

Snap-on Inc. (SNA)

\$122.95 (As of 05/15/20)

Price Target (6-12 Months): **\$129.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

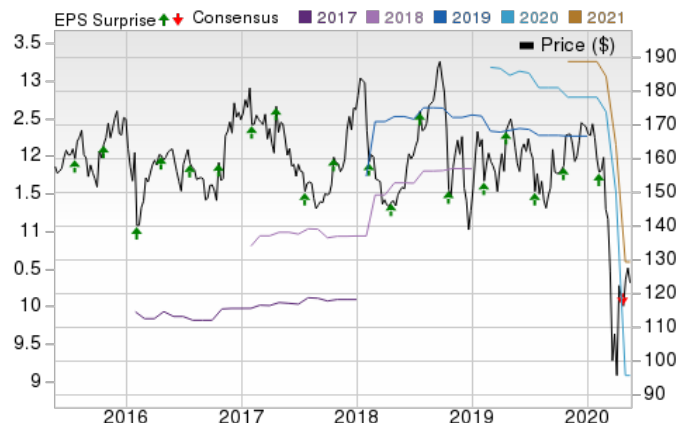
Growth: D

Momentum: B

Summary

Shares of Snap-On have underperformed the industry in the past six months, owing to its dismal sales trend. The top line missed the Zacks Consensus Estimate for the eighth straight time in first-quarter 2020, mainly due to currency woes and lower sales in almost all segments. Moreover, the bottom line missed the consensus mark and declined year over year. The coronavirus outbreak posed significant impacts on Snap-On's sales volume across all geographies and across various customer groups, including the automotive repair. Consequently, it anticipates sales and credit originations to decline year over year in second-quarter 2020. However, management remains optimistic about its financial position to overcome the ongoing hurdle. Moreover, its RCI program, designed to enhance organizational effectiveness and minimize costs, bodes well.

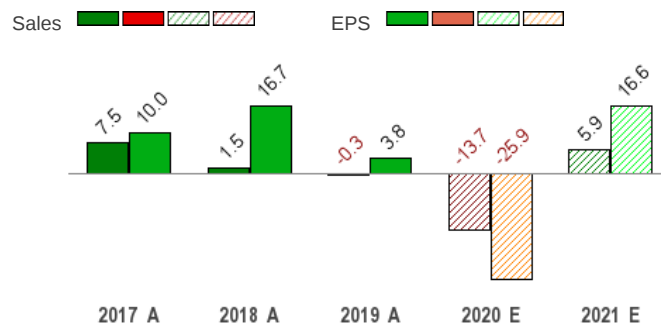
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$172.61 - \$90.72
20 Day Average Volume (sh)	694,050
Market Cap	\$6.7 B
YTD Price Change	-27.4%
Beta	1.37
Dividend / Div Yld	\$4.32 / 3.5%
Industry	Tools - Handheld
Zacks Industry Rank	Top 13% (32 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.5%
Last Sales Surprise	-3.0%
EPS F1 Est- 4 week change	-11.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	10.4
P/E F1	13.5
PEG F1	1.6
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	851 E	789 E	820 E	926 E	3,408 E
2020	852 A	704 E	771 E	892 E	3,219 E
2019	922 A	951 A	902 A	955 A	3,730 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.57 E	\$2.39 E	\$2.56 E	\$2.93 E	\$10.59 E
2020	\$2.60 A	\$1.86 E	\$2.09 E	\$2.59 E	\$9.08 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 05/15/2020. The reports text is as of 05/18/2020.

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.

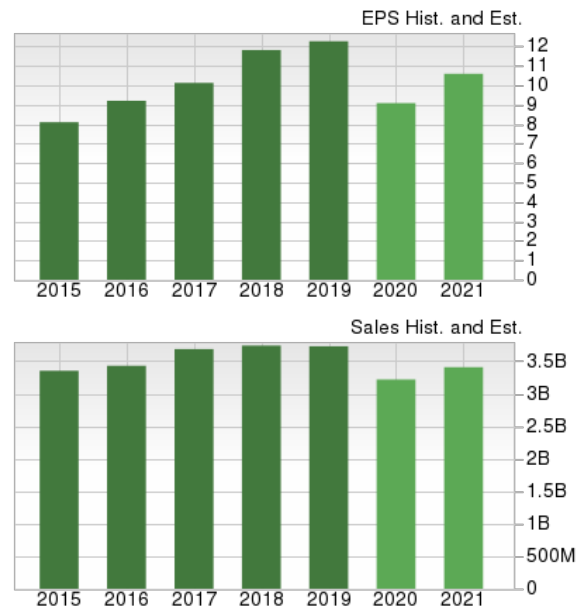
Notably, Snap-on operates under the following segments:

Snap-on Tools Group (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.

