

Snap-on Inc. (SNA)

\$125.44 (As of 03/17/20)

Price Target (6-12 Months): **\$123.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

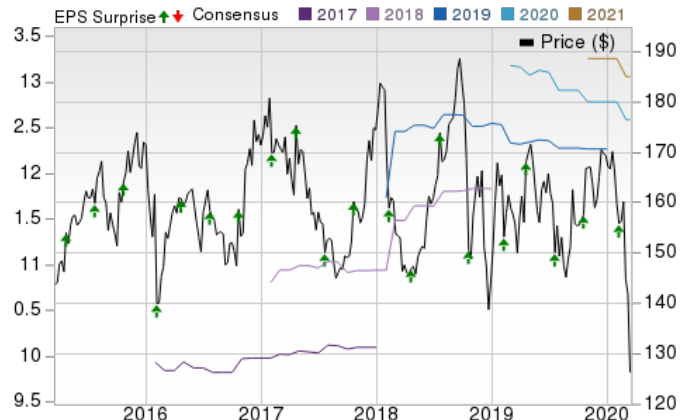
Growth: C

Momentum: C

Summary

Shares of Snap-on have declined and underperformed the industry in the past three months, owing to its dismal sales trend. The top line missed the Zacks Consensus Estimate for the seventh straight time in fourth-quarter 2019 mainly driven by adverse currency. Also, the company remains exposed to volatility in raw material prices and intense competition. However, the company boasts a robust earnings trend. The company's earnings benefit from robust business model and focus on value-creation processes. Higher sales in the U.S. operations and organic sales growth also boosted earnings in the fourth quarter. Additionally, its RCI program, designed to enhance organizational effectiveness and minimize costs, bode well. Further, management remains optimistic about its automotive repair segment and critical industries.

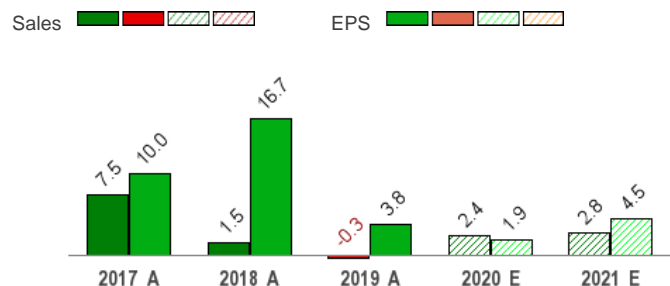
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$174.00 - \$109.69
20 Day Average Volume (sh)	694,687
Market Cap	\$6.9 B
YTD Price Change	-26.0%
Beta	1.19
Dividend / Div Yld	\$4.32 / 3.4%
Industry	Tools - Handheld
Zacks Industry Rank	Top 44% (111 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.3%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	04/16/2020
Earnings ESP	0.0%
P/E TTM	10.2
P/E F1	10.0
PEG F1	1.2
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	963 E	1,000 E	953 E	1,013 E	3,927 E
2020	938 E	972 E	928 E	982 E	3,819 E
2019	922 A	951 A	902 A	955 A	3,730 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.24 E	\$3.46 E	\$3.17 E	\$3.30 E	\$13.05 E
2020	\$3.08 E	\$3.29 E	\$3.02 E	\$3.13 E	\$12.49 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 03/17/2020. The reports text is as of 03/18/2020.

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.

