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Jan 13, 2020

Snap-on Inc. (SNA)

$166.55 (As of 01/10/20)

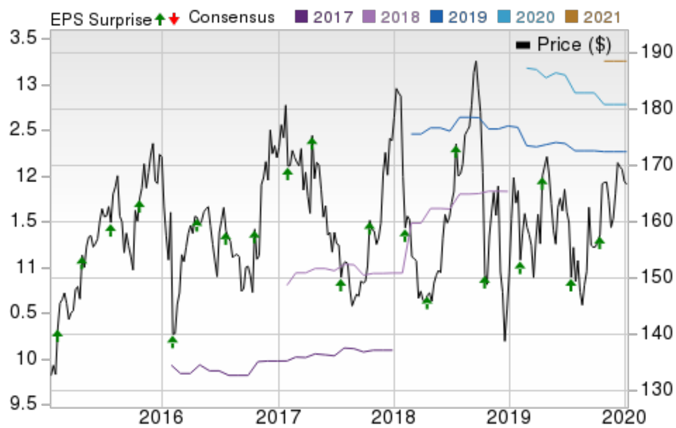
Price Target (6-12 Months): **$175.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/05/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: D | Momentum: D	

Summary

Shares of Snap-on underperformed the industry in the past six months, driven by a dismal sales trend. Headwinds across its Tools Group division and adverse foreign currency rates have been weighing on the company's top-line performance. Moreover, geographic challenges, particularly in Europe, and higher cost of investments for revival of the Tools Group segment remain deterrents. However, the company's earnings are benefiting from robust business model and focus on value-creation processes. Higher sales in the U.S. operations and overall organic sales growth are aiding performance. Notably, its Commercial & Industrial Group segment returned to growth in third-quarter 2019, on higher organic sales and gains from buyouts. Additionally, its RCI program, designed to enhance organizational effectiveness and minimize costs, bodes well.

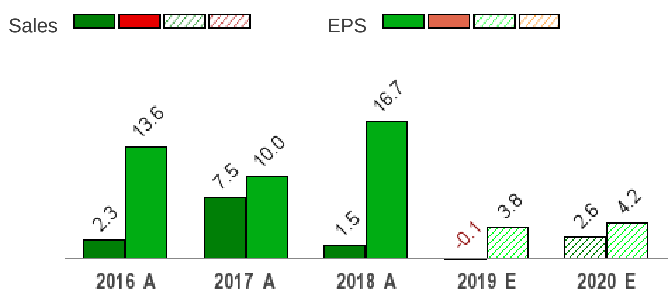
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$174.00 - $143.12**
20 Day Average Volume (sh)	**304,785**
Market Cap	**$9.1 B**
YTD Price Change	**-1.7%**
Beta	**1.23**
Dividend / Div Yld	**$4.32 / 2.6%**
Industry	**Tools - Handheld**
Zacks Industry Rank	**Top 8% (21 out of 254)**
Last EPS Surprise	**0.7%**
Last Sales Surprise	**-1.3%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/06/2020**
Earnings ESP	**0.0%**
P/E TTM	**13.6**
P/E F1	**13.0**
PEG F1	**1.5**
P/S TTM	**2.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	944 E	972 E	929 E	990 E	3,836 E
2019	922 A	951 A	902 A	963 E	3,738 E
2018	936 A	955 A	898 A	953 A	3,741 A

EPS Estimates

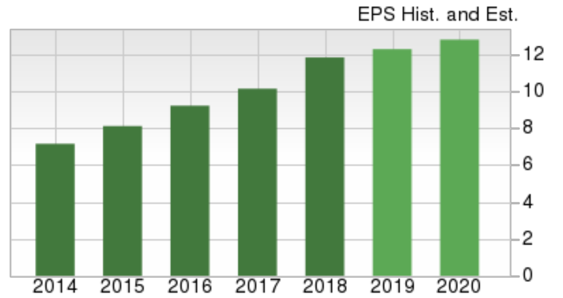
	Q1	Q2	Q3	Q4	Annual*
2020	$3.16 E	$3.32 E	$3.05 E	$3.22 E	$12.78 E
2019	$3.01 A	$3.22 A	$2.96 A	$3.08 E	$12.26 E
2018	$2.79 A	$3.11 A	$2.88 A	$3.03 A	$11.81 A

*Quarterly figures may not add up to annual.