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

This apart, Snap-On's its 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 first quarter with cash and cash equivalents of \$185.8 million. Moreover, it has been witnessing declining interest expense for the past few quarters due to its commitment to reducing debt. Notably, interest expense declined 5.8% from \$12.1 million in fourth-quarter 2019 to \$11.4 million in the first quarter 2020. At the end of first-quarter 2020, the company's long-term debt of \$948.2 million declined marginally from \$946.9 million in the prior quarter. Its net debt to capital ratio of 0.22 at the end of first quarter was almost even 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 expects capital expenditure of \$70-\$80 million for 2020.

- ▲ **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 distributed cash dividends of \$59 million along with repurchasing 349,000 shares for \$50.5 million. At the end of the quarter, the company had an additional \$313.3 million remaining under its current share repurchase authorization. On Apr 23, 2020, the company declared a quarterly cash dividend of \$1.08 per share, payable Jun 10.
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Reasons To Sell:

▼ **Soft Q1 Results:** Snap-On posted dismal results in first-quarter 2020, wherein both bottom and top lines declined year over year. Results were affected by lower sales volume in most of the regions and segments. Notably, the top line missed the Zacks Consensus Estimate for the eighth straight time in the reported quarter. The metric declined 7.5% to \$852.2 million in the reported quarter, owing to soft organic sales and adverse impact from foreign currency translations. Evidently, Snap-On's consolidated operating margin contracted 190 basis points (bps) to 21.7% in the reported quarter. Consequently, shares of Snap-On have lost 23.8% in the past six months compared with the industry's 21.5% decline.

Snap-on has a dismal sales surprise trend, missing estimates for the eighth straight time in first-quarter 2020. Moreover, adverse currency remains a drag.

▼ **Uncertain COVID-19 Impacts:** The impacts of COVID-19 outbreak intensified as the first quarter progressed. This posed significant impacts on Snap-On's sales volume across all geographies and across various customer groups, including the automotive repair. Further, the economic uncertainty caused by the outbreak resulted in \$2.6 million increase in the company's credit reserve requirements for its financial services portfolio. Though the company's operations have been deemed essential and are in operation, there remains uncertainty about the duration the pandemic will last and the related impacts on its financial results.

Given the coronavirus pandemic, Snap-On anticipates sales and credit originations to decline year over year in second-quarter 2020. Further, it is making efforts, including cost-cutting initiatives and the Rapid Continuous Improvement (RCI) plan in a bid to combat the uncertain COVID-19 impacts.

▼ **Currency Headwinds:** Snap-On's cross-border presence exposes it to the adversities of fluctuations in currency rates. The company's top line in first-quarter 2020 included \$10.3 million of negative impacts of foreign currency. Unfavorable currency also hurt operating income by \$3.3 million. Moreover, in the reported quarter, adverse currency impacts of \$5.3 million, \$2.5 million and \$3.2 million were witnessed at 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.

Last Earnings Report

Snap-On's Q1 Earnings Miss Estimates, Sales Down Y/Y

Snap-On posted lower-than-expected first-quarter 2020 results. The top and bottom lines decreased year over year. Results were affected by the tough economic environment and unprecedented COVID-19 impacts. Also, lower sales volume in most of the regions and segments hurt quarterly results.

Q1 in Detail

Snap-On's adjusted earnings of \$2.60 per share in first-quarter 2020 missed the Zacks Consensus Estimate of \$2.75. Moreover, the figure was down 13.6% from the year-ago quarter's adjusted earnings of \$3.01 per share.

Net sales declined 7.5% to \$852.2 million and lagged the Zacks Consensus Estimate of \$879 million. The downside can be attributed to soft organic sales to the tune of 6.9% and a \$10.3-million adverse impact from foreign currency translations. However, the growth was offset by \$3.5 million in contributions from acquisitions.

Further, the company's adjusted operating earnings before financial services totaled \$146.4 million, down 16.7% from \$175.8 million in the prior-year quarter.