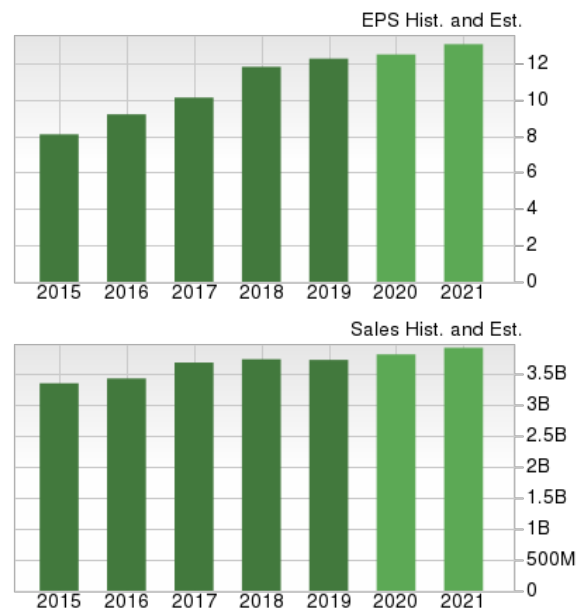
Notably, Snap-on operates under the following segments:

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** : Snap-On registered an earnings beat in fourth-quarter 2019, marking its fourth straight positive surprise. Fourth-quarter earnings also improved year over year gaining from 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. Notably, organic sales inched up 0.6% in the reported quarter.

▲ **Commercial & Industrial Group Unit Witnesses Growth**: Snap-on's Commercial & Industrial Group segment returned to growth in third-quarter 2019. The uptrend in the segment continued in the fourth quarter, with sales improving 2.7% on organic sales growth of 3.5% and contribution of \$0.9 million from acquisition-related sales. Robust sales at the division's power tools and Asia Pacific operations aided organic sales. Further, higher sales to customers in critical industries also contributed to the increase. Notably, sales for the power tools business rose double-digits, Asia Pacific operations were up mid-single digit and critical industries grew low-single digit.

▲ **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 2019, Snap-on had cash and cash equivalents of \$184.5 million compared with \$140.9 million at the end of 2018. In the fourth quarter, it distributed cash dividends of \$59 million, along with repurchases of 435,000 shares for \$71.2 million. At the end of 2019, the company had an additional \$359.6 million outstanding balance to buy back under the present authorization.

In 2020, which is its 100th anniversary year, 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 expects capital expenditure within \$90-\$100 million for 2020.

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.

Reasons To Sell:

▼ **Dismal Sales Trend & Other Concerns:** Though Snap-on's earnings surprise trend is quite impressive, its dismal sales surprise trend remains a concern. The top line missed the Zacks Consensus Estimate for the seventh straight time in fourth-quarter 2019. Although the metric inched up 0.3% in the reported quarter, it was hurt by adverse impacts of foreign currency translations, partly offset by organic sales growth and contributions from acquisitions. Evidently, Snap-on's consolidated operating margin contracted 50 basis points (bps) to 22.5% in the reported quarter. Soft sales coupled with higher operating costs might show on the company's earnings in the upcoming quarters. Consequently, shares of Snap-on have declined 29.6% in the past three months against the industry's 23.5% loss.

Snap-on has a dismal sales surprise trend, missing estimates for the seventh straight time in fourth-quarter 2019. 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 fourth-quarter 2019 included \$6.3 million of negative impacts of foreign currency. Unfavorable currency also hurt operating income by \$2.5 million. Moreover, in the reported quarter, adverse currency impacts of \$3.5 million, \$1 million and \$2.3 million, respectively, were witnessed at the company's Commercial & Industrial Group, Tools Group, and Repair Systems & Information Group. Unfavorable currency might continue to be a deterrent for the company's performance 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 Q4 Earnings Surpass Estimates, Sales Miss

Snap-on reported earnings of \$3.08 per share in fourth-quarter 2019, in line with the Zacks Consensus Estimate. However, the figure was up 1.7% from the year-ago adjusted earnings of \$3.03 per share.

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

Net sales inched up 0.3% to \$955.2 million but lagged the Zacks Consensus Estimate of \$963.3 million. The year-over-year increase can be attributed to 0.6% organic sales growth and \$3.5-million contribution from acquisitions. However, growth was offset by a \$6.3-million adverse impact from foreign currency translations.

Further, the company's operating earnings before financial services totaled \$171.4 million, down 5.9% from \$182.1 million in the prior-year quarter.