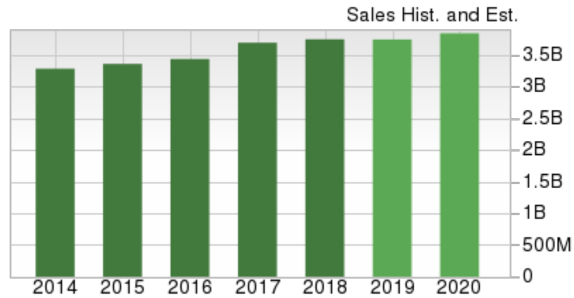
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

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 (39.6% of 2018 Total Revenues): The segment consists of the business operations serving the worldwide franchise van channel.

Commercial & Industrial Group (33%): 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 (32.8%): 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:

▲ **Robust Earnings Trend & Outlook:** Snap-on has a robust earnings surprise trend. The company registered an earnings beat in third-quarter 2019, marking its third straight positive surprise. Third-quarter earnings also improved year over year on robust business model and the focus on value-creation processes. Improved sales in the U.S. operations as well as overall organic sales growth boosted the company's quarterly performance. Management expects these positives to continue in 2019. In fact, management remains optimistic about the macro-economic environment of vehicle repair and critical industries that it serves. Through the rest of 2019, the company expects to continue delivering coherent growth and leverage capabilities in the automotive repair business. It also expects to develop and expand its professional customer base in the automotive repair business and adjacent industries, additional geographies, and other areas like critical industries.

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

▲ **Commercial & Industrial Group Returns to Growth:** Snap-on's Commercial & Industrial Group segment returned to growth in third-quarter 2019, after being sluggish in the preceding two quarters. In the recent quarter, sales at the segment improved 1.5% on organic sales growth of 2.9% and contribution of $1.1 million from acquisition-related sales. Robust sales at the division's specialty tools and European hand tools businesses aided organic sales. Notably, higher sales to customers in critical industries also contributed to growth.

▲ **Repair Group Division Retains Growth:** Snap-on's Repair Systems & Information Group segment delivered the second straight quarter of sales growth in third-quarter 2019. The segment recorded sales growth of 2.6% in the third quarter, up from 1.7% recorded in the previous quarter. Organic sales at the segment improved 3.2%, owing to increased sales to original equipment manufacturer ("OEM") dealerships as well as rise in sales of diagnostics and repair information products. Also, sales of $1.8 million from buyouts aided growth. Moreover, operating expense margin for the segment declined 110 basis points (bps), mainly driven by higher sales to OEM dealerships and gains from RCI initiatives.

▲ **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 major strength includes its ability to innovate, which has been partly aiding sales in the last few quarters. 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. Further, the company's commitment toward enhancing shareholder value is evident from its constant dividend payment and share repurchase programs. At the end of third-quarter 2019, Snap-on had cash and cash equivalents of $167.5 million compared with $140.9 million at the end of 2018. In the third quarter, it paid out cash dividends of $52.3 million and repurchased 400,000 shares for $59.7 million. At the end of September, the company had an additional $390.6 million outstanding balance to buy back under present authorization.

Reasons To Sell:

> Snap-on has a dismal sales surprise trend, missing estimates for the sixth straight time in third-quarter 2019. Softness in the Tools Group division and adverse currency are hurting the top line.