Adjusted operating earnings of \$203.3 million were down 14.5% from the prior-year quarter. Additionally, adjusted operating earnings margin contracted 190 basis points to 21.7%.

Segmental Details

Sales at **Commercial & Industrial Group** fell 7% from the prior-year quarter to \$299.9 million due to organic sales decline of 5.7% and currency headwinds of \$5.3 million. This was somewhat offset by \$0.7million gains from acquisitions. Sluggishness in Asia-Pacific operations and the Europe-based hand tools business hurt sales in this segment, which was partly offset by higher sales in the power tools division.

The **Tools Group** segment's sales fell 8.4% year over year to \$375.9 million due to a 7.8% decline in organic sales and a \$2.5 million impact of currency headwinds. Organic sales were hurt by soft sales in the United States and international franchise operations.

Sales at **Repair Systems & Information Group** declined 4.1% year over year to \$314.6 million. Moreover, organic sales at the segment dipped 4% from the year-ago quarter owing to lower sales to OEM dealerships and softness in undercar equipment, offset by higher sales of diagnostics and repair information products to independent repair shop owners and managers. Further, unfavorable currency rates hurt the top line to the tune of \$3.2 million. However, sales of \$2.8 million from buyouts aided growth.

Nevertheless, the **Financial Services** business reported revenues of \$85.9 million, up from \$85.6 million in the year-ago quarter.

Financials

During the quarter, Snap-On's cash and cash equivalents totaled \$185.8 million compared with \$184.5 million, as of Dec 28, 2019.

Looking Ahead

Given the coronavirus pandemic, which has led to supply-chain disruptions, Snap-On anticipates sales and earnings to be lower year over year during second-quarter 2020. Further, it is making efforts, including cost-cutting initiatives and the Rapid Continuous Improvement (RCI) plan in a bid to combat the uncertain COVID-19 impacts.

Also, the company foresees capital expenditure for 2020 to be \$70-\$80 million, out of which \$17.2 million has been incurred in the reported quarter. Moving ahead, it still projects effective income tax rate for 2020 in the range of 23-24%.

Quarter Ending **03/2020**

Report Date	Apr 21, 2020
Sales Surprise	-3.00%
EPS Surprise	-5.45%
Quarterly EPS	2.60
Annual EPS (TTM)	11.86

Recent News

Snap-On Approves Quarterly Dividend – Apr 23, 2020

Snap-On's board approved a quarterly cash dividend of \$1.08 per share, which will be paid out on Jun 10, 2020, to stockholders of record as of May 21.

Valuation

Snap-on shares are down 27.4% in the year-to-date period and 21.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 24.4% and 20.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17% and 13.3%, respectively.

The S&P 500 index is down 11.1% in the year-to-date period but up 0.6% in the past year.

The stock is currently trading at 12.74X forward 12-month earnings, which compares to 14X for the Zacks sub-industry, 27.89X for the Zacks sector and 20.8X for the S&P 500 index.

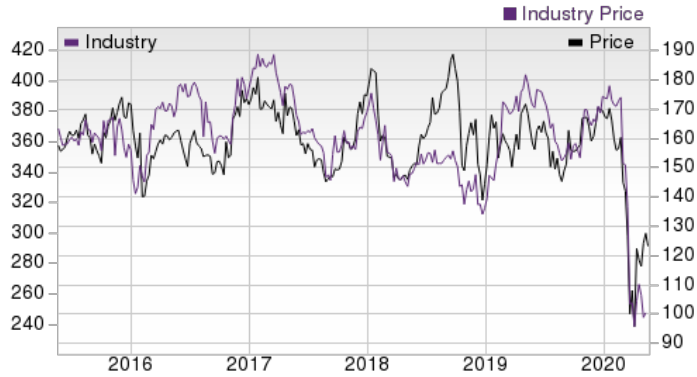
Over the past five years, the stock has traded as high as 19.62X and as low as 7.66X, with a 5-year median of 14.65X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$129 price target reflects 13.37X of F12M earnings.