Consolidated operating earnings of \$233.6 million were down 1.9% from the prior-year quarter. Additionally, operating earnings margin contracted 50 basis points to 22.5%.

Segmental Details

Sales at **Commercial & Industrial Group** improved 2.7% from the prior-year quarter to \$352.9 million, backed by organic sales growth of 3.5% and contribution of \$0.9 million from acquisition-related sales. Robust sales at the division's power tools and Asia Pacific operations aided organic sales. Notably, higher sales to customers in critical industries also contributed to the increase. The upside was somewhat offset by a \$3.5-million adverse impact from foreign currency.

The **Tools Group** segment's sales rose 1.1% year over year to \$411.7 million, driven by 1.3% growth in organic sales, offset by a \$1-million impact of currency headwinds. Organic sales benefited from robust sales in the U.S. van network, partially negated by a decline in the segment's international operations.

Sales at **Repair Systems & Information Group** declined 1.4% year over year to \$335 million. Moreover, organic sales at the segment dipped 1.5% from the year-ago quarter, owing to lower sales to OEM dealerships, offset by rise in sales of undercar equipment, and higher sales of diagnostics and repair information products to independent repair shop owners and managers. Further, unfavorable currency rates hurt top-line growth to the tune of \$2.3 million. However, sales of \$2.6 million from buyouts aided growth.

Meanwhile, the **Financial Services** business reported revenues of \$83.9 million, up from \$82.7 million in the year-ago quarter.

Financials

At the end of 2019, Snap-on's cash and cash equivalents totaled \$184.5 million compared with \$140.9 million as of Dec 29, 2018.

Looking Ahead

In 2020, which is its 100th anniversary year, 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 expects capital expenditure of \$90-\$100 million for 2020.

Further, its effective income tax rate for 2020 is projected to be 23-24%.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-0.85%
EPS Surprise	0.33%
Quarterly EPS	3.08
Annual EPS (TTM)	12.27

Recent News

Snap-on Approves Quarterly Dividend – Feb 13, 2020

Snap-on's board approved a quarterly cash dividend of \$1.08 per share which has been paid on Mar 10, 2020, to stockholders of record as of Feb 24.

Valuation

Snap-on shares are down 30.2% in the year-to-date period and 25.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 25.2% and 32.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17% and 24.5%, respectively.

The S&P 500 index is down 21.4% in the year-to-date period and 11.6% in the past year.

The stock is currently trading at 9.89X forward 12-month earnings, which compares to 11.8X for the Zacks sub-industry, 14.2X for the Zacks sector and 14.8X for the S&P 500 index.

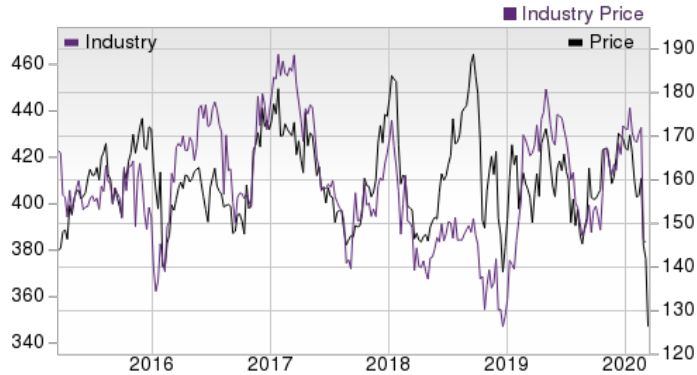
Over the past five years, the stock has traded as high as 19.62X and as low as 9.19X, with a 5-year median of 15X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$123 price target reflects 10.43X F12M earnings.