- **Dismal Sales Trend & Other Concerns:** Although shares of Snap-on have gained 6.5% in the past six months, it underperformed the industry's 13.2% growth. The company has a dismal sales surprise trend, as the top line missed the Zacks Consensus Estimate for the sixth straight time in third-quarter 2019. Although the metric inched up 0.4% in the reported quarter, it was hurt by adverse impacts of foreign currency translations and sales decline at the Tools Group segment, partly offset by organic sales growth and contributions from acquisitions. Moreover, geographic challenges, particularly in Europe, and higher investment costs for the revival of the Tools Group segment have been deterrents. Evidently, Snap-on's consolidated operating margin contracted 50 basis points (bps) to 23.2% in the reported quarter. Soft sales coupled with higher operating costs might show on the company's earnings in the upcoming quarters.

- **Soft Tools Group Division:** Headwinds in Snap-on's Tools Group division has been weighing on its top line for a while now. In third-quarter 2019, the segment's sales dipped 1.2% year over year, driven by a 0.3% decline in organic sales and $3.3-million impact of currency headwinds. Organic sales were hurt by lower sales in the segment's international business, partly negated by sales growth in the United States. Moreover, the segment's gross margin fell 20 bps and operating margin plunged 140 bps in the reported quarter. Higher cost of investments for the segment's in-field support and training, which is likely to enable powerful and new products, are leading to increased costs. These costs remain a drag on the company's operating profits, which is likely to continue in quarters ahead.

- **Currency Headwinds:** Snap-on's cross-border presence exposes it to adversities of fluctuations in currency rates. The company's top line in third-quarter 2019 included about $11.7 million of negative impacts of foreign currency. Unfavorable currency also hurt operating income by nearly $4.4 million. Moreover, adverse currency impacts of $5.5 million, $3.3 million and $3.6 million, respectively, were witnessed at the company's Commercial & Industrial Group, Tools Group, and Repair Systems & Information Group segments in the reported quarter. Unfavorable currency might continue to be a deterrent in the coming quarters.

- **Raw Material Price Volatility:** The company remains exposed to major volatility in raw-material prices, with steel being one of the key raw materials and the steel market being cyclical in nature. Moreover, unexpected rise in the price of raw materials might force Snap-on to increase product prices, which in turn, is likely to exert pressure on margins. Also, the company is heavily dependent on energy sources to transport, produce and distribute products, and some of its products have petroleum-based components. Fluctuations in the raw material and energy prices might adversely hurt the company's financial performance adding to its woes. In addition, unsuccessful distribution of products and services can materially impact the company's financials.

- **Stiff Competition:** Snap-on faces stiff competition across all its market segments. To retain its position in the key markets and expand in emerging markets, the company has to invest in innovations and acquire new business. Though such investments are likely to enhance the company's profitability in the long run, it may hamper margins in the near term. Additionally, inability to maintain cordial relationship with franchisees can negatively impact the company's delivery of products, collection of receivables and rapport with end-users, thereby hampering Snap-on's financial performance. Also, given that the company manufactures a significant portion of the products it sells, prolonged disruption of operations in its manufacturing facilities due to technical or labor problems can weigh on its financials.

Last Earnings Report

Snap-on's Q3 Earnings Surpass Estimates, Sales Miss

Quarter Ending	09/2019
Report Date	Oct 17, 2019
Sales Surprise	-1.26%
EPS Surprise	0.68%
Quarterly EPS	2.96
Annual EPS (TTM)	12.22

Snap-on reported earnings of $2.96 per share in third-quarter 2019, surpassing the Zacks Consensus Estimate of $2.94. The figure also improved 2.8% from the year-ago quarter's adjusted earnings of $2.88.

Earnings benefited from Snap-on's robust business model and focus on value-creation processes. Improved sales in the U.S. operations as well as overall organic sales growth boosted the company's quarterly performance.

Q3 in Detail

Net sales inched up 0.4% to $901.8 million but lagged the Zacks Consensus Estimate of $913 million. The year-over-year increase can be attributed to 1.4% organic sales growth and $2.9-million contribution from acquisitions. However, growth was offset by $11.7 million of adverse impacts of foreign currency translations.

