business reported revenues of \$57.6 million, down from \$84.6 million in the year-ago quarter.

Financials

During the quarter, Snap-on's cash and cash equivalents totaled \$686.2 million compared with \$184.5 million as of Dec 28, 2019.

Looking Ahead

Given the tough retail environment stemming from the ongoing COVID-19 outbreak, Snap-on has witnessed improving trends in the second quarter, which is likely to continue in the near term. Further, the company is increasing focus on its Rapid Continuous Improvement (RCI) plan and other cost-cutting efforts in a bid to stay afloat amid this crisis. Owing to this, it incurred expenses of \$4 million in the second quarter. Apart from these, capital expenditure is estimated to be \$75-\$85 million for 2020. Out of this, \$29 million has been incurred in the first half of 2020.

Recent News

Snap-On Approves Quarterly Dividend – Aug 6, 2020

Snap-On's board approved a quarterly cash dividend of \$1.08 per share, which will be paid out on Sep 10, 2020, to stockholders of record as of Aug 20.

Valuation

Snap-on shares are down 9.8% in the year-to-date period but up 1.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 9.9% and 4.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.6% and 6%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 14.8X forward 12-month earnings, which compares to 17.71X for the Zacks sub-industry, 33.51X for the Zacks sector and 22.81X for the S&P 500 index.

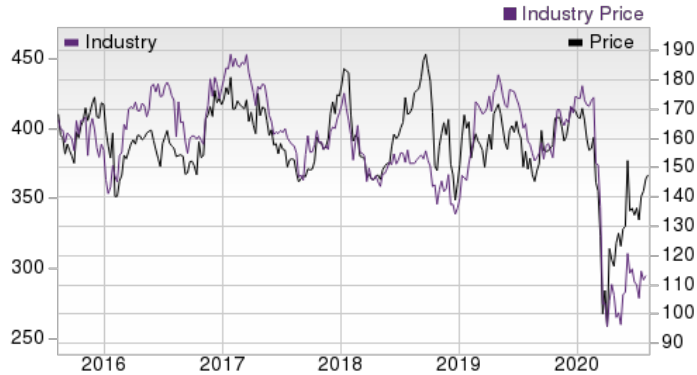
Over the past five years, the stock has traded as high as 19.62X and as low as 7.66X, with a 5-year median of 14.31X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$159 price target reflects 15.68X of forward 12-month earnings.

The table below shows summary valuation data for SNA

Valuation Multiples - SNA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.8	17.71	33.51	22.81
	5-Year High	19.62	19.08	33.6	22.81
	5-Year Low	7.66	12.03	16.13	15.25
	5-Year Median	14.31	16.21	19.86	17.58
P/S F12M	Current	2.4	2.19	2.39	3.67
	5-Year High	2.93	2.88	2.95	3.67
	5-Year Low	1.36	1.74	1.68	2.53
	5-Year Median	2.41	2.39	2.5	3.05
EV/EBITDA TTM	Current	10.04	13.58	11.11	12.66
	5-Year High	13.33	15.94	17.86	12.84
	5-Year Low	5.87	9.66	8.32	8.24
	5-Year Median	9.83	13.92	12.3	10.9

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Flowserve Corporation (FLS)	Outperform	3
MarineMax, Inc. (HZO)	Outperform	1
Eaton Corporation, PLC (ETN)	Neutral	3
ITT Inc. (ITT)	Neutral	3
Makita Corp. (MKTAY)	Neutral	3
Terex Corporation (TEX)	Neutral	3
Tractor Supply Company (TSCO)	Neutral	3
Toro Company The (TTC)	Neutral	3

Industry Comparison Industry: Tools - Handheld				Industry Peers		
	SNA	X Industry	S&P 500	FLS	MKTAY	TTC
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	C	B
Market Cap	8.17 B	3.96 B	23.56 B	4.03 B	11.97 B	7.89 B
# of Analysts	5	4	14	8	2	4
Dividend Yield	2.88%	1.34%	1.71%	2.59%	1.32%	1.36%
Value Score	A	-	-	B	D	C
Cash/Price	0.09	0.08	0.07	0.14	0.13	0.03
EV/EBITDA	8.42	11.21	13.39	9.91	13.99	19.33
PEG Ratio	1.94	2.33	2.92	3.75	NA	3.02
Price/Book (P/B)	2.33	1.40	3.18	2.38	2.26	8.01
Price/Cash Flow (P/CF)	10.59	14.82	12.69	10.27	21.00	19.04
P/E (F1)	16.49	30.19	22.16	18.92	37.68	30.19
Price/Sales (P/S)	2.38	1.32	2.55	1.04	2.57	2.41
Earnings Yield	6.19%	3.32%	4.33%	5.27%	2.65%	3.32%
Debt/Equity	0.42	0.26	0.77	0.89	0.00	0.80
Cash Flow (\$/share)	14.17	2.36	6.94	3.01	2.10	3.86
Growth Score	C	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	9.68%	9.68%	10.41%	-9.02%	NA	12.91%
Proj. EPS Growth (F1/F0)	-24.26%	-24.28%	-6.51%	-25.68%	-37.77%	-18.75%
Curr. Cash Flow Growth	0.83%	9.04%	5.26%	15.12%	-5.69%	17.25%
Hist. Cash Flow Growth (3-5 yrs)	9.16%	6.79%	8.55%	-8.93%	4.41%	12.66%
Current Ratio	3.34	3.04	1.34	2.23	5.80	1.61
Debt/Capital	29.53%	20.19%	44.59%	47.12%	0.00%	44.54%
Net Margin	16.71%	7.65%	10.13%	3.77%	8.05%	8.18%
Return on Equity	17.12%	7.99%	14.59%	14.96%	7.04%	34.60%
Sales/Assets	0.60	1.07	0.51	0.81	0.74	1.32
Proj. Sales Growth (F1/F0)	-11.60%	0.00%	-1.54%	-7.71%	-5.94%	1.40%
Momentum Score	B	-	-	C	B	D
Daily Price Chg	1.89%	0.65%	0.91%	3.24%	0.42%	1.13%
1 Week Price Chg	0.98%	1.49%	2.30%	7.50%	11.15%	1.99%
4 Week Price Chg	12.53%	12.55%	8.54%	9.22%	17.48%	13.56%
12 Week Price Chg	11.68%	11.34%	13.68%	21.82%	36.21%	12.51%
52 Week Price Chg	0.15%	-18.41%	3.71%	-27.29%	52.46%	2.27%
20 Day Average Volume	418,265	14,053	2,015,804	1,047,480	12,758	557,863
(F1) EPS Est 1 week change	0.85%	0.00%	0.00%	-0.28%	0.00%	0.00%
(F1) EPS Est 4 week change	1.69%	1.69%	1.67%	16.11%	12.50%	0.00%
(F1) EPS Est 12 week change	2.25%	-27.33%	2.27%	17.65%	-27.33%	-27.62%
(Q1) EPS Est Mthly Chg	3.86%	1.93%	0.67%	2.65%	NA	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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