The table below shows summary valuation data for SNA

Valuation Multiples - SNA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.74	14	27.89	20.8
	5-Year High	19.62	19.08	27.89	20.8
	5-Year Low	7.66	12.03	16.2	15.19
	5-Year Median	14.65	16.21	19.92	17.45
P/S F12M	Current	2.03	1.74	1.97	3.23
	5-Year High	2.93	2.88	3.2	3.44
	5-Year Low	1.36	1.74	1.67	2.54
	5-Year Median	2.43	2.39	2.53	3.02
EV/EBITDA TTM	Current	7.55	11.5	9.67	10.37
	5-Year High	13.33	15.94	17.63	12.86
	5-Year Low	5.87	9.66	8.28	8.28
	5-Year Median	10.03	14.08	12.32	10.77

As of 05/15/2020

Industry Analysis Zacks Industry Rank: Top 13% (32 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
BriggsStratton Corporation (BGG)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	4
ITT Inc. (ITT)	Neutral	4
Makita Corp. (MKTAY)	Neutral	2
Terex Corporation (TEX)	Neutral	3
Tractor Supply Company (TSCO)	Neutral	3
Toro Company The (TTC)	Neutral	2
Flowserve Corporation (FLS)	Underperform	5

Industry Comparison Industry: Tools - Handheld				Industry Peers		
	SNA	X Industry	S&P 500	FLS	MKTAY	TTC
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	5	2	2
VGM Score	C	-	-	C	B	D
Market Cap	6.68 B	3.36 B	18.98 B	2.92 B	8.51 B	6.76 B
# of Analysts	6	4	14	8	2	4
Dividend Yield	3.51%	1.00%	2.21%	3.57%	0.42%	1.58%
Value Score	C	-	-	C	C	C
Cash/Price	0.03	0.05	0.06	0.18	0.19	0.02
EV/EBITDA	7.03	7.03	11.60	7.58	NA	16.52
PEG Ratio	1.71	1.62	2.58	2.29	NA	1.88
Price/Book (P/B)	1.99	1.03	2.59	1.73	1.56	7.41
Price/Cash Flow (P/CF)	8.68	11.38	10.28	7.45	14.07	16.34
P/E (F1)	14.48	18.76	19.01	15.87	19.46	18.76
Price/Sales (P/S)	1.83	1.03	1.92	0.74	1.87	2.05
Earnings Yield	7.39%	5.34%	5.06%	6.28%	5.14%	5.34%
Debt/Equity	0.29	0.29	0.75	0.89	NA	0.66
Cash Flow (\$/share)	14.17	2.43	7.01	3.01	2.23	3.86
Growth Score	D	-	-	B	A	D
Hist. EPS Growth (3-5 yrs)	11.29%	11.29%	10.82%	-11.93%	NA	14.00%
Proj. EPS Growth (F1/F0)	-25.92%	1.26%	-10.48%	-35.74%	1.26%	12.25%
Curr. Cash Flow Growth	0.83%	9.08%	5.68%	15.12%	0.91%	17.25%
Hist. Cash Flow Growth (3-5 yrs)	9.16%	7.00%	8.52%	-8.93%	4.84%	12.66%
Current Ratio	2.50	2.68	1.27	2.19	5.42	1.48
Debt/Capital	22.67%	22.67%	44.25%	47.16%	NA	39.72%
Net Margin	17.83%	8.50%	10.54%	4.96%	10.29%	8.62%
Return on Equity	19.64%	9.82%	16.29%	14.99%	8.93%	39.44%
Sales/Assets	0.65	1.09	0.54	0.82	0.73	1.38
Proj. Sales Growth (F1/F0)	-13.70%	0.00%	-2.55%	-7.62%	2.43%	15.32%
Momentum Score	B	-	-	D	B	B
Daily Price Chg	-0.76%	-0.43%	0.20%	-2.35%	-0.06%	3.00%
1 Week Price Chg	2.64%	2.38%	3.23%	0.87%	1.40%	2.91%
4 Week Price Chg	10.98%	-4.38%	0.88%	-2.86%	2.60%	-0.94%
12 Week Price Chg	-23.13%	-31.58%	-23.26%	-51.59%	-15.63%	-23.00%
52 Week Price Chg	-25.67%	-36.67%	-12.56%	-56.13%	-9.49%	-12.87%
20 Day Average Volume	694,050	23,870	2,553,422	1,413,733	21,990	684,732
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-19.67%	0.00%	0.00%
(F1) EPS Est 4 week change	-11.00%	0.00%	-5.57%	-20.51%	0.00%	0.00%
(F1) EPS Est 12 week change	-27.81%	0.00%	-16.22%	-41.82%	0.00%	0.22%
(Q1) EPS Est Mthly Chg	-12.93%	-6.46%	-11.63%	-27.85%	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	C
Growth Score	D
Momentum Score	B
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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