Sales at Commercial & Industrial Group improved 1.5% to $335.3 million, backed by organic sales growth of 2.9% and contribution of $1.1 million from acquisition-related sales. Robust sales at the division's specialty tools and European hand tools businesses aided organic sales. Notably, higher sales to customers in critical industries also contributed to the same. The upside was somewhat offset by $5.5 million of adverse impacts of foreign currency.

The Tools Group segment's sales dipped 1.2% year over year to $385.2 million, driven by a 0.3% decline in organic sales and $3.3-million impact of currency headwinds. Organic sales were hurt by lower sales in the segment's international business, partly negated by sales growth in the United States.

Sales at Repair Systems & Information Group rose 2.6% year over year to $322.7 million. Moreover, organic sales at the segment improved 3.2%, owing to increased sales to OEM dealerships as well as rise in sales of diagnostics and repair information products. Also, sales of $1.8 million from buyouts aided growth. Nevertheless, unfavorable currency rates hurt top-line growth to the tune of $3.6 million.

Meanwhile, the Financial Services business reported revenues of $84.1 million, up from $82 million realized in the year-ago quarter.

Further, the company's operating earnings before financial services totaled $167.7 million, down 3.1% from $173.1 million in the prior-year quarter.

Consolidated operating earnings of $228.7 million were down 1.6% from the prior-year quarter. Additionally, operating earnings margin contracted 50 basis points to 23.2%.

Financials

At the end of third-quarter 2019, Snap-on's cash and cash equivalents totaled $167.5 million compared with $140.9 million as of Dec 29, 2018. The company's long-term debt was $947.5 million compared with $946 million recorded at the end of 2018.

Looking Ahead

Despite ongoing difficulties related to challenging geographies and adverse currency, management remains optimistic about the overall macro-economic condition of vehicle repair and critical industries that it serves.

Through the rest of 2019, the company expects to continue delivering coherent growth and leverage capabilities demonstrated in the automotive repair arena. It also expects to develop and expand its 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 expects capital expenditure of $95-$105 million for 2019, with about $77.8 million incurred in the first nine months of 2019.

Further, its effective income tax rate for 2019 is projected to be on par with the tax rate of 24% in 2018.

Recent News

Snap-on Raises Dividend by 13.7% – Nov 8, 2019

Snap-on hiked its quarterly cash dividend by 13.7% to $1.08 per share. The new dividend is paid on Dec 10, 2019, to stockholders of record as of Nov 20.

Valuation

Snap-on shares are up 5.3% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 19.4% and 22.6%, respectively, in the past year.

The S&P 500 index is up 28.3% in the past year.

The stock is currently trading at 13.02X forward 12-month earnings, which compares to 15.81X for the Zacks sub-industry, 20.25X for the Zacks sector and 18.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.62X and as low as 10.89X, with a 5-year median of 15.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $175 price target reflects 13.68X 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	13.02	15.81	20.25	18.87
	5-Year High	19.62	19.08	20.35	19.34
	5-Year Low	10.89	13	16.16	15.17
	5-Year Median	15.44	16.55	20.11	17.44
P/S F12M	Current	2.38	2.31	2.35	3.5
	5-Year High	2.93	2.87	3.19	3.5
	5-Year Low	1.96	2.03	1.81	2.54
	5-Year Median	2.46	2.39	2.54	3
EV/EBITDA TTM	Current	9.66	15.38	12.71	12.12
	5-Year High	13.27	15.94	17.76	12.86
	5-Year Low	8.31	11.06	11.07	8.48
	5-Year Median	10.53	14.19	12.43	10.67

As of 01/10/2020

Industry Analysis **Zacks Industry Rank:** Top 8% (21 out of 254)