The table below shows summary valuation data for SNA

Valuation Multiples - SNA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.89	11.8	14.22	14.79
	5-Year High	19.62	19.08	23.23	19.34
	5-Year Low	9.19	11.8	14.22	14.79
	5-Year Median	15	16.45	19.88	17.42
P/S F12M	Current	1.79	2.31	1.57	2.71
	5-Year High	2.93	2.88	3.19	3.43
	5-Year Low	1.66	2.11	1.57	2.54
	5-Year Median	2.45	2.39	2.53	3
EV/EBITDA TTM	Current	7.46	11.43	8.67	9.35
	5-Year High	13.33	15.94	17.59	12.88
	5-Year Low	6.98	10.86	8.5	8.31
	5-Year Median	10.27	14.19	12.28	10.78

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 253)



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	D
Market Cap	6.86 B	3.25 B	17.72 B	30.34 B	2.94 B	6.44 B
# of Analysts	7	4	13	10	7	4
Dividend Yield	3.44%	1.08%	2.51%	3.96%	3.38%	1.66%
Value Score	B	-	-	B	B	D
Cash/Price	0.03	0.05	0.06	0.02	0.20	0.01
EV/EBITDA	7.20	7.08	10.97	10.21	7.56	15.81
PEG Ratio	1.08	1.52	1.54	1.39	0.97	1.79
Price/Book (P/B)	2.01	1.03	2.39	1.89	1.62	7.06
Price/Cash Flow (P/CF)	8.85	10.51	9.36	9.33	7.46	15.58
P/E (F1)	9.21	17.04	13.98	12.98	9.67	17.88
Price/Sales (P/S)	1.84	0.96	1.87	1.42	0.75	1.95
Earnings Yield	9.96%	5.87%	7.13%	7.70%	10.32%	5.60%
Debt/Equity	0.29	0.20	0.70	0.51	0.84	0.66
Cash Flow (\$/share)	14.17	2.09	7.01	7.91	3.01	3.86
Growth Score	C	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	12.07%	12.07%	10.85%	6.55%	-14.64%	14.00%
Proj. EPS Growth (F1/F0)	1.87%	1.84%	5.38%	0.18%	5.59%	12.25%
Curr. Cash Flow Growth	0.83%	9.08%	6.15%	0.36%	15.12%	17.25%
Hist. Cash Flow Growth (3-5 yrs)	9.16%	0.65%	8.55%	2.58%	-8.93%	12.66%
Current Ratio	2.51	3.08	1.24	1.70	2.25	1.48
Debt/Capital	22.30%	16.81%	42.57%	33.56%	45.52%	39.72%
Net Margin	18.59%	9.15%	11.57%	10.34%	6.43%	8.62%
Return on Equity	20.62%	10.76%	16.74%	14.75%	16.44%	39.44%
Sales/Assets	0.67	1.13	0.54	0.67	0.82	1.38
Proj. Sales Growth (F1/F0)	2.40%	2.66%	3.33%	-5.48%	3.07%	15.32%
Momentum Score	C	-	-	C	F	B
Daily Price Chg	7.69%	0.14%	5.62%	-2.10%	-0.13%	0.28%
1 Week Price Chg	-10.97%	-9.21%	-11.01%	-7.77%	-29.99%	-7.46%
4 Week Price Chg	-20.38%	-24.94%	-28.54%	-29.42%	-51.13%	-27.33%
12 Week Price Chg	-25.74%	-22.62%	-25.74%	-21.95%	-55.06%	-23.52%
52 Week Price Chg	-20.99%	-25.53%	-18.88%	-10.31%	-50.24%	-11.61%
20 Day Average Volume	694,687	30,444	3,651,283	4,545,015	1,684,023	576,344
(F1) EPS Est 1 week change	-0.74%	0.00%	0.00%	-1.29%	-3.65%	0.00%
(F1) EPS Est 4 week change	-0.74%	0.00%	-0.58%	-1.42%	-5.97%	0.22%
(F1) EPS Est 12 week change	-2.25%	-0.96%	-1.18%	-3.97%	-7.02%	0.32%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.77%	-6.38%	-4.84%	-2.33%

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	C
Momentum Score	C
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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