Top Peers

Briggs & Stratton Corporation **(BGG)**	Neutral
Eaton Corporation, PLC **(ETN)**	Neutral
Flowserve Corporation **(FLS)**	Neutral
ITT Inc. **(ITT)**	Neutral
Terex Corporation **(TEX)**	Neutral
Tractor Supply Company **(TSCO)**	Neutral
Toro Company (The) **(TTC)**	Neutral
Titan International, Inc. **(TWI)**	Neutral

Industry Comparison Industry: Tools - Handheld

Industry Peers

	SNA Neutral	X Industry	S&P 500	ETN Neutral	FLS Neutral	TTC Neutral
VGM Score	C	-	-	B	B	C
Market Cap	9.13 B	4.41 B	24.03 B	39.26 B	6.52 B	8.75 B
# of Analysts	7	4	13	10	7	4
Dividend Yield	2.59%	0.79%	1.78%	2.99%	1.53%	1.22%
Value Score	B	-	-	B	C	D
Cash/Price	0.02	0.04	0.04	0.02	0.08	0.02
EV/EBITDA	9.44	9.44	14.04	13.00	21.53	21.02
PEG Ratio	1.53	1.99	2.02	1.87	1.80	2.44
Price/Book (P/B)	2.75	0.88	3.32	2.47	3.68	10.16
Price/Cash Flow (P/CF)	12.03	14.77	13.52	12.64	19.04	21.20
P/E (F1)	13.03	18.71	18.82	16.39	20.52	24.38
Price/Sales (P/S)	2.45	1.33	2.63	1.82	1.69	2.79
Earnings Yield	7.67%	5.89%	5.31%	6.11%	4.88%	4.10%
Debt/Equity	0.30	0.29	0.72	0.52	0.85	0.72
Cash Flow ($/share)	13.84	2.04	6.94	7.52	2.62	3.86
Growth Score	D	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	12.52%	12.52%	10.56%	5.47%	-17.72%	14.36%
Proj. EPS Growth (F1/F0)	4.21%	8.81%	7.49%	1.40%	10.83%	12.00%
Curr. Cash Flow Growth	12.31%	19.15%	14.83%	8.89%	15.24%	17.25%
Hist. Cash Flow Growth (3-5 yrs)	12.48%	2.20%	9.00%	1.88%	-10.76%	12.66%
Current Ratio	2.37	2.37	1.23	1.72	2.29	1.48
Debt/Capital	22.80%	22.21%	42.99%	34.42%	45.83%	41.94%
Net Margin	18.72%	8.73%	11.08%	11.06%	6.39%	8.73%
Return on Equity	21.16%	12.58%	17.16%	15.15%	16.21%	40.31%
Sales/Assets	0.68	1.23	0.55	0.68	0.81	1.44
Proj. Sales Growth (F1/F0)	2.61%	2.61%	4.20%	-4.40%	3.28%	14.59%
Momentum Score	D	-	-	C	D	D
Daily Price Chg	-0.07%	-0.32%	-0.33%	-0.22%	-1.66%	-0.46%
1 Week Price Chg	-1.25%	0.49%	-0.30%	0.18%	0.34%	0.65%
4 Week Price Chg	-2.27%	1.75%	1.71%	0.56%	0.46%	0.66%
12 Week Price Chg	7.00%	8.53%	6.05%	16.67%	7.67%	11.20%
52 Week Price Chg	4.02%	1.63%	22.39%	35.32%	19.65%	40.53%
20 Day Average Volume	304,785	26,317	1,580,816	1,961,179	532,379	559,389
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.26%	0.00%	-2.21%	-1.39%	0.52%
(F1) EPS Est 12 week change	-0.99%	-0.23%	-0.50%	-4.94%	-1.98%	0.52%
(Q1) EPS Est Mthly Chg	0.00%	-3.72%	0.00%	-1.50%	0.00%	-7.45%

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	B
Growth Score	D
Momentum Score	D
VGM Score	C

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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